

ALABAMA POWER COMPANY

2018 ANNUAL REPORT



MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
Alabama Power Company 2018 Annual Report

The management of Alabama Power 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 Alabama Power'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 Alabama Power's internal control over financial reporting was effective as of December 31, 2018.



Mark A. Crosswhite
Chairman, President, and Chief Executive Officer



Philip C. Raymond
Executive Vice President, Chief Financial Officer, and Treasurer
February 19, 2019

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of Alabama Power Company

Opinion on the Financial Statements

We have audited the accompanying balance sheets and statements of capitalization of Alabama Power Company (Alabama Power) (a wholly-owned subsidiary of The Southern Company) as of December 31, 2018 and 2017, the related statements of income, comprehensive income, common stockholder's equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of Alabama Power as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of Alabama Power's management. Our responsibility is to express an opinion on Alabama Power's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to Alabama Power in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Alabama Power is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of Alabama Power's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Deloitte & Touche LLP

Birmingham, Alabama
February 19, 2019

We have served as Alabama Power's auditor since 2002.

DEFINITIONS

When used in this Annual Report, the following terms will have the meanings indicated.

<u>Term</u>	<u>Meaning</u>
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
AMEA.....	Alabama Municipal Electric Authority
AOCI.....	Accumulated other comprehensive income
ARO.....	Asset retirement obligation
ASC.....	Accounting Standards Codification
ASU.....	Accounting Standards Update
Atlanta Gas Light.....	Atlanta Gas Light Company, a wholly-owned subsidiary of Southern Company Gas
Atlantic Coast Pipeline.....	Atlantic Coast Pipeline, LLC, a joint venture to construct and operate a natural gas pipeline in which Southern Company Gas has a 5% ownership interest
Bcf.....	Billion cubic feet
Bechtel.....	Bechtel Power Corporation, the primary contractor for the remaining construction activities for Plant Vogtle Units 3 and 4
Bechtel Agreement.....	The October 23, 2017 construction completion agreement between the Vogtle Owners and Bechtel
CCR.....	Coal combustion residuals
CCR Rule.....	Disposal of Coal Combustion Residuals from Electric Utilities final rule published by the EPA in 2015
Chattanooga Gas.....	Chattanooga Gas Company, a wholly-owned subsidiary of Southern Company Gas
CO ₂	Carbon dioxide
COD.....	Commercial operation date
Contractor Settlement Agreement.....	The December 31, 2015 agreement between Westinghouse and the Vogtle Owners resolving disputes between the Vogtle Owners and the EPC Contractor under the Vogtle 3 and 4 Agreement
Cooperative Energy.....	Electric cooperative in Mississippi
CPCN.....	Certificate of public convenience and necessity
Customer Refunds.....	Refunds issued to Georgia Power customers in 2018 as ordered by the Georgia PSC related to the Guarantee Settlement Agreement
CWIP.....	Construction work in progress
Dalton.....	City of Dalton, Georgia, an incorporated municipality in the State of Georgia, acting by and through its Board of Water, Light, and Sinking Fund Commissioners
Dalton Pipeline.....	A pipeline facility in Georgia in which Southern Company Gas has a 50% undivided ownership interest
DOE.....	U.S. Department of Energy
EBIT.....	Earnings before interest and taxes
ECM.....	Mississippi Power's energy cost management clause
ECO Plan.....	Mississippi Power's environmental compliance overview plan
Eligible Project Costs.....	Certain costs of construction relating to Plant Vogtle Units 3 and 4 that are eligible for financing under the loan guarantee program established under Title XVII of the Energy Policy Act of 2005
EPA.....	U.S. Environmental Protection Agency
EPC Contractor.....	Westinghouse and its affiliate, WECTEC Global Project Services Inc.; the former engineering, procurement, and construction contractor for Plant Vogtle Units 3 and 4
FASB.....	Financial Accounting Standards Board
FERC.....	Federal Energy Regulatory Commission
FFB.....	Federal Financing Bank

DEFINITIONS

(continued)

<u>Term</u>	<u>Meaning</u>
Fitch	Fitch Ratings, Inc.
FMPA.....	Florida Municipal Power Agency
GAAP.....	U.S. generally accepted accounting principles
Georgia Power	Georgia Power Company
Georgia Power 2019 Base Rate Case	Georgia Power's base rate case scheduled to be filed by July 1, 2019
Georgia Power Tax Reform Settlement Agreement.....	A settlement agreement between Georgia Power and the staff of the Georgia PSC regarding the retail rate impact of the Tax Reform Legislation, as approved by the Georgia PSC on April 3, 2018
GHG.....	Greenhouse gas
Guarantee Settlement Agreement.....	The June 9, 2017 settlement agreement between the Vogtle Owners and Toshiba related to certain payment obligations of the EPC Contractor guaranteed by Toshiba
Gulf Power.....	Gulf Power Company
Heating Season	The period from November through March when Southern Company Gas' natural gas usage and operating revenues are generally higher
HLBV	Hypothetical liquidation at book value
IGCC.....	Integrated coal gasification combined cycle, the technology originally approved for Mississippi Power's Kemper County energy facility (Plant Ratcliffe)
IIC.....	Intercompany Interchange Contract
Illinois Commission.....	Illinois Commerce Commission
Interim Assessment Agreement	Agreement entered into by the Vogtle Owners and the EPC Contractor to allow construction to continue after the EPC Contractor's bankruptcy filing
Internal Revenue Code	Internal Revenue Code of 1986, as amended
IRP	Integrated Resource Plan
IRS	Internal Revenue Service
ITAAC	Inspections, Tests, Analyses, and Acceptance Criteria, standards established by the NRC
ITC.....	Investment tax credit
JEA.....	Jacksonville Electric Authority
KUA.....	Kissimmee Utility Authority
KWH.....	Kilowatt-hour
LIBOR	London Interbank Offered Rate
LIFO	Last-in, first-out
LNG	Liquefied natural gas
Loan Guarantee Agreement	Loan guarantee agreement entered into by Georgia Power with the DOE in 2014, under which the proceeds of borrowings may be used to reimburse Georgia Power for Eligible Project Costs incurred in connection with its construction of Plant Vogtle Units 3 and 4
LOCOM.....	Lower of weighted average cost or current market price
LTSA.....	Long-term service agreement
Marketers	Marketers selling retail natural gas in Georgia and certificated by the Georgia PSC
MEAG.....	Municipal Electric Authority of Georgia
Merger.....	The merger, effective July 1, 2016, of a wholly-owned, direct subsidiary of Southern Company with and into Southern Company Gas, with Southern Company Gas continuing as the surviving corporation
MGP.....	Manufactured gas plant
Mississippi Power.....	Mississippi Power Company
mmBtu	Million British thermal units
Moody's	Moody's Investors Service, Inc.
MPUS	Mississippi Public Utilities Staff

DEFINITIONS

(continued)

<u>Term</u>	<u>Meaning</u>
MRA	Municipal and Rural Associations
MW	Megawatt
MWH	Megawatt hour
natural gas distribution utilities	Southern Company Gas' natural gas distribution utilities (Nicor Gas, Atlanta Gas Light, Virginia Natural Gas, Elizabethtown Gas, Florida City Gas, Chattanooga Gas, and Elkton Gas as of June 30, 2018) (Nicor Gas, Atlanta Gas Light, Virginia Natural Gas, and Chattanooga Gas as of July 29, 2018)
NCCR	Georgia Power's Nuclear Construction Cost Recovery
NDR	Alabama Power's Natural Disaster Reserve
NextEra Energy	NextEra Energy, Inc.
Nicor Gas	Northern Illinois Gas Company, a wholly-owned subsidiary of Southern Company Gas
NO _x	Nitrogen oxide
NRC	U.S. Nuclear Regulatory Commission
NYMEX	New York Mercantile Exchange, Inc.
OCI	Other comprehensive income
OPC	Oglethorpe Power Corporation (an Electric Membership Corporation)
OTC	Over-the-counter
OUC	Orlando Utilities Commission
PATH Act	Protecting Americans from Tax Hikes Act
PennEast Pipeline	PennEast Pipeline Company, LLC, a joint venture to construct and operate a natural gas pipeline in which Southern Company Gas has a 20% ownership interest
PEP	Mississippi Power's Performance Evaluation Plan
Piedmont	Piedmont Natural Gas Company, Inc.
Pivotal Home Solutions	Nicor Energy Services Company, until June 4, 2018 a wholly-owned subsidiary of Southern Company Gas, doing business as Pivotal Home Solutions
Pivotal Utility Holdings	Pivotal Utility Holdings, Inc., until July 29, 2018 a wholly-owned subsidiary of Southern Company Gas, doing business as Elizabethtown Gas (until July 1, 2018), Elkton Gas (until July 1, 2018), and Florida City Gas
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, as well as, for Southern Power, contracts for differences that provide the owner of a renewable facility a certain fixed price for the electricity sold to the grid
PRP	Pipeline Replacement Program, Atlanta Gas Light's 15-year infrastructure replacement program, which ended in December 2013
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
registrants	Southern Company, Alabama Power, Georgia Power, Mississippi Power, Southern Power Company, and Southern Company Gas
revenue from contracts with customers	Revenue from contracts accounted for under the guidance of ASC 606, Revenue from Contracts with Customers

DEFINITIONS

(continued)

<u>Term</u>	<u>Meaning</u>
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
SNG	Southern Natural Gas Company, L.L.C.
SO ₂	Sulfur dioxide
Southern Company	The Southern Company
Southern Company Gas	Southern Company Gas and its subsidiaries
Southern Company Gas Capital	Southern Company Gas Capital Corporation, a 100%-owned subsidiary of Southern Company Gas
Southern Company Gas Dispositions	Southern Company Gas' disposition of Pivotal Home Solutions, Pivotal Utility Holdings' disposition of Elizabethtown Gas and Elkton Gas, and NUI Corporation's disposition of Pivotal Utility Holdings, which primarily consisted of Florida City Gas
Southern Company system	Southern Company, the traditional electric operating companies, Southern Power, Southern Company Gas (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
SouthStar	SouthStar Energy Services, LLC
SP Solar	SP Solar Holdings I, LP
SP Wind	SP Wind Holdings II, LLC
SRR	Mississippi Power's System Restoration Rider, a tariff for retail property damage reserve
STRIDE	Atlanta Gas Light's Strategic Infrastructure Development and Enhancement program
Tax Reform Legislation	The Tax Cuts and Jobs Act, which became effective on January 1, 2018
Toshiba	Toshiba Corporation, parent company of Westinghouse
traditional electric operating companies	Alabama Power, Georgia Power, Gulf Power, and Mississippi Power through December 31, 2018; Alabama Power, Georgia Power, and Mississippi Power as of January 1, 2019
VCM	Vogtle Construction Monitoring
VIE	Variable interest entity
Virginia Commission	Virginia State Corporation Commission
Virginia Natural Gas	Virginia Natural Gas, Inc., a wholly-owned subsidiary of Southern Company Gas
Vogtle 3 and 4 Agreement	Agreement entered into with the EPC Contractor in 2008 by Georgia Power, acting for itself and as agent for the Vogtle Owners, and rejected in bankruptcy in July 2017, pursuant to which the EPC Contractor agreed to design, engineer, procure, construct, and test Plant Vogtle Units 3 and 4
Vogtle Owners	Georgia Power, Oglethorpe Power Corporation, MEAG, and Dalton
Vogtle Services Agreement	The June 9, 2017 services agreement between the Vogtle Owners and the EPC Contractor, as amended and restated on July 20, 2017, for the EPC Contractor to transition construction management of Plant Vogtle Units 3 and 4 to Southern Nuclear and to provide ongoing design, engineering, and procurement services to Southern Nuclear
WACOG	Weighted average cost of gas
Westinghouse	Westinghouse Electric Company LLC

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Alabama Power's Annual Report contains forward-looking statements. Forward-looking statements include, among other things, statements concerning regulated rates, the strategic goals for the 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, access to sources of capital, projections for the qualified pension plans, postretirement benefit plans, and nuclear decommissioning trust fund contributions, financing activities, filings with state and federal regulatory authorities, federal and state income tax benefits, and estimated construction plans and expenditures. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "could," "would," "should," "expects," "plans," "anticipates," "believes," "estimates," "projects," "predicts," "potential," or "continue" or the negative of these terms or other similar terminology. There are various factors that could cause actual results to differ materially from those suggested by the forward-looking statements; accordingly, there can be no assurance that such indicated results will be realized. These factors include:

- the impact of recent and future federal and state regulatory changes, including environmental laws and regulations, and also changes in tax (including the Tax Reform Legislation) and other laws and regulations to which Alabama Power is subject, as well as changes in application of existing laws and regulations;
- the extent and timing of costs and liabilities to comply with federal and state laws, regulations, and legal requirements related to CCR, including amounts for required closure of ash ponds and ground water monitoring;
- current and future litigation or regulatory investigations, proceedings or inquires;
- the effects, extent, and timing of the entry of additional competition in the markets in which Alabama Power operates, including from the development and deployment of alternative energy sources;
- variations in demand for electricity;
- available sources and costs of natural gas and other fuels;
- transmission constraints;
- effects of inflation;
- the ability to control costs and avoid cost and schedule overruns during the development, construction, and operation of facilities;
- the ability to construct facilities in accordance with the requirements of permits and licenses and to satisfy any environmental performance standards;
- investment performance of the employee and retiree benefit plans and nuclear decommissioning trust funds;
- advances in technology;
- the ability to control operating and maintenance costs;
- state and federal rate regulations and the impact of pending and future rate cases and negotiations, including rate actions relating to ROE, equity ratios, and fuel and other cost recovery mechanisms;
- the ability to successfully operate Alabama Power's generating, transmission, and distribution facilities and the successful performance of necessary corporate functions;
- the inherent risks involved in operating nuclear generating facilities;
- 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 Alabama Power;
- the ability of counterparties of Alabama Power 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 Alabama Power's business resulting from cyber intrusion or physical attack and the threat of physical attacks;
- interest rate fluctuations and financial market conditions and the results of financing efforts;
- access to capital markets and other financing sources;
- changes in Alabama Power's credit ratings;
- the ability of Alabama Power to obtain additional generating capacity (or sell excess generating capacity) at competitive prices;

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

(continued)

- catastrophic events such as fires, earthquakes, explosions, floods, tornadoes, hurricanes and other storms, droughts, pandemic health events, or other similar occurrences;
- the direct or indirect effects on Alabama Power's business resulting from incidents affecting the U.S. electric grid, natural gas pipeline infrastructure, or operation of generating resources;
- impairments of goodwill or long-lived assets;
- the effect of accounting pronouncements issued periodically by standard-setting bodies; and
- other factors discussed elsewhere herein and in other reports (including the Annual Report on Form 10-K for the year ended December 31, 2018) filed by Alabama Power from time to time with the SEC.

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

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

Alabama Power Company 2018 Annual Report

OVERVIEW

Business Activities

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

Many factors affect the opportunities, challenges, and risks of Alabama Power's business of providing electric service. These factors include the ability to maintain a constructive regulatory environment, to maintain and grow energy sales and customers, and to effectively manage and secure timely recovery of costs. These costs include those related to projected long-term demand growth, stringent environmental standards, including CCR rules, reliability, fuel, capital expenditures, including improving the electric transmission and distribution systems, and restoration following major storms. Alabama Power has various regulatory mechanisms that operate to address cost recovery. Effectively operating pursuant to these regulatory mechanisms and appropriately balancing required costs and capital expenditures with customer prices will continue to challenge Alabama Power for the foreseeable future. On May 1, 2018, the Alabama PSC approved modifications to Rate RSE and other commitments designed to position Alabama Power to address the retail rate impact and the growing pressure on its credit quality resulting from the Tax Reform Legislation. See FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters" and FINANCIAL CONDITION AND LIQUIDITY – "Credit Rating Risk" herein for additional information.

Alabama Power continues to focus on several key performance indicators including, but not limited to, customer satisfaction, plant availability, system reliability, and net income after dividends on preferred stock. Alabama Power'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 to evaluate Alabama Power's results and generally targets the top quartile of these surveys in measuring performance.

See RESULTS OF OPERATIONS herein for information on Alabama Power's financial performance.

Earnings

Alabama Power's 2018 net income after dividends on preferred and preference stock was \$930 million, representing an \$82 million, or 9.7%, increase over the previous year. The increase was primarily due to a decrease in income tax expense, partially offset by a decrease in retail revenues associated with customer bill credits related to the Tax Reform Legislation. The increase also reflects an increase in revenues associated with colder weather in the first quarter 2018 and warmer weather in the second and third quarters 2018 compared to the corresponding periods in 2017, partially offset by an accrual for a Rate RSE refund. See FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters – Rate RSE" herein for additional information.

Alabama Power's 2017 net income after dividends on preferred and preference stock was \$848 million, representing a \$26 million, or 3.2%, increase over the previous year. The increase was primarily due to an increase in rates under Rate RSE effective in January 2017 and the impact of a Rate RSE refund recorded in 2016. These increases to income were partially offset by a decrease in retail revenues associated with milder weather, lower customer usage, and an increase in non-fuel operations and maintenance expenses in 2017 as compared to 2016. See FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters – Rate RSE" herein for additional information.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
Alabama Power Company 2018 Annual Report

RESULTS OF OPERATIONS

A condensed income statement for Alabama Power follows:

	Amount	Increase (Decrease) from Prior Year	
	2018	2018	2017
		<i>(in millions)</i>	
Operating revenues	\$ 6,032	\$ (7)	\$ 150
Fuel	1,301	76	(72)
Purchased power	432	104	(6)
Other operations and maintenance	1,669	(40)	152
Depreciation and amortization	764	28	33
Taxes other than income taxes	389	5	4
Total operating expenses	4,555	173	111
Operating income	1,477	(180)	39
Allowance for equity funds used during construction	62	23	11
Interest expense, net of amounts capitalized	323	18	3
Other income (expense), net	20	(23)	17
Income taxes	291	(277)	37
Net income	945	79	27
Dividends on preferred and preference stock	15	(3)	1
Net income after dividends on preferred and preference stock	\$ 930	\$ 82	\$ 26

Operating Revenues

Operating revenues for 2018 were \$6.0 billion, reflecting a \$7 million decrease from 2017. Details of operating revenues were as follows:

	2018	2017
	<i>(in millions)</i>	
Retail — prior year	\$ 5,458	\$ 5,322
Estimated change resulting from —		
Rates and pricing	(354)	362
Sales decline	(10)	(44)
Weather	137	(89)
Fuel and other cost recovery	136	(93)
Retail — current year	5,367	5,458
Wholesale revenues —		
Non-affiliates	279	276
Affiliates	119	97
Total wholesale revenues	398	373
Other operating revenues	267	208
Total operating revenues	\$ 6,032	\$ 6,039
Percent change	(0.1)%	2.6%

Retail revenues in 2018 were \$5.4 billion. These revenues decreased \$91 million, or 1.7%, in 2018 as compared to the prior year. The decrease in 2018 was primarily due to customer bill credits related to the Tax Reform Legislation and an accrual for a Rate RSE refund, partially offset by an increase in fuel revenues and colder weather in the first quarter and warmer weather in the second and third quarters 2018 as compared to the corresponding periods in 2017.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
Alabama Power Company 2018 Annual Report

Retail revenues in 2017 were \$5.5 billion. These revenues increased \$136 million, or 2.6%, in 2017 as compared to the prior year. The increase in 2017 was primarily due to an increase in rates under Rate RSE effective in January 2017, partially offset by a decrease in fuel revenues and milder weather in the first and third quarters 2017 as compared to the corresponding periods in 2016.

See Note 2 to the financial statements under "Alabama Power – Rate RSE" for additional information. See "Energy Sales" herein for a discussion of changes in the volume of energy sold, including changes related to sales decline and weather.

Electric rates include provisions to recognize the recovery of fuel costs, purchased power costs, PPAs certificated by the Alabama PSC, and costs associated with the natural disaster reserve. Under these provisions, fuel and other cost recovery revenues generally equal fuel and other cost recovery expenses and do not affect net income. See FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters – Rate ECR" herein for additional information.

Wholesale revenues from power sales to non-affiliated utilities were as follows:

	2018	2017	2016
		<i>(in millions)</i>	
Capacity and other	\$ 101	\$ 96	\$ 93
Energy	178	180	190
Total non-affiliated	\$ 279	\$ 276	\$ 283

Wholesale revenues from sales to non-affiliates will vary depending on fuel prices, the market prices of wholesale energy compared to the cost of Alabama Power's and the Southern Company system's generation, demand for energy within the Southern Company system's electric service territory, and availability of the Southern Company system's generation. Increases and decreases in energy revenues that are driven by fuel prices are accompanied by an increase or decrease in fuel costs and do not affect net income. Short-term opportunity energy sales are also included in wholesale energy sales to non-affiliates. These opportunity sales are made at market-based rates that generally provide a margin above Alabama Power's variable cost to produce the energy.

In 2018, wholesale revenues from sales to non-affiliates increased \$3 million, or 1.1%, as compared to the prior year. In 2017, wholesale revenues from sales to non-affiliates decreased \$7 million, or 2.5%, as compared to the prior year.

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

In 2018, wholesale revenues from sales to affiliates increased \$22 million, or 22.7%, as compared to the prior year. In 2018, the price of energy increased 12.3% as a result of higher natural gas prices and KWH sales increased 10.0% primarily due to an increase in hydro generation. In 2017, wholesale revenues from sales to affiliates increased \$28 million, or 40.6%, as compared to the prior year. In 2017, KWH sales increased 31.1% as a result of supporting Southern Company system transmission reliability and a 6.9% increase in the price of energy primarily due to higher natural gas prices.

In 2018, other operating revenues increased \$59 million, or 28.4%, as compared to the prior year primarily due to revenues related to unregulated sales of products and services that were reclassified as other revenues as a result of the adoption of ASC 606, *Revenue from Contracts with Customers* (ASC 606). In prior periods, these revenues were included in other income (expense), net. See Note 1 to the financial statements for additional information regarding Alabama Power's adoption of ASC 606. This increase was partially offset by decreases in open access transmission tariff revenues primarily due to a lower rate related to the Tax Reform Legislation.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
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Energy Sales

Changes in revenues are influenced heavily by the change in the volume of energy sold from year to year. KWH sales for 2018 and the percent change from the prior year were as follows:

	Total KWHs	Total KWH Percent Change		Weather-Adjusted Percent Change	
	2018	2018	2017	2018	2017
	<i>(in billions)</i>				
Residential	18.6	8.2%	(6.1)%	(0.4)%	(1.2)%
Commercial	13.9	1.9	(3.4)	(1.0)	(1.3)
Industrial	23.0	1.4	1.7	1.4	1.7
Other	0.2	(5.7)	(5.0)	(5.7)	(5.0)
Total retail	55.7	3.7	(2.3)	0.2 %	(0.1)%
Wholesale					
Non-affiliates	5.0	(8.7)	(6.5)		
Affiliates	4.6	9.6	31.1		
Total wholesale	9.6	(0.9)	6.6		
Total energy sales	65.3	3.0%	(1.0)%		

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 in 2018 were 3.7% higher than in 2017. Residential sales and commercial sales increased 8.2% and 1.9% in 2018, respectively, primarily due to colder weather in the first quarter and warmer weather in the second and third quarters 2018 as compared to the corresponding periods in 2017. Weather-adjusted residential sales were 0.4% lower in 2018 primarily due to lower customer usage resulting from an increase in penetration of energy-efficient residential appliances. Weather-adjusted commercial sales were 1.0% lower in 2018 primarily due to lower customer usage resulting from customer initiatives in energy savings and an ongoing migration to the electronic commerce business model. Industrial sales increased 1.4% in 2018 as compared to 2017 as a result of an increase in demand resulting from changes in production levels primarily in the primary metals, pipelines, and mining sectors offset by the paper sector.

Retail energy sales in 2017 were 2.3% lower than in 2016. Residential sales and commercial sales decreased 6.1% and 3.4% in 2017, respectively, primarily due to milder weather in the first and third quarters 2017 as compared to the corresponding periods in 2016. Weather-adjusted residential sales were 1.2% lower in 2017 primarily due to lower customer usage resulting from an increase in penetration of energy-efficient residential appliances, partially offset by customer growth. Weather-adjusted commercial sales were 1.3% lower in 2017 primarily due to lower customer usage resulting from customer initiatives in energy savings and an ongoing migration to the electronic commerce business model, partially offset by customer growth. Industrial sales increased 1.7% in 2017 as compared to 2016 as a result of an increase in demand resulting from changes in production levels primarily in the primary metals, chemicals, and mining sectors offset by the pipelines and paper sectors.

See "Operating Revenues" above for a discussion of significant changes in wholesale revenues from sales to non-affiliates and wholesale revenues from sales to affiliated companies related to changes in price and KWH sales.

Fuel and Purchased Power Expenses

The mix of fuel sources for generation of electricity is determined primarily by the unit cost of fuel consumed, demand, and the availability of generating units. Additionally, Alabama Power purchases a portion of its electricity needs from the wholesale market.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
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Details of Alabama Power's generation and purchased power were as follows:

	2018	2017	2016
Total generation (in billions of KWHs)	60.5	60.3	60.2
Total purchased power (in billions of KWHs)	8.1	6.4	7.1
Sources of generation (percent) —			
Coal	50	50	53
Nuclear	23	24	23
Gas	19	20	19
Hydro	8	6	5
Cost of fuel, generated (in cents per net KWH) —			
Coal	2.73	2.60	2.75
Nuclear	0.77	0.75	0.78
Gas	2.84	2.72	2.67
Average cost of fuel, generated (in cents per net KWH) ^{(a)(b)}	2.26	2.14	2.26
Average cost of purchased power (in cents per net KWH) ^(c)	5.47	5.29	4.80

(a) For 2018, cost of fuel, generated and average cost of fuel, generated excludes a \$30 million adjustment associated with a May 2018 Alabama PSC accounting order related to excess deferred income taxes. See FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters – Tax Reform Accounting Order" herein for additional information.

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

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

Fuel and purchased power expenses were \$1.73 billion in 2018, an increase of \$180 million, or 11.6%, compared to 2017. The increase was primarily due to an \$81 million net increase related to the volume of KWHs purchased and generated, a \$54 million increase in the average cost of fuel, and a \$15 million increase in the average cost of purchased power.

In addition, fuel expense increased \$30 million in 2018 as a result of an Alabama PSC accounting order authorizing the amortization of a regulatory liability to offset under recovered fuel costs. See FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters – Tax Reform Accounting Order" herein for additional information.

Fuel and purchased power expenses were \$1.55 billion in 2017, a decrease of \$78 million, or 4.8%, compared to 2016. The decrease was primarily due to a \$67 million net decrease related to the volume of KWHs generated and purchased and a \$42 million decrease in the average cost of fuel, partially offset by a \$31 million increase in the average cost of purchased power.

Fuel and purchased power energy transactions do not have a significant impact on earnings, since energy expenses are generally offset by energy revenues through Alabama Power's energy cost recovery clause. Alabama Power, along with the Alabama PSC, continuously monitors the under/over recovered balance to determine whether adjustments to billing rates are required. See Note 2 to the financial statements under "Alabama Power – Rate ECR" for additional information.

Fuel

Fuel expenses were \$1.3 billion in 2018, an increase of \$76 million, or 6.2%, compared to 2017. The increase was primarily due to a 5.0% increase in the average cost of KWHs generated by coal and a 4.4% increase in the average cost of KWHs generated by natural gas, which excludes tolling agreements. These increases were partially offset by a 28.3% increase in the volume of KWHs generated by hydro and a 2.1% decrease in the volume of KWHs generated by natural gas. Fuel expenses were \$1.2 billion in 2017, a decrease of \$72 million, or 5.6%, compared to 2016. The decrease was primarily due to a 12.2% increase in the volume of KWHs generated by hydro, a 5.8% decrease in the volume of KWHs generated by coal, and a 5.5% and 3.9% decrease in the average cost of KWHs generated by coal and nuclear fuel, respectively. These decreases were partially offset by an 8.1% increase in the volume of KWHs generated by nuclear fuel and a 4.0% increase in the volume of KWHs generated by natural gas.

In addition, fuel expense increased \$30 million in 2018 as a result of an Alabama PSC accounting order authorizing the amortization of a regulatory liability to offset under recovered fuel costs. See FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters – Tax Reform Accounting Order" herein for additional information.

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Purchased Power – Non-Affiliates

Purchased power expense from non-affiliates was \$216 million in 2018, an increase of \$46 million, or 27.1%, compared to 2017. This increase was primarily due to an 18.9% increase in the amount of energy purchased due to colder weather in the first quarter and warmer weather in the second and third quarters 2018 as compared to the corresponding periods in 2017 and a 6.6% increase in the average cost per KWH purchased due to higher natural gas prices. Purchased power expense from non-affiliates was \$170 million in 2017, an increase of \$4 million, or 2.4%, compared to 2016.

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

Purchased Power – Affiliates

Purchased power expense from affiliates was \$216 million in 2018, an increase of \$58 million, or 36.7%, compared to 2017. This increase was primarily due to a 34.5% increase in the amount of energy purchased due to colder weather in the first quarter and warmer weather in the second and third quarters 2018 as compared to the corresponding periods in 2017 and a 1.4% increase in the average cost per KWH purchased due to higher natural gas prices. Purchased power expense from affiliates was \$158 million in 2017, a decrease of \$10 million, or 6.0%, compared to 2016. This decrease was primarily due to a 17.2% decrease in the amount of energy purchased due to milder weather partially offset by a 13.9% increase in the average cost per KWH purchased due to higher natural gas prices.

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

Other Operations and Maintenance Expenses

In 2018, other operations and maintenance expenses decreased \$40 million, or 2.3%, as compared to the prior year. Generation costs decreased \$34 million primarily due to fewer outages resulting in lower costs. Employee benefit costs, including pension costs, decreased \$26 million primarily due to lower active medical costs. Customer service costs decreased \$10 million primarily due to cost-saving initiatives. These decreases were partially offset by a \$47 million increase in expenses from unregulated sales of products and services that were reclassified as other operations and maintenance expenses as a result of the adoption of ASC 606. In prior periods, these expenses were included in other income (expense), net. See Note 1 to the financial statements under "Revenue" for additional information.

In 2017, other operations and maintenance expenses increased \$152 million, or 9.8%, as compared to the prior year. Distribution and transmission expenses increased \$58 million primarily due to vegetation management expenses. Generation costs increased \$38 million primarily due to outage costs. Employee benefit costs, including pension costs, increased \$32 million.

See Note 11 to the financial statements under "Pension Plans" for additional information.

Depreciation and Amortization

Depreciation and amortization increased \$28 million, or 3.8%, in 2018 as compared to the prior year primarily due to additional plant in service related to distribution, transmission, compliance-related steam, and other generation production projects. Depreciation and amortization increased \$33 million, or 4.7%, in 2017 as compared to the prior year primarily due to additional plant in service and an increase in generation-related depreciation rates, effective January 1, 2017, associated with compliance-related steam projects and ARO recovery, partially offset by a decrease in distribution-related depreciation rates. See Note 5 to the financial statements under "Depreciation and Amortization" for additional information.

Allowance for Equity Funds Used During Construction

AFUDC equity increased \$23 million, or 59.0%, in 2018 as compared to the prior year. The increase was primarily associated with steam and transmission construction projects. AFUDC equity increased \$11 million, or 39.3%, in 2017 as compared to the prior year. The increase was primarily associated with steam, transmission, and nuclear construction projects. See Note 1 to financial statements under "Allowance for Funds Used During Construction" for additional information.

Interest Expense, Net of Amounts Capitalized

Interest expense, net of amounts capitalized increased \$18 million, or 5.9%, in 2018 as compared to the prior year primarily due to an increase in debt outstanding and higher interest rates, partially offset by an increase in the amounts capitalized. Interest

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expense, net of amounts capitalized increased \$3 million, or 1.0%, in 2017 as compared to the prior year. See FUTURE EARNINGS POTENTIAL – "Financing Activities" herein for additional information.

Other Income (Expense), Net

Other income (expense), net decreased \$23 million, or 53.5%, in 2018 as compared to the prior year primarily due to an increase in charitable donations and the reclassification of revenues and expenses associated with unregulated sales of products and services to other revenues and operations and maintenance expenses, respectively, as a result of the adoption of ASC 606. See Note 1 to the financial statements under "Revenue" for additional information. Other income (expense), net increased \$17 million, or 65.4%, in 2017 as compared to the prior year primarily due to increases in unregulated lighting services and a decrease in the non-service cost components of net periodic pension and other postretirement benefits costs. See Note 1 to the financial statements under "Recently Adopted Accounting Standards" and Note 11 to the financial statements for additional information on net periodic pension and other postretirement benefit costs.

Income Taxes

Income taxes decreased \$277 million, or 48.8%, in 2018 as compared to the prior year primarily due to the reduction in the federal income tax rate, the benefit from the flowback of excess deferred income taxes as a result of the Tax Reform Legislation, and lower pre-tax earnings. Income taxes increased \$37 million, or 7.0%, in 2017 as compared to the prior year primarily due to higher pre-tax earnings, an increase related to prior year tax return actualization, and an increase in income tax reserves, partially offset by an increase in state income tax credits. The impact to net income as a result of the Tax Reform Legislation was not material due to the application of regulatory accounting. See FUTURE EARNINGS POTENTIAL – "Income Tax Matters – Federal Tax Reform Legislation" herein and Note 10 to the financial statements for additional information.

Effects of Inflation

Alabama Power is subject to rate regulation that is generally based on the recovery of historical and projected costs. The effects of inflation can create an economic loss since the recovery of costs could be in dollars that have less purchasing power. Any adverse effect of inflation on Alabama Power's results of operations has not been substantial in recent years. See Note 2 to the financial statements under "Alabama Power – Rate RSE" for additional information.

FUTURE EARNINGS POTENTIAL

General

Alabama Power operates as a vertically integrated utility providing electric service to retail and wholesale customers within its traditional service territory located in the State of Alabama and to wholesale customers in the Southeast. Prices for electric service provided by Alabama Power to retail customers are set by the Alabama PSC under cost-based regulatory principles. Retail rates and earnings are reviewed and may be adjusted periodically within certain limitations. Prices for wholesale electric service, interconnecting transmission lines, and the exchange of electric power are regulated by the FERC. See ACCOUNTING POLICIES – "Application of Critical Accounting Policies and Estimates – Utility Regulation" herein and Note 2 to the financial statements under "Alabama Power" for additional information about regulatory matters.

The results of operations for the past three years are not necessarily indicative of future earnings potential. The level of Alabama Power's future earnings depends on numerous factors that affect the opportunities, challenges, and risks of Alabama Power's primary business of providing electric service. These factors include Alabama Power's ability to maintain a constructive regulatory environment that continues to allow for the timely recovery of prudently-incurred costs during a time of increasing costs and the weak pace of growth in new customers and electricity use per customer, especially in residential and commercial markets. Earnings will also depend upon maintaining and growing sales, considering, among other things, the adoption and/or penetration rates of increasingly energy-efficient technologies and increasing volumes of electronic commerce transactions, both of which could contribute to a net reduction in customer usage. Earnings are subject to a variety of other factors. These factors include weather, competition, new energy contracts with other utilities, energy conservation practiced by customers, the use of alternative energy sources by customers, the price of electricity, the price elasticity of demand, and the rate of economic growth or decline in Alabama Power's service territory. Demand for electricity is primarily driven by the pace of economic growth that may be affected by changes in regional and global economic conditions, which may impact future earnings.

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Environmental Matters

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

New or revised environmental laws and regulations could affect many areas of Alabama Power's operations. The impact of any such changes cannot be determined at this time. Environmental compliance costs could affect earnings if such costs cannot continue to be recovered in rates on a timely basis. Environmental compliance costs are recovered through Rate CNP Compliance. See Note 2 to the financial statements under "Alabama Power – Rate CNP Compliance" for additional information. Further, increased costs that are recovered through regulated rates could contribute to reduced demand for electricity, which could negatively affect results of operations, cash flows, and/or financial condition. Additionally, many commercial and industrial customers may also be affected by existing and future environmental requirements, which for some may have the potential to ultimately affect their demand for electricity.

Through 2018, Alabama Power has invested approximately \$5.4 billion in environmental capital retrofit projects to comply with environmental requirements, with annual totals of approximately \$681 million, \$491 million, and \$260 million for 2018, 2017, and 2016, respectively. Although the timing, requirements, and estimated costs could change as environmental laws and regulations are adopted or modified, as compliance plans are revised or updated, and as legal challenges to rules are initiated or completed, Alabama Power's current compliance strategy estimates capital expenditures of \$635 million from 2019 through 2023, with annual totals of approximately \$226 million in 2019, \$68 million in 2020, \$118 million in 2021, \$112 million in 2022, and \$111 million in 2023. These estimates do not include any potential compliance costs associated with pending regulation of CO₂ emissions from fossil fuel-fired electric generating units. See "Global Climate Issues" herein for additional information. Alabama Power also anticipates substantial expenditures associated with ash pond closure and ground water monitoring under the CCR Rule, which are reflected in Alabama Power's ARO liabilities. See FINANCIAL CONDITION AND LIQUIDITY – "Capital Requirements and Contractual Obligations" herein and Note 6 to the financial statements for additional information.

Environmental Laws and Regulations

Air Quality

The EPA has set National Ambient Air Quality Standards (NAAQS) for six air pollutants (carbon monoxide, lead, nitrogen dioxide, ozone, particulate matter, and SO₂) to protect and improve the nation's air quality, which it reviews and revises periodically. Following a NAAQS revision, states are required to develop an EPA-approved plan to protect air quality. These state plans can require additional emission controls, improvements in control efficiency, or fuel changes which can result in increased compliance and operational costs. NAAQS requirements can also adversely affect the siting of new electric generating facilities. No areas within Alabama Power's service territory are currently designated nonattainment for any NAAQS. If areas are designated as nonattainment in the future, increased compliance costs could result.

In 2011, the EPA finalized the Cross-State Air Pollution Rule (CSAPR) to address impacts of SO₂ and NO_x emissions from fossil fuel-fired electric generating plants. CSAPR establishes emissions trading programs and budgets for certain states and allocates emissions allowances for sources in those states. In 2016, the EPA published a final rule establishing more stringent ozone season NO_x emissions budgets in Alabama. Increases in either future fossil fuel-fired generation or the availability or cost of CSAPR allowances could have a negative financial impact on results of operations for Alabama Power.

The EPA finalized regional haze regulations in 2005 and 2017. These regulations require states, tribal governments, and various federal agencies to develop and implement plans to reduce pollutants that impair visibility and demonstrate reasonable progress toward the goal of restoring natural visibility conditions in certain areas, including national parks and wilderness areas. States must submit a revised state implementation plan (SIP) to the EPA demonstrating continued reasonable progress towards achieving visibility improvement goals. The EPA approved the regional progress SIP for the State of Alabama.

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Water Quality

In 2014, the EPA finalized requirements under Section 316(b) of the Clean Water Act (CWA) to regulate cooling water intake structures (CWIS) to minimize their effects on fish and other aquatic life at existing power plants (e.g. coal, natural gas, oil, and nuclear generating plants) and manufacturing facilities. The regulation requires plant-specific studies to determine applicable CWIS changes to protect organisms that either get caught on the intake screens (impingement) or are drawn into the cooling system (entrainment). Alabama Power is conducting these studies and currently anticipates applicable CWIS changes may include fish-friendly CWIS screens with fish return systems and minor additions of monitoring equipment at certain plants. However, the ultimate impact of this rule will depend on the outcome of these plant-specific studies, any additional protective measures required to be incorporated into each plant's National Pollutant Discharge Elimination System (NPDES) permit based on site-specific factors, and the outcome of any legal challenges.

In 2015, the EPA finalized the steam electric effluent limitations guidelines (ELG) rule (2015 ELG Rule) that set national standards for wastewater discharges from new and existing steam electric generating units generating greater than 50 MWs. The 2015 ELG Rule prohibits effluent discharges of certain waste streams and imposes stringent limits on flue gas desulfurization (scrubber) wastewater discharges. The revised technology-based limits and the CCR Rule require extensive changes to existing ash and wastewater management systems or the installation and operation of new ash and wastewater management systems. Compliance with the 2015 ELG Rule is expected to require capital expenditures and increased operational costs primarily for Alabama Power's coal-fired electric generation. State environmental agencies will incorporate specific compliance applicability dates in the NPDES permitting process for each ELG waste stream no later than December 31, 2023. The EPA is scheduled to issue a new rulemaking by December 2019 that could revise the limitations and applicability dates of two of the waste streams regulated in the 2015 ELG Rule. The impact of any changes to the 2015 ELG Rule will depend on the content of the new rule and the outcome of any legal challenges. Alabama Power does not anticipate that the unavailability of any units as a result of the ELG rule will have a material impact on Alabama Power's operations or financial condition.

In 2015, the EPA and the U.S. Army Corps of Engineers (Corps) jointly published a final rule that revised the regulatory definition of waters of the United States (WOTUS) for all CWA programs. The rule significantly expanded the scope of federal jurisdiction over waterbodies (such as rivers, streams, canals, and wastewater treatment ponds), which could impact new generation projects and permitting and reporting requirements associated with the installation, expansion, and maintenance of transmission and distribution projects. The EPA and the Corps are expected to publish a final rule in 2019 to replace the 2015 WOTUS definition. The impact of any changes to the 2015 WOTUS rule will depend on the content of this final rule and the outcome of any legal challenges.

Coal Combustion Residuals

In 2015, the EPA finalized non-hazardous solid waste regulations for the disposal of CCR, including coal ash and gypsum, in landfills and surface impoundments (ash ponds) at active generating power plants. In addition to the EPA's CCR Rule, the State of Alabama has also finalized regulations regarding the handling of CCR that have been provided to the EPA for review. This state CCR rule is generally consistent with the federal CCR Rule. The EPA's CCR Rule requires landfills and ash ponds to be evaluated against a set of performance criteria and potentially closed if minimum criteria are not met. Closure of existing landfills and ash ponds could require installation of equipment and infrastructure to manage CCR in accordance with the CCR Rule. Based on cost estimates for closure in place and monitoring of ash ponds pursuant to the CCR Rule, Alabama Power recorded AROs for each CCR unit in 2015. As further analysis was performed and closure details were developed, Alabama Power has continued to periodically update these cost estimates, as discussed further below.

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

On August 21, 2018, the U.S. Court of Appeals for the District of Columbia Circuit issued a decision suggesting the EPA should regulate previously-excluded inactive ash ponds located at retired generation facilities and questioning both the ability of unlined ash ponds to continue operating no matter the performance criteria results and the classification of clay-lined landfills and ash ponds. These developments could impact the expected timing of Alabama Power's landfill and ash pond closure activities, but the extent of any impact will depend on the outcome of ongoing litigation, anticipated EPA rulemaking action to establish further guidance, and the outcome of any legal challenges.

In June 2018, Alabama Power recorded an increase of approximately \$1.2 billion to its AROs related to the CCR Rule. The revised cost estimates were based on information from feasibility studies performed on ash ponds in use at plants operated by Alabama Power. During the second quarter 2018, Alabama Power's management completed its analysis of these studies which indicated that additional closure costs, primarily related to increases in estimated ash volume, water management requirements,

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and design revisions, will be required to close these ash ponds under the planned closure-in-place methodology. As the level of work becomes more defined in the next 12 months, it is likely that these cost estimates will change and the change could be material.

Alabama Power expects to periodically update its ARO cost estimates. Absent continued recovery of ARO costs through regulated rates, Alabama Power's results of operations, cash flows, and financial condition could be materially impacted. See FINANCIAL CONDITION AND LIQUIDITY – "Capital Requirements and Contractual Obligations" herein and Note 6 to the financial statements for additional information.

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

Nuclear Decommissioning

In June 2018, Alabama Power completed an updated decommissioning cost site study for Plant Farley. The estimated cost of decommissioning based on the study resulted in an increase in Alabama Power's ARO liability of approximately \$300 million. Amounts previously contributed to Alabama Power's external trust funds are currently projected to be adequate to meet the updated decommissioning obligations. See Note 6 to the financial statements for additional information.

Global Climate Issues

On August 31, 2018, the EPA published a proposed rule known as the Affordable Clean Energy (ACE) Rule, which is intended to replace a regulation enacted in 2015 known as the Clean Power Plan (CPP), that would limit CO₂ emissions from existing fossil fuel-fired electric generating units. The CPP has been stayed by the U.S. Supreme Court since 2016. The ACE Rule would require states to develop GHG unit-specific emission rate standards based on heat-rate efficiency improvements for existing fossil fuel-fired steam units. As proposed, combustion turbines, including natural gas combined cycles, are not affected sources. As of January 1, 2019, Alabama Power has ownership interests in 20 fossil fuel-fired steam units to which the proposed ACE Rule is applicable. The ultimate impact of this rule to Alabama Power is currently unknown and will depend on changes between the proposal and the final rule, subsequent state plan developments and requirements, and any associated legal challenges.

On December 20, 2018, the EPA published a proposed review of the Standards of Performance for Greenhouse Gas Emissions from New, Modified, and Reconstructed Stationary Sources: Electric Utility Generating Units final rule (2015 NSPS rule). The EPA's final 2015 NSPS rule set standards of performance for new, modified, and reconstructed electric utility generating units which included stationary combustion turbines and fossil-fired steam boilers. This proposal reduces the stringency of the 2015 NSPS rule by not basing the new and reconstructed fossil-fired steam boiler and IGCC standards on partial carbon capture and sequestration. The impact of any changes to this rule will depend on the content of the final rule and the outcome of any legal challenges.

The EPA's GHG reporting rule requires annual reporting of GHG emissions expressed in terms of metric tons of CO₂ equivalent emissions for a company's operational control of facilities. Based on ownership or financial control of facilities, Alabama Power's 2017 GHG emissions were approximately 37 million metric tons of CO₂ equivalent. The preliminary estimate of Alabama Power's 2018 GHG emissions on the same basis is approximately 36 million metric tons of CO₂ equivalent.

Through 2017, the Southern Company system has achieved an estimated GHG emission reduction of 36% since 2007. In April 2018, Southern Company established an intermediate goal of a 50% reduction in carbon emissions from 2007 levels by 2030 and a long-term goal of low- to no-carbon operations by 2050. To achieve these goals, the Southern Company system expects to continue growing its renewable energy portfolio, optimize technology advancements to modernize its transmission and distribution systems, increase the use of natural gas for generation, complete ongoing construction projects, invest in energy efficiency, and continue research and development efforts focused on technologies to lower GHG emissions. The Southern Company system's ability to achieve these goals also will be dependent on many external factors, including supportive national energy policies, low natural gas prices, and the development, deployment, and advancement of relevant energy technologies.

FERC Matters

Open Access Transmission Tariff

On May 10, 2018, AMEA and Cooperative Energy filed with the FERC a complaint against SCS and the traditional electric operating companies (including Alabama Power) claiming that the current 11.25% base ROE used in calculating the annual transmission revenue requirements of the traditional electric operating companies' (including Alabama Power's) open access transmission tariff is unjust and unreasonable as measured by the applicable FERC standards. The complaint requested that the base ROE be set no higher than 8.65% and that the FERC order refunds for the difference in revenue requirements that results from applying a just and reasonable ROE established in this proceeding upon determining the current ROE is unjust and

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unreasonable. On June 18, 2018, SCS and the traditional electric operating companies (including Alabama Power) filed their response challenging the adequacy of the showing presented by the complainants and offering support for the current ROE. On September 6, 2018, the FERC issued an order establishing a refund effective date of May 10, 2018 in the event a refund is due and initiating an investigation and settlement procedures regarding the current base ROE. Through December 31, 2018, the estimated maximum potential refund is not expected to be material to Alabama Power's results of operations or cash flows. The ultimate outcome of this matter cannot be determined at this time.

Retail Regulatory Matters

Alabama Power's revenues from regulated retail operations are collected through various rate mechanisms subject to the oversight of the Alabama PSC. Alabama Power currently recovers its costs from the regulated retail business primarily through Rate RSE, Rate CNP, Rate ECR, and Rate NDR. In addition, the Alabama PSC issues accounting orders to address current events impacting Alabama Power. See Note 2 to the financial statements under "Alabama Power" for additional information regarding Alabama Power's rate mechanisms and accounting orders.

Rate RSE

The Alabama PSC has adopted Rate RSE that provides for periodic annual adjustments based upon Alabama Power's projected weighted common equity return (WCER) compared to an allowable range. Rate RSE adjustments are based on forward-looking information for the applicable upcoming calendar year. Rate RSE adjustments for any two-year period, when averaged together, cannot exceed 4.0% and any annual adjustment is limited to 5.0%. When the projected WCER is under the allowed range, there is an adjusting point of 5.98% and eligibility for a performance-based adder of seven basis points, or 0.07%, to the WCER adjusting point if Alabama Power (i) has an "A" credit rating equivalent with at least one of the recognized rating agencies or (ii) is in the top one-third of a designated customer value benchmark survey. If Alabama Power's actual retail return is above the allowed WCER range, the excess will be refunded to customers unless otherwise directed by the Alabama PSC; however, there is no provision for additional customer billings should the actual retail return fall below the WCER range. Prior to January 2019, retail rates remained unchanged when the WCER range was between 5.75% and 6.21%.

On May 1, 2018, the Alabama PSC approved modifications to Rate RSE and other commitments designed to position Alabama Power to address the growing pressure on its credit quality resulting from the Tax Reform Legislation, without increasing retail rates under Rate RSE in the near term. Alabama Power plans to reduce growth in total debt by increasing equity, with corresponding reductions in debt issuances, thereby de-leveraging its capital structure. Alabama Power's goal is to achieve an equity ratio of approximately 55% by the end of 2025. At December 31, 2018, Alabama Power's equity ratio was approximately 47%.

The approved modifications to Rate RSE began for billings in January 2019. The modifications include reducing the top of the allowed WCER range from 6.21% to 6.15% and modifications to the refund mechanism applicable to prior year actual results. The modifications to the refund mechanism allow Alabama Power to retain a portion of the revenue that causes the actual WCER for a given year to exceed the allowed range.

Generally, if Alabama Power's actual WCER is between 6.15% and 7.65%, customers will receive 25% of the amount between 6.15% and 6.65%, 40% of the amount between 6.65% and 7.15%, and 75% of the amount between 7.15% and 7.65%. Customers will receive all amounts in excess of an actual WCER of 7.65%.

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

On November 30, 2018, Alabama Power made its required annual Rate RSE submission to the Alabama PSC of projected data for calendar year 2019. Projected earnings were within the specified range; therefore, retail rates under Rate RSE remain unchanged for 2019.

At December 31, 2018, Alabama Power's retail return exceeded the allowed WCER range, which resulted in Alabama Power establishing a regulatory liability of \$109 million for Rate RSE refunds. In accordance with an Alabama PSC order issued on February 5, 2019, Alabama Power will apply \$75 million to reduce the Rate ECR under recovered balance and the remaining \$34 million will be refunded to customers through bill credits in July through September 2019.

Rate CNP PPA

Alabama Power's retail rates, approved by the Alabama PSC, provide for adjustments under Rate CNP to recognize the placing of new generating facilities into retail service. Alabama Power may also recover retail costs associated with certificated PPAs under

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Rate CNP PPA. No adjustments to Rate CNP PPA occurred during the period 2016 through 2018 and no adjustment is expected in 2019.

In accordance with an accounting order issued in February 2017 by the Alabama PSC, Alabama Power reclassified \$69 million of the December 31, 2016 Rate CNP PPA under recovered balance to a separate regulatory asset. The amortization of the new regulatory asset through Rate RSE will begin concurrently with the effective date of Alabama Power's next depreciation study, which is expected to occur no later than 2022.

Rate CNP Compliance

Rate CNP Compliance allows for the recovery of Alabama Power's retail costs associated with laws, regulations, and other such mandates directed at the utility industry involving the environment, security, reliability, safety, sustainability, or similar considerations impacting Alabama Power's facilities or operations. Rate CNP Compliance is based on forward-looking information and provides for the recovery of these costs pursuant to a factor that is calculated annually. Compliance costs to be recovered include operations and maintenance expenses, depreciation, and a return on certain invested capital. Revenues for Rate CNP Compliance, as recorded on the financial statements, are adjusted for differences in actual recoverable costs and amounts billed in current regulated rates. Accordingly, changes in the billing factor will have no significant effect on Alabama Power's revenues or net income, but will affect annual cash flow. Changes in Rate CNP Compliance-related operations and maintenance expenses and depreciation generally will have no effect on net income.

In accordance with an accounting order issued in February 2017 by the Alabama PSC, Alabama Power reclassified \$36 million of its under recovered balance in Rate CNP Compliance to a separate regulatory asset. The amortization of the new regulatory asset through Rate RSE will begin concurrently with the effective date of Alabama Power's next depreciation study, which is expected to occur no later than 2022.

On November 30, 2018, Alabama Power submitted calculations associated with its cost of complying with environmental mandates, as provided under Rate CNP Compliance. The filing reflected a projected unrecovered retail revenue requirement for environmental compliance of approximately \$205 million, which is being recovered in the billing months of January 2019 through December 2019.

Rate ECR

Alabama Power has established energy cost recovery rates under Alabama Power's Rate ECR as approved by the Alabama PSC. Rates are based on an estimate of future energy costs and the current over or under recovered balance. Revenues recognized under Rate ECR and recorded on the financial statements are adjusted for the difference in actual recoverable fuel costs and amounts billed in current regulated rates. The difference in the recoverable fuel costs and amounts billed give rise to the over or under recovered amounts recorded as regulatory assets or liabilities. Alabama Power, along with the Alabama PSC, continually monitors the over or under recovered cost balance to determine whether an adjustment to billing rates is required. Changes in the Rate ECR factor have no significant effect on Alabama Power's net income, but will impact operating cash flows. Currently, the Alabama PSC may approve billing rates under Rate ECR of up to 5.910 cents per KWH.

In accordance with an accounting order issued in February 2017 by the Alabama PSC, Alabama Power reclassified \$36 million of its under recovered balance in Rate ECR to a separate regulatory asset. The amortization of the new regulatory asset through Rate RSE will begin concurrently with the effective date of Alabama Power's next depreciation study, which is expected to occur no later than 2022. Alabama Power's current depreciation study became effective January 1, 2017.

On May 1, 2018, the Alabama PSC approved an increase to Rate ECR from 2.015 cents per KWH to 2.353 cents per KWH effective July 2018 through December 2018. On December 4, 2018, the Alabama PSC issued a consent order to leave this rate in effect through December 31, 2019. This change is expected to increase collections by approximately \$183 million in 2019. Absent any further order from the Alabama PSC, in January 2020, the rates will return to the originally authorized 5.910 cents per KWH.

As discussed herein under "Rate RSE," in accordance with an Alabama PSC order issued on February 5, 2019, Alabama Power will utilize \$75 million of the 2018 Rate RSE refund liability to reduce the Rate ECR under recovered balance.

Tax Reform Accounting Order

On May 1, 2018, the Alabama PSC approved an accounting order that authorized Alabama Power to defer the benefits of federal excess deferred income taxes associated with the Tax Reform Legislation for the year ended December 31, 2018 as a regulatory liability and to use up to \$30 million of such deferrals to offset under recovered amounts under Rate ECR. The estimated deferrals for the year ended December 31, 2018 totaled approximately \$63 million, subject to adjustment following the filing of the 2018 tax return, of which \$30 million was used to offset the Rate ECR under recovered balance and \$33 million is recorded in other

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
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regulatory liabilities, deferred on the balance sheet to be used for the benefit of customers as determined by the Alabama PSC at a future date. See Note 10 to the financial statements under "Current and Deferred Income Taxes" for additional information.

Software Accounting Order

On February 5, 2019, the Alabama PSC approved an accounting order that authorizes Alabama Power to establish a regulatory asset for operations and maintenance costs associated with software implementation projects. The regulatory asset will be amortized ratably over the life of the related software.

Plant Greene County

Alabama Power jointly owns Plant Greene County with an affiliate, Mississippi Power. See Note 5 to the financial statements under "Joint Ownership Agreements" for additional information regarding the joint ownership agreement. On August 6, 2018, Mississippi Power filed its proposed Reserve Margin Plan (RMP) with the Mississippi PSC, which proposes a four-year acceleration of the retirement of Plant Greene County Units 1 and 2 to the third quarter 2021 and the third quarter 2022, respectively. Mississippi Power's proposed Plant Greene County unit retirements would require the completion of proposed transmission and system reliability improvements, as well as agreement by Alabama Power. Alabama Power will continue to monitor the status of Mississippi Power's proposed RMP and associated regulatory process as well as the proposed transmission and system reliability improvements. Alabama Power will review all the facts and circumstances and will evaluate all its alternatives prior to reaching a final determination on the ongoing operations of Plant Greene County. The ultimate outcome of this matter cannot be determined at this time.

Request for Proposals for Future Generation

On September 21, 2018, Alabama Power issued a request for proposals of between 100 MWs and 1,200 MWs of capacity beginning no later than 2023. On November 9, 2018, bids were received and an evaluation of those bids is in progress. Any purchases will depend upon the cost competitiveness of the respective offers as well as other options available to Alabama Power. The ultimate outcome of this matter cannot be determined at this time.

Rate NDR

Based on an order from the Alabama PSC, Alabama Power maintains a reserve for operations and maintenance expenses to cover the cost of damages from major storms to its transmission and distribution facilities. The order approves a separate monthly Rate NDR charge to customers consisting of two components. The first component is intended to establish and maintain a reserve balance for future storms and is an on-going part of customer billing. When the reserve balance falls below \$50 million, a reserve establishment charge will be activated (and the on-going reserve maintenance charge concurrently suspended) until the reserve balance reaches \$75 million. In December 2017, the reserve maintenance charge was suspended and the reserve establishment charge was activated as a result of the NDR balance falling below \$50 million. Alabama Power expects to collect approximately \$16 million annually until the reserve balance is restored to \$75 million. The NDR balance at December 31, 2018 was \$20 million and is included in other regulatory liabilities, deferred on the balance sheet.

The second component of the Rate NDR charge is intended to allow recovery of any existing deferred storm-related operations and maintenance costs and any future reserve deficits over a 24-month period. The Alabama PSC order gives Alabama Power authority to record a deficit balance in the NDR when costs of storm damage exceed any established reserve balance. Absent further Alabama PSC approval, the maximum total Rate NDR charge consisting of both components is \$10 per month per non-residential customer account and \$5 per month per residential customer account. Alabama Power has the authority, based on an order from the Alabama PSC, to accrue certain additional amounts as circumstances warrant.

As revenue from the Rate NDR charge is recognized, an equal amount of operations and maintenance expenses related to the NDR will also be recognized. As a result, the Rate NDR charge will not have an effect on net income but will impact operating cash flows.

Environmental Accounting Order

Based on an order from the Alabama PSC (Environmental Accounting Order), Alabama Power is allowed to establish a regulatory asset to record the unrecovered investment costs, including the unrecovered plant asset balance and the unrecovered costs associated with site removal and closure associated with future unit retirements caused by environmental regulations. The regulatory asset is being amortized and recovered over the affected unit's remaining useful life, as established prior to the decision regarding early retirement through Rate CNP Compliance. At December 31, 2018, this regulatory asset had a balance of \$42 million. See "Environmental Matters – Environmental Laws and Regulations" herein for additional information regarding environmental regulations.

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Subsequent to December 31, 2018, Alabama Power determined that Plant Gorgas Units 8, 9, and 10 (approximately 1,000 MWs) will be retired by April 15, 2019 due to the expected costs of compliance with federal and state environmental regulations. In accordance with the Environmental Accounting Order, approximately \$740 million of net investment costs will be transferred to a regulatory asset at the retirement date and recovered over the affected units' remaining useful lives, as established prior to the decision to retire.

Income Tax Matters

Federal Tax Reform Legislation

In December 2017, the Tax Reform Legislation was signed into law and became effective on January 1, 2018. The Tax Reform Legislation, among other things, reduced the federal corporate income tax rate to 21%, retained normalization provisions for public utility property and existing renewable energy incentives, and repealed the corporate alternative minimum tax. In addition, under the Tax Reform Legislation, net operating losses (NOLs) generated after December 31, 2017 can no longer be carried back to previous tax years but can be carried forward indefinitely, with utilization limited to 80% of taxable income of the subsequent tax year. The projected reduction of Southern Company's consolidated income tax liability resulting from the tax rate reduction also delays the expected utilization of existing tax credit carryforwards. See Note 10 to the financial statements for information on Southern Company's joint consolidated income tax allocation agreement.

Following the enactment of the Tax Reform Legislation, the SEC staff issued Staff Accounting Bulletin 118 – "Income Tax Accounting Implications of the Tax Cuts and Jobs Act" (SAB 118), which provided for a measurement period of up to one year from the enactment date to complete accounting under GAAP for the tax effects of the legislation. Due to the complex and comprehensive nature of the enacted tax law changes and their application under GAAP, Alabama Power considered all amounts recorded in the financial statements as a result of the Tax Reform Legislation "provisional" as discussed in SAB 118 and subject to revision prior to filing its 2017 tax return in the fourth quarter 2018. Alabama Power recognized tax expense of \$3 million in 2017 as a result of the Tax Reform Legislation. In addition, in total, Alabama Power recorded a \$281 million decrease in regulatory assets and a \$2.0 billion increase in regulatory liabilities as a result of the Tax Reform Legislation. As of December 31, 2018, Alabama Power considered the measurement of impacts from the Tax Reform Legislation on deferred income tax assets and liabilities, primarily due to the impact of the reduction of the corporate income tax rate, to be complete.

However, the IRS continues to issue regulations that provide further interpretation and guidance on the law and each state's adoption of the provisions contained in the Tax Reform Legislation remains uncertain. The regulatory treatment of certain impacts of the Tax Reform Legislation is subject to the discretion of the FERC. The ultimate impact of this matter cannot be determined at this time. See Note 2 to the financial statements under "Alabama Power – Rate RSE" for additional information regarding modifications to Rate RSE to reflect the impacts of the Tax Reform Legislation. Also see FINANCIAL CONDITION AND LIQUIDITY – "Credit Rating Risk" herein and Note 10 to the financial statements under "Current and Deferred Income Taxes" for additional information.

Bonus Depreciation

Under the Tax Reform Legislation, projects with binding contracts prior to September 28, 2017 and placed in service after September 27, 2017 remain eligible for bonus depreciation under the PATH Act. The PATH Act allowed for 50% bonus depreciation for 2015 through 2017, 40% bonus depreciation for 2018, and 30% bonus depreciation for 2019 and certain long-lived assets placed in service in 2020. Based on provisional estimates, bonus depreciation is expected to result in positive cash flows of approximately \$100 million for the 2018 tax year and approximately \$30 million for the 2019 tax year. See Note 10 to the financial statements under "Current and Deferred Income Taxes" for additional information. The ultimate outcome of this matter cannot be determined at this time.

Other Matters

Alabama Power is involved in various other matters being litigated and regulatory matters that could affect future earnings. In addition, Alabama Power is subject to certain claims and legal actions arising in the ordinary course of business. Alabama Power's business activities are subject to extensive governmental regulation related to public health and the environment, such as laws and regulations governing air, water, land, and protection of other natural resources. Litigation over environmental issues and claims of various types, including property damage, personal injury, common law nuisance, and citizen enforcement of environmental laws and regulations, has occurred throughout the U.S. This litigation has included claims for damages alleged to have been caused by CO₂ and other emissions, CCR, and alleged exposure to hazardous materials, and/or requests for injunctive relief in connection with such matters.

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The ultimate outcome of such pending or potential litigation or regulatory matters cannot be predicted at this time; however, for current proceedings not specifically reported herein or in Notes 2 and 3 to the financial statements, management does not anticipate that the ultimate liabilities, if any, arising from such current proceedings would have a material effect on Alabama Power's financial statements. See Notes 2 and 3 to the financial statements for a discussion of various other contingencies, regulatory matters, and other matters being litigated which may affect future earnings potential.

ACCOUNTING POLICIES

Application of Critical Accounting Policies and Estimates

Alabama Power prepares its financial statements in accordance with GAAP. Significant accounting policies are described in Notes 1, 5, and 6 to the financial statements. In the application of these policies, certain estimates are made that may have a material impact on Alabama Power's results of operations and related disclosures. Different assumptions and measurements could produce estimates that are significantly different from those recorded in the financial statements. Senior management has reviewed and discussed the following critical accounting policies and estimates with the Audit Committee of Southern Company's Board of Directors.

Utility Regulation

Alabama Power is subject to retail regulation by the Alabama PSC and wholesale regulation by the FERC. As a result, Alabama Power applies accounting standards which require the financial statements to reflect the effects of rate regulation. Through the ratemaking process, the regulators may require the inclusion of costs or revenues in periods different than when they would be recognized by a non-regulated company. This treatment may result in the deferral of expenses and the recording of related regulatory assets based on anticipated future recovery through rates or the deferral of gains or creation of liabilities and the recording of related regulatory liabilities. The application of the accounting standards has a further effect on Alabama Power's financial statements as a result of the estimates of allowable costs used in the ratemaking process. These estimates may differ from those actually incurred by Alabama Power; therefore, the accounting estimates inherent in specific costs such as depreciation, AROs, and pension and other postretirement benefits have less of a direct impact on Alabama Power's results of operations and financial condition than they would on a non-regulated company.

As reflected in Note 2 to the financial statements under "Alabama Power – Regulatory Assets and Liabilities," significant regulatory assets and liabilities have been recorded. Management reviews the ultimate recoverability of these regulatory assets and any requirement to refund these regulatory liabilities based on applicable regulatory guidelines and GAAP. However, adverse legislative, judicial, or regulatory actions could materially impact the amounts of such regulatory assets and liabilities and could adversely impact Alabama Power's financial statements.

Asset Retirement Obligations

ARO's are computed as the fair value of the estimated costs for an asset's future retirement and are recorded in the period in which the liability is incurred. The estimated costs are capitalized as part of the related long-lived asset and depreciated over the asset's useful life. In the absence of quoted market prices, ARO's are estimated using present value techniques in which estimates of future cash outlays associated with the asset retirements are discounted using a credit-adjusted risk-free rate. Estimates of the timing and amounts of future cash outlays are based on projections of when and how the assets will be retired and the cost of future removal activities.

The liability for ARO's primarily relates to the decommissioning of Alabama Power's nuclear facility, Plant Farley, and facilities that are subject to the CCR Rule and the related state rule, principally ash ponds. In addition, Alabama Power has ARO's related to various landfill sites, underground storage tanks, asbestos removal related to ongoing repair and maintenance, disposal of polychlorinated biphenyls in certain transformers, and disposal of sulfur hexafluoride gas in certain substation breakers.

Alabama Power also has identified retirement obligations related to certain transmission and distribution facilities, asbestos containing material within long-term assets not subject to ongoing repair and maintenance activities, and certain wireless communication towers. However, liabilities for the removal of these assets have not been recorded because the settlement timing for the retirement obligations related to these assets is indeterminable and, therefore, the fair value of the retirement obligations cannot be reasonably estimated. A liability for these retirement obligations will be recognized when sufficient information becomes available to support a reasonable estimation of the retirement obligation.

The cost estimates for ARO's related to the disposal of CCR are based on information using various assumptions related to closure and post-closure costs, timing of future cash outlays, inflation and discount rates, and the potential methods for complying with the CCR Rule requirements for closure in place. In June 2018, Alabama Power recorded increases of approximately \$1.2 billion

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to its AROs related to the CCR Rule and approximately \$300 million to its AROs related to updated nuclear decommissioning cost site studies. The revised CCR-related cost estimates as of June 30, 2018 were based on information from feasibility studies performed on ash ponds in use at the plants Alabama Power operates. During the second quarter 2018, Alabama Power's management completed its analysis of these studies which indicated that additional closure costs, primarily related to increases in estimated ash volume, water management requirements, and design revisions, will be required to close these ash ponds under the planned closure-in-place methodology. As the level of work becomes more defined in the next 12 months, it is likely that these cost estimates will change and the change could be material. Alabama Power expects to periodically update its ARO cost estimates. See FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Laws and Regulations – Coal Combustion Residuals" herein and Note 6 to the financial statements for additional information.

Given the significant judgment involved in estimating AROs, Alabama Power considers the liabilities for AROs to be critical accounting estimates.

Pension and Other Postretirement Benefits

Alabama Power's calculation of pension and other postretirement benefits expense is dependent on a number of assumptions. These assumptions include discount rates, healthcare cost trend rates, expected long-term return on plan assets, mortality rates, expected salary and wage increases, and other factors. Components of pension and other postretirement benefits expense include interest and service cost on the pension and other postretirement benefit plans, expected return on plan assets, and amortization of certain unrecognized costs and obligations. Actual results that differ from the assumptions utilized are accumulated and amortized over future periods and, therefore, generally affect recognized expense and the recorded obligation in future periods. While Alabama Power believes that the assumptions used are appropriate, differences in actual experience or significant changes in assumptions would affect its pension and other postretirement benefit costs and obligations.

Key elements in determining Alabama Power's pension and other postretirement benefit expense are the expected long-term return on plan assets and the discount rate used to measure the benefit plan obligations and the periodic benefit plan expense for future periods. The expected long-term return on pension and other postretirement benefit plan assets is based on Southern Company's investment strategy, historical experience, and expectations for long-term rates of return that consider external actuarial advice. Southern Company determines the long-term return on plan assets by applying the long-term rate of expected returns on various asset classes to Southern Company's target asset allocation. For purposes of determining Alabama Power's liability related to the pension and other postretirement benefit plans, Southern Company discounts the future related cash flows using a single-point discount rate developed from the weighted average of market-observed yields for high quality fixed income securities with maturities that correspond to expected benefit payments.

A 25 basis point change in any significant assumption (discount rate, salary increases, or long-term rate of return on plan assets) would result in a \$9 million or less change in total annual benefit expense, a \$99 million or less change in the projected obligation for the pension plan, and an \$11 million or less change in the projected obligation for other post retirement benefit plans.

Alabama Power recorded pension costs of \$27 million, \$9 million, and \$11 million in 2018, 2017, and 2016, respectively. Postretirement benefit costs for Alabama Power were \$2 million, \$3 million, and \$4 million in 2018, 2017, and 2016, respectively. Such amounts are dependent on several factors including trust earnings and changes to the plans. A portion of pension and other postretirement benefit costs is capitalized based on construction-related labor charges. Pension and other postretirement benefit costs are a component of the regulated rates and generally do not have a long-term effect on net income.

See Note 11 to the financial statements for additional information regarding pension and other postretirement benefits.

Contingent Obligations

Alabama Power is subject to a number of federal and state laws and regulations, as well as other factors and conditions that subject it to environmental, litigation, and other risks. See FUTURE EARNINGS POTENTIAL herein and Notes 2 and 3 to the financial statements for more information regarding certain of these contingencies. Alabama Power periodically evaluates its exposure to such risks and records reserves for those matters where a non-tax-related loss is considered probable and reasonably estimable. The adequacy of reserves can be significantly affected by external events or conditions that can be unpredictable; thus, the ultimate outcome of such matters could materially affect Alabama Power's results of operations, cash flows, or financial condition.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

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Recently Issued Accounting Standards

See Note 1 to the financial statements under "Recently Adopted Accounting Standards" for additional information.

In 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* (ASU 2016-02). ASU 2016-02 requires lessees to recognize on the balance sheet a lease liability and a right-of-use asset for all leases. ASU 2016-02 also changes the recognition, measurement, and presentation of expense associated with leases and provides clarification regarding the identification of certain components of contracts that would represent a lease. The accounting required by lessors is relatively unchanged. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018 and Alabama Power adopted the new standard effective January 1, 2019.

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

Alabama Power completed the implementation of a new application to track and account for its leases and updated its internal controls and accounting policies to support the accounting for leases under ASU 2016-02. Alabama Power completed its lease inventory and determined its most significant leases involve PPAs. In the first quarter 2019, the adoption of ASU 2016-02 resulted in recording lease liabilities and right-of-use assets on Alabama Power's balance sheet each totaling approximately \$195 million, with no impact on Alabama Power's statement of income.

FINANCIAL CONDITION AND LIQUIDITY

Overview

Alabama Power's financial condition remained stable at December 31, 2018. Alabama Power's cash requirements primarily consist of funding ongoing operations, common stock dividends, capital expenditures, and debt maturities. Capital expenditures and other investing activities include investments to meet projected long-term demand requirements, to maintain existing generation facilities, to comply with environmental regulations including adding environmental modifications to certain existing generating units and closures of ash ponds, to expand and improve transmission and distribution facilities, and for restoration following major storms. Operating cash flows provide a substantial portion of Alabama Power's cash needs. For the three-year period from 2019 through 2021, Alabama Power's projected common stock dividends, capital expenditures, and debt maturities are expected to exceed operating cash flows. Alabama Power plans to finance future cash needs in excess of its operating cash flows primarily through external securities issuances, borrowings from financial institutions, or equity contributions from Southern Company. Alabama Power plans to use commercial paper to manage seasonal variations in operating cash flows and for other working capital needs. Alabama Power intends to continue to monitor its access to short-term and long-term capital markets as well as its bank credit arrangements to meet future capital and liquidity needs. See "Sources of Capital," "Financing Activities," and "Capital Requirements and Contractual Obligations" herein for additional information.

Alabama Power's investments in the qualified pension plan and the nuclear decommissioning trust funds decreased in value as of December 31, 2018 as compared to December 31, 2017. No contributions to the qualified pension plan were made for the year ended December 31, 2018 and no mandatory contributions to the qualified pension plan are anticipated during 2019. Alabama Power's funding obligations for the nuclear decommissioning trust funds are based on the most recent site study completed in 2018, and the next study is expected to be conducted by 2023. See Notes 6 and 11 to the financial statements under "Nuclear Decommissioning" and "Pension Plans," respectively, for additional information.

Net cash provided from operating activities totaled \$1.9 billion for 2018, an increase of \$44 million as compared to 2017. The increase in cash provided from operating activities was primarily due to an increase in weather-related revenues, fuel cost recovery, and income tax refunds received in 2018, partially offset by materials and supplies purchases, the timing of vendor payments, and settlement of AROs. Net cash provided from operating activities totaled \$1.8 billion for 2017, a decrease of \$112 million as compared to 2017. The decrease in cash provided from operating activities was primarily due to the timing of income tax payments in 2017 and the receipt of income tax refunds in 2016 as a result of bonus depreciation, partially offset by the voluntary contribution to the qualified pension plan in 2016.

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Net cash used for investing activities totaled \$2.3 billion for 2018, \$1.9 billion for 2017, and \$1.4 billion for 2016. These activities were primarily related to gross property additions for environmental, distribution, transmission, and steam generation assets.

Net cash provided from financing activities totaled \$177 million in 2018 primarily due to issuances of long-term debt and additional capital contributions from Southern Company, partially offset by the payment of common stock dividends and a maturity of long-term debt. Net cash provided from financing activities totaled \$163 million in 2017 primarily due to issuances of long-term debt and additional capital contributions from Southern Company, partially offset by the payment of common stock dividends and maturities of long-term debt. Fluctuations in cash flow from financing activities vary from year to year based on capital needs and the maturity or redemption of securities.

Significant balance sheet changes for 2018 included increases of \$2.84 billion in property, plant, and equipment primarily due to \$1.35 billion in AROs and additions to nuclear, distribution, and transmission assets. Other changes include \$522 million in capital contributions from Southern Company and \$295 million in long-term debt primarily due to a senior notes issuance. See Notes 6 and 8 to the financial statements for additional information related to changes in Alabama Power's AROs and financing activities, respectively.

Alabama Power's ratio of common equity to total capitalization plus short-term debt was 47.0% and 46.3% at December 31, 2018 and 2017, respectively. See Note 8 to the financial statements for additional information.

Sources of Capital

Alabama Power plans to obtain the funds to meet its future capital needs from sources similar to those used in the past, which were primarily from operating cash flows, external security issuances, borrowings from financial institutions, and equity contributions from Southern Company. However, the amount, type, and timing of any future financings, if needed, will depend upon prevailing market conditions, regulatory approval, and other factors. Subsequent to December 31, 2018, Alabama Power received a capital contribution totaling \$1.225 billion from Southern Company.

Security issuances are subject to regulatory approval by the Alabama PSC. Additionally, with respect to the public offering of securities, Alabama Power files registration statements with the SEC under the Securities Act of 1933, as amended. The amounts of securities authorized by the Alabama PSC are continuously monitored and appropriate filings are made to ensure flexibility in the capital markets.

Alabama Power obtains financing separately without credit support from any affiliate. See Note 8 to the financial statements under "Bank Credit Arrangements" for additional information. The Southern Company system does not maintain a centralized cash or money pool. Therefore, funds of Alabama Power are not commingled with funds of any other company in the Southern Company system.

At December 31, 2018, Alabama Power's current liabilities exceeded current assets by \$50 million. Alabama Power's current liabilities sometimes exceed current assets because of long-term debt maturities and the periodic use of short-term debt as a funding source, as well as significant seasonal fluctuations in cash needs.

At December 31, 2018, Alabama Power had approximately \$313 million of cash and cash equivalents. Committed credit arrangements with banks at December 31, 2018 were as follows:

Expires			Total	Unused	Expires Within One Year	
2019	2020	2022			Term Out	No Term Out
<i>(in millions)</i>			<i>(in millions)</i>		<i>(in millions)</i>	
\$ 33	\$ 500	\$ 800	\$ 1,333	\$ 1,333	\$ —	\$ 33

See Note 8 to the financial statements under "Bank Credit Arrangements" for additional information.

Most of these bank credit arrangements, as well as Alabama Power's term loan arrangements, contain covenants that limit debt levels and contain cross-acceleration provisions to other indebtedness (including guarantee obligations) of Alabama Power. Such cross-acceleration provisions to other indebtedness would trigger an event of default if Alabama Power defaulted on indebtedness, the payment of which was then accelerated. At December 31, 2018, Alabama Power was in compliance with all such covenants. None of the bank credit arrangements contain material adverse change clauses at the time of borrowings.

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

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A portion of the unused credit with banks is allocated to provide liquidity support to Alabama Power's pollution control revenue bonds and commercial paper programs. The amount of variable rate pollution control revenue bonds outstanding requiring liquidity support was \$854 million at December 31, 2018.

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

Details of short-term borrowings were as follows:

	Short-term Debt at the End of the Period		Short-term Debt During the Period ^(*)		
	Amount Outstanding	Weighted Average Interest Rate	Average Amount Outstanding	Weighted Average Interest Rate	Maximum Amount Outstanding
	<i>(in millions)</i>		<i>(in millions)</i>		<i>(in millions)</i>
December 31, 2018	\$ —	—%	\$ 27	2.3%	\$ 258
December 31, 2017	\$ 3	3.7%	\$ 25	1.3%	\$ 223
December 31, 2016	\$ —	—%	\$ 16	0.6%	\$ 200

(*) Average and maximum amounts are based upon daily balances during the 12-month periods ended December 31, 2018, 2017, and 2016.

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

Financing Activities

In June 2018, Alabama Power issued \$500 million aggregate principal amount of Series 2018A 4.300% Senior Notes due July 15, 2048. The proceeds were used to repay outstanding commercial paper and for general corporate purposes, including Alabama Power's continuous construction program.

In October 2018, Alabama Power purchased and held \$120 million aggregate principal amount of The Industrial Development Board of the City of Mobile, Alabama Pollution Control Revenue Bonds (Alabama Power Company Plant Barry Project), Series 2008. Alabama Power reoffered these bonds to the public in November 2018.

In November 2018, Alabama Power guaranteed a \$100 million three-year bank term loan for SEGCO. See Note 9 to the financial statements under "Guarantees" for additional information.

Subsequent to December 31, 2018, Alabama Power repaid at maturity \$200 million aggregate principal amount of Series Z 5.125% Senior Notes due February 15, 2019.

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

Credit Rating Risk

At December 31, 2018, Alabama Power did not have any credit arrangements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade.

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

The maximum potential collateral requirements under these contracts at December 31, 2018 were as follows:

Credit Ratings	Maximum Potential Collateral Requirements	
	<i>(in millions)</i>	
At BBB and/or Baa2	\$	1
At BBB- and/or Baa3	\$	1
Below BBB- and/or Baa3	\$	356

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

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

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

As a result of the Tax Reform Legislation, certain financial metrics, such as the funds from operations to debt percentage, used by the credit rating agencies to assess Southern Company and its subsidiaries, including Alabama Power, may be negatively impacted. The modifications to Rate RSE and other commitments approved by the Alabama PSC are expected to help mitigate these potential adverse impacts to certain credit metrics and will help Alabama Power meet its goal of achieving an equity ratio of approximately 55% by the end of 2025. See Note 2 to the financial statements under "Alabama Power – Rate RSE" for additional information.

Market Price Risk

Due to cost-based rate regulation and other various cost recovery mechanisms, Alabama Power continues to have limited exposure to market volatility in interest rates, commodity fuel prices, and prices of electricity. To manage the volatility attributable to these exposures, Alabama Power nets the exposures, where possible, to take advantage of natural offsets and enters into various derivative transactions for the remaining exposures pursuant to Alabama Power's policies in areas such as counterparty exposure and risk management practices. Alabama Power's policy is that derivatives are to be used primarily for hedging purposes and mandates strict adherence to all applicable risk management policies. Derivative positions are monitored using techniques including, but not limited to, market valuation, value at risk, stress testing, and sensitivity analysis.

To mitigate future exposure to changes in interest rates, Alabama Power may enter into derivatives designated as hedges. The weighted average interest rate on \$1.1 billion of long-term variable interest rate exposure at December 31, 2018 was 2.5%. If Alabama Power sustained a 100 basis point change in interest rates for all long-term variable interest rate exposure, the change would affect annualized interest expense by approximately \$11 million at December 31, 2018. See Note 1 to the financial statements under "Financial Instruments" and Note 14 to the financial statements for additional information.

To mitigate residual risks relative to movements in electricity prices, Alabama Power enters into physical fixed-price contracts for the purchase and sale of electricity through the wholesale electricity market and financial hedge contracts for natural gas purchases. Alabama Power continues to manage a retail fuel-hedging program implemented per the guidelines of the Alabama PSC. Alabama Power had no material change in market risk exposure for the year ended December 31, 2018 when compared to the year ended December 31, 2017.

In addition, Rate ECR allows the recovery of specific costs associated with the sales of natural gas that become necessary due to operating considerations at Alabama Power's electric generating facilities. Rate ECR also allows recovery of the cost of financial instruments used for hedging market price risk up to 75% of the budgeted annual amount of natural gas purchases. Alabama Power may not engage in natural gas hedging activities that extend beyond a rolling 42-month window. Also, the premiums paid for natural gas financial options may not exceed 5% of Alabama Power's natural gas budget for that year.

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The changes in fair value of energy-related derivative contracts are substantially attributable to both the volume and the price of natural gas. For the years ended December 31, the changes in fair value of energy-related derivative contracts, the majority of which are composed of regulatory hedges, were as follows:

	2018 Changes	2017 Changes
	Fair Value	
	<i>(in millions)</i>	
Contracts outstanding at the beginning of the period, assets (liabilities), net	\$ (6)	\$ 12
Contracts realized or settled	(2)	(1)
Current period changes ^(*)	4	(17)
Contracts outstanding at the end of the period, assets (liabilities), net	\$ (4)	\$ (6)

(*) Current period changes also include the changes in fair value of new contracts entered into during the period, if any.

The net hedge volumes of energy-related derivative contracts at December 31, 2018 and 2017 were as follows:

	2018	2017
	mmBtu Volume	
	<i>(in millions)</i>	
Commodity – Natural gas swaps	65	64
Commodity – Natural gas options	9	5
Total hedge volume	74	69

The weighted average swap contract cost above market prices was approximately \$0.08 per mmBtu at December 31, 2018 and December 31, 2017. The change in option fair value is primarily attributable to the volatility of the market and the underlying change in the natural gas price. Substantially all of the natural gas hedge gains and losses are recovered through Alabama Power's retail energy cost recovery clause.

At December 31, 2018 and 2017, substantially all of Alabama Power's energy-related derivative contracts were designated as regulatory hedges and were related to Alabama Power's fuel-hedging program. Therefore, gains and losses are initially recorded as regulatory liabilities and assets, respectively, and then are included in fuel expense as they are recovered through the energy cost recovery clause. Certain other gains and losses on energy-related derivatives, designated as cash flow hedges, are initially deferred in OCI before being recognized in income in the same period as the hedged transaction. Gains and losses on energy-related derivative contracts that are not designated or fail to qualify as hedges are recognized in the statements of income as incurred and were not material for any year presented.

Alabama Power uses over-the-counter contracts that are not exchange traded but are fair valued using prices which are market observable, and thus fall into Level 2 of the fair value hierarchy. See Note 13 to the financial statements for further discussion of fair value measurements. The maturities of the energy-related derivative contracts, which are primarily Level 2 of the fair value hierarchy, at December 31, 2018 were as follows:

	Fair Value Measurements		
	December 31, 2018		
	Total Fair Value	Maturity	
		Year 1	Years 2&3
	<i>(in millions)</i>		
Level 1	\$ —	\$ —	\$ —
Level 2	(4)	(1)	(3)
Level 3	—	—	—
Fair value of contracts outstanding at end of period	\$ (4)	\$ (1)	\$ (3)

Alabama Power is exposed to market price risk in the event of nonperformance by counterparties to energy-related and interest rate derivative contracts. Alabama Power only enters into agreements and material transactions with counterparties that have

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
Alabama Power Company 2018 Annual Report

investment grade credit ratings by Moody's and S&P, or with counterparties who have posted collateral to cover potential credit exposure. Therefore, Alabama Power does not anticipate market risk exposure from nonperformance by the counterparties. For additional information, see Note 1 to the financial statements under "Financial Instruments" and Note 14 to the financial statements.

Capital Requirements and Contractual Obligations

The construction program of Alabama Power is currently estimated to total \$1.8 billion for 2019, \$1.6 billion for 2020, \$1.6 billion for 2021, \$1.4 billion for 2022, and \$1.5 billion for 2023. The construction program includes capital expenditures related to contractual purchase commitments for nuclear fuel and capital expenditures covered under LTSAs. Estimated capital expenditures to comply with environmental laws and regulations included in these amounts are \$226 million for 2019, \$68 million for 2020, \$118 million for 2021, \$112 million for 2022, and \$111 million for 2023. These estimated expenditures do not include any potential compliance costs associated with pending regulation of CO₂ emissions from fossil-fuel-fired electric generating units. See FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Laws and Regulations" and "– Global Climate Issues" herein for additional information.

Alabama Power also anticipates costs associated with closure-in-place and monitoring of ash ponds in accordance with the CCR Rule, which are reflected in Alabama Power's ARO liabilities. These costs, which are expected to change and could change materially as underlying assumptions are refined and the cost, method, and timing of compliance activities continue to be evaluated, are currently estimated to be \$232 million for 2019, \$238 million for 2020, \$246 million for 2021, \$252 million for 2022, and \$258 million for 2023. See FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Laws and Regulations – Coal Combustion Residuals" herein and Note 6 to the financial statements for additional information. Costs associated with the CCR Rule are expected to be recovered through Rate CNP Compliance.

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

As a result of NRC requirements, Alabama Power has external trust funds for nuclear decommissioning costs; however, Alabama Power currently has no additional funding requirements. For additional information, see Note 6 to the financial statements under "Nuclear Decommissioning."

In addition, as discussed in Note 11 to the financial statements, Alabama Power provides postretirement benefits to substantially all employees and funds trusts to the extent required by the Alabama PSC and the FERC.

Funding requirements related to obligations associated with scheduled maturities of long-term debt, as well as the related interest, derivative obligations, pension and other postretirement benefit plans, preferred stock dividends, leases, other purchase commitments, and ARO settlements are detailed in the contractual obligations table that follows. See Notes 1, 6, 8, 9, 11, and 14 to the financial statements for additional information.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
Alabama Power Company 2018 Annual Report

Contractual Obligations

Contractual obligations at December 31, 2018 were as follows:

	2019	2020- 2021	2022- 2023	After 2023	Total
	<i>(in millions)</i>				
Long-term debt ^(a) —					
Principal	\$ 200	\$ 560	\$ 1,050	\$ 6,377	\$ 8,187
Interest	330	630	575	4,751	6,286
Preferred stock dividends ^(b)	15	29	29	—	73
Financial derivative obligations ^(c)	4	6	—	—	10
Operating leases ^(d)	12	17	9	1	39
Capital lease	1	1	1	1	4
Purchase commitments —					
Capital ^(e)	1,671	3,049	2,536	—	7,256
Fuel ^(f)	1,072	1,342	531	1,108	4,053
Purchased power ^(g)	83	178	140	512	913
Other ^(h)	42	61	61	277	441
ARO settlements ⁽ⁱ⁾	232	485	510	—	1,227
Pension and other postretirement benefit plans ^(j)	16	32	—	—	48
Total	\$ 3,678	\$ 6,390	\$ 5,442	\$ 13,027	\$ 28,537

(a) All amounts are reflected based on final maturity dates. Alabama Power plans to continue, when economically feasible, to retire higher-cost securities and replace these obligations with lower-cost capital if market conditions permit. Variable rate interest obligations are estimated based on rates at December 31, 2018, as reflected in the statements of capitalization. Fixed rates include, where applicable, the effects of interest rate derivatives employed to manage interest rate risk. Long-term debt excludes capital lease amounts (shown separately).

(b) Preferred stock does not mature; therefore, amounts are provided for the next five years only.

(c) Includes derivative liabilities related to cash flow hedges of forecasted debt, as well as energy-related derivatives. For additional information, see Notes 1 and 14 to the financial statements.

(d) Excludes PPAs that are accounted for as leases and are included in purchased power.

(e) Alabama Power provides estimated capital expenditures for a five-year period, including capital expenditures associated with environmental regulations. These amounts exclude contractual purchase commitments for nuclear fuel, capital expenditures covered under LTSAs, and estimated capital expenditures for AROs, which are reflected in "Fuel," "Other," and "ARO settlements," respectively. At December 31, 2018, purchase commitments were outstanding in connection with the construction program. See FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Laws and Regulations" herein for additional information.

(f) Includes commitments to purchase coal, nuclear fuel, and natural gas, as well as the related transportation and storage. In most cases, these contracts contain provisions for price escalation, minimum purchase levels, and other financial commitments. Natural gas purchase commitments are based on various indices at the time of delivery. Amounts reflected for natural gas purchase commitments have been estimated based on the NYMEX future prices at December 31, 2018.

(g) Estimated minimum long-term obligations for various long-term commitments for the purchase of capacity and energy.

(h) Includes LTSAs and contracts for the procurement of limestone. LTSAs include price escalation based on inflation indices.

(i) Represents estimated costs for a five-year period associated with closing and monitoring ash ponds in accordance with the CCR Rule and the related state rule, which are reflected in Alabama Power's ARO liabilities. Material expenditures in future years for ARO settlements also will be required for ash ponds, nuclear decommissioning, and other liabilities reflected in Alabama Power's AROs. See FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Laws and Regulations – Coal Combustion Residuals" herein and Note 6 to the financial statements for additional information.

(j) Alabama Power forecasts contributions to the pension and other postretirement benefit plans over a three-year period. Alabama Power anticipates no mandatory contributions to the qualified pension plan during the next three years. Amounts presented represent estimated benefit payments for the nonqualified pension plans, estimated non-trust benefit payments for the other postretirement benefit plans, and estimated contributions to the other postretirement benefit plan trusts, all of which will be made from Alabama Power's corporate assets. See Note 11 to the financial statements for additional information related to the pension and other postretirement benefit plans, including estimated benefit payments. Certain benefit payments will be made through the related benefit plans. Other benefit payments will be made from Alabama Power's corporate assets.

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STATEMENTS OF INCOME
For the Years Ended December 31, 2018, 2017, and 2016
Alabama Power Company 2018 Annual Report

	2018	2017	2016
	<i>(in millions)</i>		
Operating Revenues:			
Retail revenues	\$ 5,367	\$ 5,458	\$ 5,322
Wholesale revenues, non-affiliates	279	276	283
Wholesale revenues, affiliates	119	97	69
Other revenues	267	208	215
Total operating revenues	6,032	6,039	5,889
Operating Expenses:			
Fuel	1,301	1,225	1,297
Purchased power, non-affiliates	216	170	166
Purchased power, affiliates	216	158	168
Other operations and maintenance	1,669	1,709	1,557
Depreciation and amortization	764	736	703
Taxes other than income taxes	389	384	380
Total operating expenses	4,555	4,382	4,271
Operating Income	1,477	1,657	1,618
Other Income and (Expense):			
Allowance for equity funds used during construction	62	39	28
Interest expense, net of amounts capitalized	(323)	(305)	(302)
Other income (expense), net	20	43	26
Total other income and (expense)	(241)	(223)	(248)
Earnings Before Income Taxes	1,236	1,434	1,370
Income taxes	291	568	531
Net Income	945	866	839
Dividends on Preferred and Preference Stock	15	18	17
Net Income After Dividends on Preferred and Preference Stock	\$ 930	\$ 848	\$ 822

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2018, 2017, and 2016
Alabama Power Company 2018 Annual Report

	2018	2017	2016
		<i>(in millions)</i>	
Net Income	\$ 945	\$ 866	\$ 839
Other comprehensive income (loss):			
Qualifying hedges:			
Changes in fair value, net of tax of \$-, \$(1), and \$(1), respectively	—	1	(2)
Reclassification adjustment for amounts included in net income, net of tax of \$2, \$2, and \$2, respectively	4	3	4
Total other comprehensive income (loss)	4	4	2
Comprehensive Income	\$ 949	\$ 870	\$ 841

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2018, 2017, and 2016
Alabama Power Company 2018 Annual Report

	2018	2017	2016
	<i>(in millions)</i>		
Operating Activities:			
Net income	\$ 945	\$ 866	\$ 839
Adjustments to reconcile net income to net cash provided from operating activities —			
Depreciation and amortization, total	917	888	844
Deferred income taxes	174	409	407
Allowance for equity funds used during construction	(62)	(39)	(28)
Pension and postretirement funding	(4)	(2)	(133)
Settlement of asset retirement obligations	(55)	(26)	(25)
Other, net	(1)	13	(77)
Changes in certain current assets and liabilities —			
-Receivables	(149)	(168)	94
-Prepayments	(2)	(2)	1
-Materials and supplies	(82)	(34)	(38)
-Other current assets	30	20	38
-Accounts payable	24	71	73
-Accrued taxes	10	(84)	93
-Accrued compensation	8	(2)	12
-Retail fuel cost over recovery	—	(76)	(162)
-Other current liabilities	128	3	11
Net cash provided from operating activities	1,881	1,837	1,949
Investing Activities:			
Property additions	(2,158)	(1,882)	(1,272)
Nuclear decommissioning trust fund purchases	(279)	(237)	(352)
Nuclear decommissioning trust fund sales	278	237	351
Cost of removal net of salvage	(130)	(112)	(94)
Change in construction payables	26	161	(37)
Other investing activities	(26)	(43)	(34)
Net cash used for investing activities	(2,289)	(1,876)	(1,438)
Financing Activities:			
Proceeds —			
Senior notes	500	1,100	400
Preferred stock	—	250	—
Pollution control revenue bonds	120	—	—
Other long-term debt	—	—	45
Capital contributions from parent company	511	361	260
Redemptions and repurchases —			
Senior notes	—	(525)	(200)
Preferred and preference stock	—	(238)	—
Pollution control revenue bonds	(120)	(36)	—
Payment of common stock dividends	(801)	(714)	(765)
Other financing activities	(33)	(35)	(25)
Net cash provided from (used for) financing activities	177	163	(285)
Net Change in Cash, Cash Equivalents, and Restricted Cash	(231)	124	226
Cash, Cash Equivalents, and Restricted Cash at Beginning of Year	544	420	194
Cash, Cash Equivalents, and Restricted Cash at End of Year	\$ 313	\$ 544	\$ 420
Supplemental Cash Flow Information:			
Cash paid (received) during the period for —			
Interest (net of \$22, \$15, and \$11 capitalized, respectively)	\$ 284	\$ 285	\$ 277
Income taxes (net of refunds)	106	236	(108)
Noncash transactions — Accrued property additions at year-end	272	245	84

The accompanying notes are an integral part of these financial statements.

BALANCE SHEETS
At December 31, 2018 and 2017
Alabama Power Company 2018 Annual Report

Assets	2018	2017
	<i>(in millions)</i>	
Current Assets:		
Cash and cash equivalents	\$ 313	\$ 544
Receivables —		
Customer accounts receivable	403	355
Unbilled revenues	150	162
Affiliated	94	43
Other accounts and notes receivable	51	55
Accumulated provision for uncollectible accounts	(10)	(9)
Fossil fuel stock	141	184
Materials and supplies	546	458
Prepaid expenses	66	85
Other regulatory assets, current	137	124
Other current assets	18	5
Total current assets	1,909	2,006
Property, Plant, and Equipment:		
In service	30,402	27,326
Less: Accumulated provision for depreciation	9,988	9,563
Plant in service, net of depreciation	20,414	17,763
Nuclear fuel, at amortized cost	324	339
Construction work in progress	1,113	908
Total property, plant, and equipment	21,851	19,010
Other Property and Investments:		
Equity investments in unconsolidated subsidiaries	65	67
Nuclear decommissioning trusts, at fair value	847	903
Miscellaneous property and investments	127	124
Total other property and investments	1,039	1,094
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	240	239
Deferred under recovered regulatory clause revenues	116	54
Other regulatory assets, deferred	1,386	1,272
Other deferred charges and assets	189	189
Total deferred charges and other assets	1,931	1,754
Total Assets	\$ 26,730	\$ 23,864

The accompanying notes are an integral part of these financial statements.

BALANCE SHEETS
At December 31, 2018 and 2017
Alabama Power Company 2018 Annual Report

Liabilities and Stockholder's Equity	2018	2017
	<i>(in millions)</i>	
Current Liabilities:		
Securities due within one year	\$ 201	\$ —
Accounts payable —		
Affiliated	364	327
Other	614	585
Customer deposits	96	92
Accrued taxes	44	54
Accrued interest	89	77
Accrued compensation	227	205
Asset retirement obligations, current	163	7
Other current liabilities	161	53
Total current liabilities	1,959	1,400
Long-Term Debt (See accompanying statements)	7,923	7,628
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	2,962	2,760
Deferred credits related to income taxes	2,027	2,082
Accumulated deferred ITCs	106	112
Employee benefit obligations	314	304
Asset retirement obligations	3,047	1,702
Other cost of removal obligations	497	609
Other regulatory liabilities, deferred	69	84
Other deferred credits and liabilities	58	63
Total deferred credits and other liabilities	9,080	7,716
Total Liabilities	18,962	16,744
Redeemable Preferred Stock (See accompanying statements)	291	291
Common Stockholder's Equity (See accompanying statements)	7,477	6,829
Total Liabilities and Stockholder's Equity	\$ 26,730	\$ 23,864
Commitments and Contingent Matters (See notes)		

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CAPITALIZATION
At December 31, 2018 and 2017
Alabama Power Company 2018 Annual Report

	2018	2017	2018	2017
	<i>(in millions)</i>		<i>(percent of total)</i>	
Long-Term Debt:				
Long-term debt payable to affiliated trusts —				
Variable rate (5.50% at 12/31/18) due 2042	\$ 206	\$ 206		
Long-term notes payable —				
5.125% due 2019	200	200		
3.375% due 2020	250	250		
2.38% to 3.95% due 2021	220	220		
2.45% to 5.875% due 2022	750	750		
3.55% due 2023	300	300		
2.80% to 6.125% due 2025-2048	5,175	4,675		
Variable rates (3.70% to 3.91% at 12/31/18) due 2021	25	25		
Total long-term notes payable	6,920	6,420		
Other long-term debt —				
Pollution control revenue bonds —				
1.625% to 2.90% due 2034	207	207		
Variable rates (1.76% to 1.87% at 12/31/18) due 2021	65	65		
Variable rates (1.70% to 1.80% at 12/31/18) due 2024-2038	788	788		
Total other long-term debt	1,060	1,060		
Capitalized lease obligations	4	4		
Unamortized debt premium (discount), net	(12)	(11)		
Unamortized debt issuance expense	(54)	(51)		
Total long-term debt (annual interest requirement — \$330 million)	8,124	7,628		
Less amount due within one year	201	—		
Long-term debt excluding amount due within one year	7,923	7,628	50.4%	51.7%
Redeemable Preferred Stock:				
Cumulative redeemable preferred stock				
\$100 par or stated value — 4.20% to 4.92%				
Authorized — 3,850,000 shares				
Outstanding — 475,115 shares				
	48	48		
\$1 par value — 5.00%				
Authorized — 27,500,000 shares				
Outstanding — 10,000,000 shares: \$25 stated value				
	243	243		
Total redeemable preferred stock (annual dividend requirement — \$15 million)	291	291	1.9	2.0
Common Stockholder's Equity:				
Common stock, par value \$40 per share —				
Authorized — 40,000,000 shares				
Outstanding — 30,537,500 shares				
	1,222	1,222		
Paid-in capital	3,508	2,986		
Retained earnings	2,775	2,647		
Accumulated other comprehensive loss	(28)	(26)		
Total common stockholder's equity	7,477	6,829	47.7	46.3
Total Capitalization	\$ 15,691	\$ 14,748	100.0%	100.0%

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF COMMON STOCKHOLDER'S EQUITY
For the Years Ended December 31, 2018, 2017, and 2016
Alabama Power Company 2018 Annual Report

	Number of Common Shares Issued	Common Stock	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
				<i>(in millions)</i>		
Balance at December 31, 2015	31	\$ 1,222	\$ 2,341	\$ 2,461	\$ (32)	\$ 5,992
Net income after dividends on preferred and preference stock	—	—	—	822	—	822
Capital contributions from parent company	—	—	272	—	—	272
Other comprehensive income (loss)	—	—	—	—	2	2
Cash dividends on common stock	—	—	—	(765)	—	(765)
Balance at December 31, 2016	31	1,222	2,613	2,518	(30)	6,323
Net income after dividends on preferred and preference stock	—	—	—	848	—	848
Capital contributions from parent company	—	—	373	—	—	373
Other comprehensive income (loss)	—	—	—	—	4	4
Cash dividends on common stock	—	—	—	(714)	—	(714)
Other	—	—	—	(5)	—	(5)
Balance at December 31, 2017	31	1,222	2,986	2,647	(26)	6,829
Net income after dividends on preferred and preference stock	—	—	—	930	—	930
Capital contributions from parent company	—	—	522	—	—	522
Other comprehensive income (loss)	—	—	—	—	4	4
Cash dividends on common stock	—	—	—	(801)	—	(801)
Other	—	—	—	(1)	(6)	(7)
Balance at December 31, 2018	31	\$ 1,222	\$ 3,508	\$ 2,775	\$ (28)	\$ 7,477

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS
Alabama Power Company 2018 Annual Report

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Important Note

The following notes to the financial statements are the Combined Notes to the Financial Statements for Southern Company and its subsidiary companies (including Alabama Power) as filed in the Annual Report on Form 10-K for the year ended December 31, 2018. The notes applicable to Alabama Power are Notes 1 through 14 and Note 17. Notes 15 and 16 are not applicable to Alabama Power. In addition, the information contained in Notes 1 through 14 and Note 17 that relates solely to the other registrants is not applicable to Alabama Power.

NOTES TO FINANCIAL STATEMENTS (continued)
Alabama Power Company 2018 Annual Report

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Southern Company is the parent company of the traditional electric operating companies, Southern Power, Southern Company Gas (as of July 1, 2016), SCS, Southern Linc, Southern Holdings, Southern Nuclear, PowerSecure (as of May 9, 2016), and other direct and indirect subsidiaries. The traditional electric operating companies – Alabama Power, Georgia Power, Gulf Power (through December 31, 2018), and Mississippi Power – are vertically integrated utilities providing electric service in four Southeastern states. On January 1, 2019, Southern Company completed the sale of Gulf Power to NextEra Energy. Southern Power develops, constructs, acquires, owns, and manages power generation assets, including renewable energy projects, and sells electricity at market-based rates in the wholesale market. On May 22, 2018, Southern Power sold a noncontrolling 33% equity interest in SP Solar, a limited partnership indirectly owning substantially all of Southern Power's solar facilities, and, on December 11, 2018, Southern Power sold a noncontrolling tax equity interest in SP Wind, a holding company owning a portfolio of eight operating wind facilities. On November 5, 2018, Southern Power entered into an agreement to sell all of its equity interests in Plant Mankato (including the 385-MW expansion currently under construction). On December 4, 2018, Southern Power sold all of its equity interests in Plant Oleander and Plant Stanton Unit A (together, the Florida Plants) to NextEra Energy. Southern Company Gas distributes natural gas through natural gas distribution utilities and is involved in several other complementary businesses including gas pipeline investments, wholesale gas services, and gas marketing services. In July 2018, Southern Company Gas completed sales of three of its natural gas distribution utilities (Elizabethtown Gas (New Jersey), Florida City Gas, and Elkton Gas (Maryland)). The remaining natural gas distribution utilities include Nicor Gas (Illinois), Atlanta Gas Light (Georgia), Virginia Natural Gas, and Chattanooga Gas (Tennessee). In June 2018, Southern Company Gas also completed the sale of Pivotal Home Solutions, which provided home equipment protection products and services. SCS, the system service company, provides, at cost, specialized services to Southern Company and its subsidiary companies. 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 optics 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, including Alabama Power's Plant Farley and Georgia Power's Plant Hatch and Plant Vogtle Units 1 and 2, and is currently managing construction of and developing Plant Vogtle Units 3 and 4, which are co-owned by Georgia Power. PowerSecure is a provider of energy solutions, including distributed energy infrastructure, energy efficiency products and services, and utility infrastructure services, to customers. See Note 15 for additional information regarding disposition activities.

The registrants' financial statements reflect investments in subsidiaries on a consolidated basis. Intercompany transactions have been eliminated in consolidation. The equity method is used for investments in entities in which a registrant has significant influence but does not control and for VIEs where a registrant has an equity investment but is not the primary beneficiary. Southern Power has consolidated renewable generation projects that are partially funded by tax equity investors. The related contractual provisions represent profit-sharing arrangements because the allocations of cash distributions and tax benefits are not based on fixed ownership percentages. Therefore, the noncontrolling interest is accounted for under a balance sheet approach utilizing the HLBV method. The HLBV method calculates each partner's share of income based on the change in net equity the partner can legally claim in a HLBV at the end of the period compared to the beginning of the period. See Note 7 for additional information.

The traditional electric operating companies, Southern Power, certain subsidiaries of Southern Company Gas, and certain other subsidiaries are subject to regulation by the FERC, and the traditional electric operating companies and natural gas distribution utilities are also subject to regulation by their respective state PSCs or other applicable state regulatory agencies. As such, the respective financial statements of the registrants reflect the effects of rate regulation in accordance with GAAP and comply with the accounting policies and practices prescribed by relevant state PSCs or other applicable state regulatory agencies.

The preparation of financial statements in conformity with GAAP requires the use of estimates, and the actual results may differ from those estimates. Certain prior years' data presented in the financial statements have been reclassified to conform to the current year presentation. These reclassifications had no impact on the registrants' results of operations, financial position, or cash flows. In addition, Southern Company Gas has recast its reportable segments. See Note 16 under "Southern Company Gas" for additional information.

At December 31, 2018, Southern Company and Southern Power each had assets and liabilities held for sale on their balance sheets. Unless otherwise noted, the disclosures herein related to specific asset and liability balances at December 31, 2018 exclude assets and liabilities held for sale. See Note 15 under "Assets Held for Sale" for additional information including Southern Company's and Southern Power's major classes of assets and liabilities classified as held for sale.

NOTES TO FINANCIAL STATEMENTS (continued)
Alabama Power Company 2018 Annual Report

Southern Company Gas

Pursuant to the Merger, Southern Company pushed down the application of the acquisition method of accounting to the financial statements of Southern Company Gas such that the assets and liabilities are recorded at their respective fair values, and goodwill was established for the excess of the purchase price over the fair value of net identifiable assets. Accordingly, the financial statements of Southern Company Gas for periods before and after July 1, 2016 (acquisition date) reflect different bases of accounting, and the financial positions and results of operations of those periods are not comparable. Throughout Southern Company Gas' financial statements and the combined notes to the financial statements, periods prior to July 1, 2016 are identified as "predecessor," while periods after the acquisition date are identified as "successor."

Certain predecessor period data presented in Southern Company Gas' financial statements has been modified or reclassified to conform to the presentation used by Southern Company. Changes to Southern Company Gas' statements of income include classifying operating revenues as natural gas revenues and other revenues, as well as classifying cost of goods sold as cost of natural gas and cost of other sales and presenting interest expense and AFUDC on a gross basis. Changes to Southern Company Gas' statements of cash flows include revised financial statement line item descriptions to align with the new balance sheet descriptions and expanded line items within each category of cash flow activity.

Recently Adopted Accounting Standards

Revenue

In 2014, the FASB issued ASC 606, *Revenue from Contracts with Customers* (ASC 606), replacing the existing accounting standard and industry-specific guidance for revenue recognition with a five-step model for recognizing and measuring revenue from contracts with customers. The underlying principle of the standard is to recognize revenue to depict the transfer of goods or services to customers at the amount expected to be collected. ASC 606 became effective on January 1, 2018 and the registrants adopted it using the modified retrospective method applied to open contracts and only to the version of contracts in effect as of January 1, 2018. In accordance with the modified retrospective method, the registrants' previously issued financial statements have not been restated to comply with ASC 606 and the registrants did not have a cumulative-effect adjustment to retained earnings. The adoption of ASC 606 had no significant impact on the timing of revenue recognition compared to previously reported results; however, it requires enhanced disclosures regarding the nature, amount, timing, and uncertainty of revenue and the related cash flows arising from contracts with customers, which are included herein and in Note 4.

ASC 606 provided additional clarity on financial statement presentation that resulted in reclassifications into other revenues and other operations and maintenance from other income/(expense), net at Alabama Power and Georgia Power primarily related to certain unregulated sales of products and services. In addition, contract assets related to certain fixed retail revenues at Georgia Power and Southern Company's unregulated distributed generation business have been reclassified from unbilled revenue in accordance with the guidance in ASC 606. These reclassifications did not affect the timing or amount of revenues recognized or cash flows. ASC 606 also provided additional guidance on revenue recognized over time, resulting in a change in the timing of revenue recognized from guaranteed and fixed billing arrangements at Southern Company Gas.

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The specific impacts of applying ASC 606 to revenues from contracts with customers on the financial statements of Southern Company, Alabama Power, Georgia Power, and Southern Company Gas compared to previously recognized guidance is shown below.

Statements of Income	For the Year Ended December 31, 2018		
	As Reported	Balances Without Adoption of ASC 606	Effect of Change
	<i>(in millions)</i>		
Southern Company			
Natural gas revenues	\$ 3,854	\$ 3,852	\$ 2
Other revenues	1,239	1,234	5
Other operations and maintenance	5,889	5,830	59
Operating Income	4,191	4,243	(52)
Other income (expense), net	114	60	54
Earnings Before Income Taxes	2,749	2,747	2
Income taxes	449	448	1
Consolidated Net Income	2,300	2,299	1
Consolidated Net Income Attributable to Southern Company	2,226	2,225	1
Alabama Power			
Other revenues	\$ 267	\$ 230	\$ 37
Other operations and maintenance	1,669	1,625	44
Taxes other than income taxes	389	388	1
Operating Income	1,477	1,485	(8)
Other income (expense), net	20	12	8
Georgia Power			
Other revenues	\$ 481	\$ 387	\$ 94
Other operations and maintenance	1,860	1,772	88
Operating Income	1,289	1,283	6
Other income (expense), net	115	121	(6)
Southern Company Gas			
Natural gas revenues	\$ 3,874	\$ 3,872	\$ 2
Operating Income	915	913	2
Earnings Before Income Taxes	836	834	2
Income taxes	464	463	1
Net Income	372	371	1

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Statements of Cash Flows	For the Year Ended December 31, 2018		
	As Reported	Balances Without Adoption of ASC 606	Effect of Change
	<i>(in millions)</i>		
Southern Company			
Consolidated net income	\$ 2,300	\$ 2,299	\$ 1
Changes in certain current assets and liabilities:			
Receivables	(426)	(472)	46
Other current assets	(127)	(81)	(46)
Accrued taxes	267	268	(1)
Other current liabilities	63	61	2
Georgia Power			
Changes in certain current assets and liabilities:			
Receivables	\$ 8	\$ 1	\$ 7
Other current assets	(43)	(36)	(7)
Southern Company Gas			
Net income	\$ 372	\$ 371	\$ 1
Changes in certain current assets and liabilities:			
Accrued taxes	10	11	(1)
Other current liabilities	(22)	(24)	2
	At December 31, 2018		
Balance Sheets	As Reported	Balances Without Adoption of ASC 606	Effect of Change
	<i>(in millions)</i>		
Southern Company			
Unbilled revenues	\$ 654	\$ 728	\$ (74)
Other accounts and notes receivable	813	814	(1)
Other current assets	162	87	75
Accrued taxes	656	655	1
Other current liabilities	852	854	(2)
Total Stockholders' Equity	29,039	29,038	1
Georgia Power			
Unbilled revenues	\$ 208	\$ 243	\$ (35)
Other accounts and notes receivable	80	81	(1)
Other current assets	70	34	36
Southern Company Gas			
Accrued income taxes	\$ 66	\$ 65	\$ 1
Other current liabilities	130	132	(2)
Common Stockholder's Equity	8,570	8,569	1

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Other

In 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* (ASU 2016-18). ASU 2016-18 eliminates the need to reflect transfers between cash and restricted cash in operating, investing, and financing activities in the statements of cash flows. In addition, the net change in cash and cash equivalents during the period includes amounts generally described as restricted cash or restricted cash equivalents. The registrants adopted ASU 2016-18 retrospectively effective January 1, 2018. Southern Company, Southern Power, and Southern Company Gas have restated prior periods in the statements of cash flows by immaterial amounts. The change in restricted cash in the statements of cash flows was previously disclosed in operating activities for Southern Company and Southern Company Gas and in investing activities for Southern Company and Southern Power. See "Restricted Cash" herein for additional information.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* (ASU 2017-04). ASU 2017-04 removes the requirement to compare the implied fair value of goodwill with the carrying amount as part of Step 2 of the goodwill impairment test. Under the new standard, the goodwill impairment loss will be measured as the excess of a reporting unit's carrying amount over its fair value, not exceeding the total amount of goodwill allocated to that reporting unit, which may increase the frequency of goodwill impairment charges if a future goodwill impairment test does not pass the Step 1 evaluation. ASU 2017-04 is effective prospectively for periods beginning on or after December 15, 2019, with early adoption permitted. The registrants adopted ASU 2017-04 effective January 1, 2018 with no impact on their respective financial statements.

In March 2017, the FASB issued ASU No. 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* (ASU 2017-07). ASU 2017-07 requires that an employer report the service cost component in the same line item or items as other compensation costs and requires the other components of net periodic pension and postretirement benefit costs to be separately presented in the statements of income outside of income from operations. Additionally, only the service cost component is eligible for capitalization, when applicable. The registrants adopted ASU 2017-07 effective January 1, 2018 with no material impact on their respective financial statements. ASU 2017-07 has been applied retrospectively, with the service cost component of net periodic benefit costs included in operations and maintenance expenses and all other components of net periodic benefit costs included in other income (expense), net in the statements of income for all periods presented for Southern Company, the traditional electric operating companies, and Southern Company Gas. The impacted registrants used the practical expedient provided by ASU 2017-07, which permits an employer to use the amounts disclosed in its retirement benefits note for prior comparative periods as the estimation basis for applying the retrospective presentation requirements to those periods. The amounts of the other components of net periodic benefit costs reclassified for the prior periods are presented in Note 11. The presentation changes resulted in a decrease in operating income and an increase in other income for the years ended December 31, 2017 and 2016 for each of the impacted registrants. Since Southern Power did not participate in the qualified pension and postretirement benefit plans until December 2017, no retrospective presentation of Southern Power's net periodic benefit costs is required. The requirement to limit capitalization to the service cost component of net periodic benefit costs has been applied on a prospective basis from the date of adoption for all registrants.

In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities* (ASU 2017-12). ASU 2017-12 makes more financial and non-financial hedging strategies eligible for hedge accounting, amends the related presentation and disclosure requirements, and simplifies hedge effectiveness assessment requirements. ASU 2017-12 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The registrants adopted ASU 2017-12 effective January 1, 2018 with no material impact on their respective financial statements. See Note 14 for disclosures required by ASU 2017-12.

On February 14, 2018, the FASB issued ASU No. 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* (ASU 2018-02) to address the application of ASC 740, *Income Taxes* (ASC 740) to certain provisions of the Tax Reform Legislation. ASU 2018-02 specifically addresses the ASC 740 requirement that the effect of a change in tax laws or rates on deferred tax assets and liabilities be included in income from continuing operations, even when the tax effects were initially recognized directly in OCI at the previous rate, which strands the income tax rate differential in accumulated OCI. The amendments in ASU 2018-02 allow a reclassification from accumulated OCI to retained earnings for stranded tax effects resulting from the Tax Reform Legislation. The registrants adopted ASU 2018-02 effective January 1, 2018 with no material impact on their respective financial statements.

On August 28, 2018, the FASB issued ASU No. 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans – General (Topic 715-20): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans* (ASU 2018-14). ASU 2018-14 amends ASC 715 to add, remove, and clarify disclosure requirements related to defined benefit pension and other

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postretirement plans. The registrants adopted ASU 2018-14 effective December 31, 2018 with no material impact on their respective financial statements. See Note 11 for disclosures required by ASU 2018-14.

Affiliate Transactions

The traditional electric operating companies, Southern Power, and Southern Company Gas have agreements with SCS under which certain of the following services are rendered to them at direct or allocated cost: general executive and advisory, general and design engineering, operations, purchasing, accounting, finance, treasury, legal, tax, information technology, marketing, auditing, insurance and pension administration, human resources, systems and procedures, digital wireless communications, cellular tower space, and other services with respect to business and operations, construction management, and power pool transactions. These costs are primarily included in other operations and maintenance expenses or capitalized to property, plant, and equipment. Costs for these services from SCS in 2018, 2017, and 2016 were as follows:

	Alabama Power	Georgia Power	Mississippi Power	Southern Power^(a)	Southern Company Gas^(b)
	<i>(in millions)</i>				
2018	\$ 508	\$ 653	\$ 104	\$ 98	\$ 194
2017	479	625	140	218	63
2016	460	606	231	193	17

(a) Prior to December 2017, Southern Power had no employees but was billed for employee-related costs from SCS.

(b) Southern Company Gas' 2016 costs represent services provided subsequent to the Merger.

Alabama Power and Georgia Power also have agreements with Southern Nuclear under which Southern Nuclear renders the following nuclear-related services at cost: general executive and advisory services; general operations, management, and technical services; administrative services including procurement, accounting, employee relations, systems, and procedures services; strategic planning and budgeting services; other services with respect to business and operations; and, for Georgia Power, construction management. These costs are primarily included in other operations and maintenance expenses or capitalized to property, plant, and equipment. Costs for these services in 2018, 2017, and 2016 amounted to \$247 million, \$248 million, and \$249 million, respectively, for Alabama Power and \$780 million, \$675 million, and \$666 million, respectively, for Georgia Power. See Note 2 under "Georgia Power – Nuclear Construction" for additional information regarding Southern Nuclear's construction management of Plant Vogtle Units 3 and 4 for Georgia Power.

Cost allocation methodologies used by SCS and Southern Nuclear prior to the repeal of the Public Utility Holding Company Act of 1935, as amended, were approved by the SEC. Subsequently, additional cost allocation methodologies have been reported to the FERC and management believes they are reasonable. The FERC permits services to be rendered at cost by system service companies.

Alabama Power's and Georgia Power's total power purchased from affiliates through the power pool is included in purchased power, affiliates on their respective statements of income. Mississippi Power's and Southern Power's total power purchased from affiliates through the power pool is included in purchased power on their respective statements of income and was as follows:

	Mississippi Power	Southern Power
	<i>(in millions)</i>	
2018	\$ 15	\$ 41
2017	16	27
2016	29	21

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SCS, as agent for Alabama Power, Georgia Power, Southern Power, and Southern Company Gas, has long-term interstate natural gas transportation agreements with SNG. The interstate transportation service provided to Alabama Power, Georgia Power, Southern Power, and Southern Company Gas by SNG pursuant to these agreements is governed by the terms and conditions of SNG's natural gas tariff and is subject to FERC regulation. See Notes 7 and 15 under "Southern Company Gas – Equity Method Investments – SNG" and "Southern Company Gas – Investment in SNG," respectively, for additional information. Transportation costs under these agreements in 2018, 2017, and 2016 were as follows:

	Alabama Power	Georgia Power	Southern Power	Southern Company Gas
	<i>(in millions)</i>			
2018	\$ 8	\$ 101	\$ 25	\$ 32
2017	9	102	25	32
2016 ^(*)	2	35	7	15

(*) Represents costs incurred for the period subsequent to Southern Company Gas' investment in SNG.

On November 16, 2018, SNG completed its purchase of Georgia Power's natural gas lateral pipeline serving Plant McDonough Units 4 through 6 at net book value, as approved by the Georgia PSC on January 16, 2018. SNG expects to pay \$142 million to Georgia Power in the first quarter 2020. During the interim period, Georgia Power will receive a discounted shipping rate to reflect the delayed consideration. Southern Company Gas' portion of the expected capital expenditures for the purchase of this pipeline and additional construction is \$122 million.

SCS, as agent for the traditional electric operating companies and Southern Power, has agreements with certain subsidiaries of Southern Company Gas to purchase natural gas. Natural gas purchases made under these agreements were immaterial for Alabama Power and Mississippi Power and as follows for Georgia Power and Southern Power in 2018, 2017, and 2016:

	Georgia Power	Southern Power
	<i>(in millions)</i>	
2018	\$ 21	\$ 119
2017	22	119
2016 ^(*)	10	17

(*) Represents costs incurred for the period subsequent to Southern Company's acquisition of Southern Company Gas.

Alabama Power and Mississippi Power jointly own Plant Greene County. The companies have an agreement under which Alabama Power operates Plant Greene County and Mississippi Power reimburses Alabama Power for its proportionate share of non-fuel expenses, which totaled \$8 million, \$9 million, and \$13 million in 2018, 2017, and 2016, respectively. Mississippi Power also reimburses Alabama Power for any direct fuel purchases delivered from one of Alabama Power's transfer facilities. There were no such fuel purchases in 2018, 2017, and 2016. See Note 5 under "Joint Ownership Agreements" for additional information.

Alabama Power has an agreement with Gulf Power under which Alabama Power made transmission system upgrades to ensure firm delivery of energy under a non-affiliate PPA from a combined cycle plant located in Autauga County, Alabama. Under a related tariff, Alabama Power received \$11 million in 2018, \$11 million in 2017, and \$12 million in 2016. See Note 15 under "Southern Company's Sale of Gulf Power" for information regarding the sale of Gulf Power.

Alabama Power has agreements with PowerSecure for services related to utility infrastructure construction, distributed energy, and energy efficiency projects. Costs for these services amounted to approximately \$24 million in 2018 and \$11 million in 2017 and were immaterial in 2016.

See Note 7 under "SEGCO" for information regarding Alabama Power's and Georgia Power's equity method investment in SEGCO and related affiliate purchased power costs, as well as Alabama Power's gas pipeline ownership agreement with SEGCO.

Georgia Power has entered into several PPAs with Southern Power for capacity and energy. Total expenses associated with these PPAs were \$216 million, \$235 million, and \$265 million in 2018, 2017, and 2016, respectively. See Note 8 under "Long-term Debt – Capital Leases – Georgia Power" and Note 9 under "Fuel and Power Purchase Agreements – Affiliate" for additional information.

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Georgia Power has a joint ownership agreement with Gulf Power under which Gulf Power owns a 25% portion of Plant Scherer Unit 3. Under this agreement, Georgia Power operates Plant Scherer Unit 3 and Gulf Power reimburses Georgia Power for its 25% proportionate share of the related non-fuel expenses, which were \$8 million, \$11 million, and \$8 million in 2018, 2017, and 2016, respectively. See Note 5 under "Joint Ownership Agreements" and Note 15 under "Southern Company's Sale of Gulf Power" for additional information.

Mississippi Power has an agreement with Gulf Power under which Gulf Power owns a portion of Plant Daniel. Mississippi Power operates Plant Daniel and Gulf Power reimburses Mississippi Power for its proportionate share of all associated expenditures and costs, which totaled \$31 million, \$31 million, and \$26 million in 2018, 2017, and 2016, respectively. See Note 5 under "Joint Ownership Agreements" and Note 15 under "Southern Company's Sale of Gulf Power" for additional information.

In 2014, prior to Southern Company's 2016 acquisition of PowerSecure, Georgia Power entered into agreements with PowerSecure to build solar power generation facilities at two U.S. Army bases, as approved by the Georgia PSC. In October 2016, the two facilities began commercial operation. Payments of \$32 million made by Georgia Power to PowerSecure under the agreements since Southern Company's acquisition of PowerSecure are included in plant in service at December 31, 2018.

Southern Power's total revenues from all PPAs with Georgia Power, included in wholesale revenue affiliates on Southern Power's consolidated statements of income, were \$215 million, \$233 million, and \$258 million for 2018, 2017, and 2016, respectively. Included within these revenues were affiliate PPAs accounted for as operating leases, which totaled \$65 million, \$81 million, and \$109 million for 2018, 2017, and 2016, respectively.

Southern Power has several agreements with SCS for transmission services. Transmission services purchased by Southern Power from SCS totaled \$12 million, \$13 million, and \$11 million for 2018, 2017, and 2016, respectively, and were charged to other operations and maintenance in Southern Power's consolidated statements of income. All charges were billed to Southern Power based on the Southern Company Open Access Transmission Tariff as filed with the FERC.

The traditional electric operating companies and Southern Power may jointly enter into various types of wholesale energy, natural gas, and certain other contracts, either directly or through SCS as agent. Each participating company may be jointly and severally liable for the obligations incurred under these agreements. See Note 9 under "Fuel and Power Purchase Agreements" for additional information. Southern Power and the traditional electric operating companies generally settle amounts related to the above transactions on a monthly basis in the month following the performance of such services or the purchase or sale of electricity. See "Revenues – Southern Power" herein for additional information.

The traditional electric operating companies, Southern Power, and Southern Company Gas provide incidental services to and receive such services from other Southern Company subsidiaries which are generally minor in duration and amount. Except as described herein, the traditional electric operating companies, Southern Power, and Southern Company Gas neither provided nor received any material services to or from affiliates in 2018, 2017, or 2016.

Regulatory Assets and Liabilities

The traditional electric operating companies and natural gas distribution utilities are subject to accounting requirements for the effects of rate regulation. Regulatory assets represent probable future revenues associated with certain costs that are expected to be recovered from customers through the ratemaking process. Regulatory liabilities represent probable future reductions in revenues associated with amounts that are expected to be credited to customers through the ratemaking process.

In the event that a portion of a traditional electric operating company's or a natural gas distribution utility's operations is no longer subject to applicable accounting rules for rate regulation, such company would be required to write off to income or reclassify to AOCI related regulatory assets and liabilities that are not specifically recoverable through regulated rates. In addition, the traditional electric operating company or natural gas distribution utility would be required to determine if any impairment to other assets, including plant, exists and write down the assets, if impaired, to their fair values. All regulatory assets and liabilities are to be reflected in rates. See Note 2 for additional information including details of regulatory assets and liabilities reflected in the balance sheets for Southern Company, the traditional electric operating companies, and Southern Company Gas.

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Revenues

The registrants generate revenues from a variety of sources which are accounted for under various revenue accounting guidance, including ASC 606, lease, derivative, and regulatory accounting. Other than the timing of recognition of guaranteed and fixed billing arrangements at Southern Company Gas, the adoption of ASC 606 had no impact on the timing or amount of revenue recognized under previous guidance. See "Recently Adopted Accounting Standards – Revenue" herein and Note 4 for information regarding the registrants' adoption of ASC 606 and related disclosures.

Traditional Electric Operating Companies

The majority of the revenues of the traditional electric operating companies are generated from contracts with retail electric customers. Retail revenues recognized under ASC 606 are consistent with prior revenue recognition policies. These revenues, generated from the integrated service to deliver electricity when and if called upon by the customer, are recognized as a single performance obligation satisfied over time, at a tariff rate, and as electricity is delivered to the customer during the month. Unbilled revenues related to retail sales are accrued at the end of each fiscal period. Retail rates may include provisions to adjust billings for fluctuations in fuel costs, fuel hedging, the energy component of purchased power costs, and certain other costs. Revenues are adjusted for differences between these actual costs and amounts billed in current regulated rates. Under or over recovered regulatory clause revenues are recorded in the balance sheets and are recovered from or returned to customers, respectively, through adjustments to the billing factors. See Note 2 for additional information regarding regulatory matters of the traditional electric operating companies.

Wholesale capacity revenues from PPAs are recognized either on a levelized basis over the appropriate contract period or the amount billable under the contract terms. Energy and other revenues are generally recognized as services are provided. The accounting for these revenues under ASC 606 is consistent with prior revenue recognition policies. The contracts for capacity and energy in a wholesale PPA have multiple performance obligations where the contract's total transaction price is allocated to each performance obligation based on the standalone selling price. The standalone selling price is primarily determined by the price charged to customers for the specific goods or services transferred with the performance obligations. Generally, the traditional electric operating companies recognize revenue as the performance obligations are satisfied over time as electricity is delivered to the customer or as generation capacity is available to the customer.

For both retail and wholesale revenues, the traditional electric operating companies generally have a right to consideration in an amount that corresponds directly with the value to the customer of the entity's performance completed to date and may recognize revenue in the amount to which the entity has a right to invoice and has elected to recognize revenue for its sales of electricity and capacity using the invoice practical expedient. In addition, payment for goods and services rendered is typically due in the subsequent month following satisfaction of the registrants' performance obligation.

Southern Power

Southern Power sells capacity and energy at rates specified under contractual terms in long-term PPAs. These PPAs are accounted for as operating leases, non-derivatives, or normal sale derivatives. Capacity revenues from PPAs classified as operating leases are recognized on a straight-line basis over the term of the agreement. Energy revenues are recognized in the period the energy is delivered.

Southern Power's non-lease contracts commonly include capacity and energy which are considered separate performance obligations. In these contracts, the total transaction price is allocated to each performance obligation based on the standalone selling price. The standalone selling price is primarily determined by the price charged to customers for the specific goods or services transferred with the performance obligations. Generally, Southern Power recognizes revenue as the performance obligations are satisfied over time, as electricity is delivered to the customer or as generation capacity is made available to the customer. The timing of revenue recognition was not affected by the adoption of ASC 606.

Southern Power generally has a right to consideration in an amount that corresponds directly with the value to the customer of the entity's performance completed to date and may recognize revenue in the amount to which the entity has a right to invoice. In addition, payment for goods and services rendered is typically due in the subsequent month following satisfaction of Southern Power's performance obligation.

When multiple contracts exist with the same counterparty, the revenues from each contract are accounted for as separate arrangements.

Southern Power may also enter into contracts to sell short-term capacity in the wholesale electricity markets. These sales are generally classified as mark-to-market derivatives and net unrealized gains and losses on such contracts are recorded in wholesale revenues. See Note 14 and "Financial Instruments" herein for additional information.

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Southern Company Gas

Gas Distribution Operations

Southern Company Gas records revenues when goods or services are provided to customers. Those revenues are based on rates approved by the state regulatory agencies of the natural gas distribution utilities. The natural gas market for Atlanta Gas Light was deregulated in 1997. Accordingly, Marketers, rather than a traditional utility, sell natural gas to end-use customers in Georgia and handle customer billing functions. As required by the Georgia PSC, Atlanta Gas Light bills Marketers in equal monthly installments for each residential, commercial, and industrial end-use customer's distribution costs as well as for capacity costs utilizing a seasonal rate design for the calculation of each residential end-use customer's annual straight-fixed-variable charge, which reflects the historic volumetric usage pattern for the entire residential class.

The majority of the revenues of Southern Company Gas are generated from contracts with natural gas distribution customers. Revenues from this integrated service to deliver gas when and if called upon by the customer is recognized as a single performance obligation satisfied over time and is recognized at a tariff rate as gas is delivered to the customer during the month.

The standalone selling price is primarily determined by the price charged to customers for the specific goods or services transferred with the performance obligations. Generally, Southern Company Gas recognizes revenue as the performance obligations are satisfied over time as natural gas is delivered to the customer. The performance obligations related to wholesale gas services are satisfied, and revenue is recognized, at a point in time when natural gas is delivered to the customer.

Southern Company Gas generally has a right to consideration in an amount that corresponds directly with the value to the customer of the entity's performance completed to date and may recognize revenue in the amount to which the entity has a right to invoice and has elected to recognize revenue for its sales of natural gas using the invoice practical expedient. In addition, payment for goods and services rendered is typically due in the subsequent month following satisfaction of Southern Company Gas' performance obligation.

With the exception of Atlanta Gas Light, the natural gas distribution utilities have rate structures that include volumetric rate designs that allow the opportunity to recover certain costs based on gas usage. Revenues from sales and transportation services are recognized in the same period in which the related volumes are delivered to customers. Revenues from residential and certain commercial and industrial customers are recognized on the basis of scheduled meter readings. Additionally, unbilled revenues are recognized for estimated deliveries of gas not yet billed to these customers, from the last bill date to the end of the accounting period. For other commercial and industrial customers and for all wholesale customers, revenues are based on actual deliveries through the end of the period.

The tariffs for several of the natural gas distribution utilities include provisions which allow for the recognition of certain revenues prior to the time such revenues are billed to customers. These provisions are referred to as alternative revenue programs and provide for the recognition of certain revenues prior to billing, as long as the amounts recognized will be collected from customers within 24 months of recognition. These programs are as follows:

- *Weather normalization adjustments* – reduce customer bills when winter weather is colder than normal and increase customer bills when weather is warmer than normal and are included in the tariffs for Virginia Natural Gas, Chattanooga Gas, and, prior to its sale, Elizabethtown Gas;
- *Revenue normalization mechanisms* – mitigate the impact of conservation and declining customer usage and are contained in the tariffs for Virginia Natural Gas, Chattanooga Gas, and, prior to its sale, Elkton Gas; and
- *Revenue true-up adjustment* – included within the provisions of the Georgia Rate Adjustment Mechanism (GRAM) program in which Atlanta Gas Light participates as a short-term alternative to formal rate case filings, the revenue true-up feature provides for a monthly positive (or negative) adjustment to record revenue in the amount of any variance to budgeted revenues, which are submitted and approved annually as a requirement of GRAM. Such adjustments are reflected in customer billings in a subsequent program year.

Wholesale Gas Services

Southern Company Gas nets revenues from energy and risk management activities with the associated costs. Profits from sales between segments are eliminated and are recognized as goods or services sold to end-use customers. Southern Company Gas records transactions that qualify as derivatives at fair value with changes in fair value recognized in earnings in the period of change and characterized as unrealized gains or losses. Gains and losses on derivatives held for energy trading purposes are presented on a net basis in revenue.

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Gas Marketing Services

Southern Company Gas recognizes revenues from natural gas sales and transportation services in the same period in which the related volumes are delivered to customers and recognizes sales revenues from residential and certain commercial and industrial customers on the basis of scheduled meter readings. Southern Company Gas also recognizes unbilled revenues for estimated deliveries of gas not yet billed to these customers from the most recent meter reading date to the end of the accounting period. For other commercial and industrial customers and for all wholesale customers, revenues are based on actual deliveries during the period.

Southern Company Gas recognizes revenues on 12-month utility-bill management contracts as the lesser of cumulative earned or cumulative billed amounts. Prior to the sale of Pivotal Home Solutions, revenues for warranty and repair contracts were recognized on a straight-line basis over the contract term while revenues for maintenance services were recognized at the time such services were performed. See Note 15 under "Southern Company Gas – Sale of Pivotal Home Solutions" for additional information.

Concentration of Revenue

Southern Company, Alabama Power, Georgia Power, Mississippi Power (with the exception of its cost-based MRA electric tariffs described below), and Southern Company Gas each have a diversified base of customers and no single customer or industry comprises 10% or more of each company's revenues.

Mississippi Power serves long-term contracts with rural electric cooperative associations and municipalities located in southeastern Mississippi under cost-based MRA electric tariffs, which are subject to regulation by the FERC. The contracts with these wholesale customers represented 17.3% of Mississippi Power's total operating revenues in 2018 and are generally subject to 10-year rolling 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.

Significant portions of Southern Power's revenues have been derived from certain customers pursuant to PPAs. The following table shows the percentage of total revenues for Southern Power's top three customers for each of the years presented:

	2018	2017	2016
Georgia Power	9.8%	11.3%	16.5%
Duke Energy Corporation	6.8%	6.7%	7.8%
Southern California Edison	6.2%	N/A	N/A
Morgan Stanley Capital Group	N/A	4.5%	N/A
San Diego Gas & Electric Company	N/A	N/A	5.7%

On January 29, 2019, Pacific Gas & Electric Company (PG&E) filed petitions to reorganize under Chapter 11 of the U.S. Bankruptcy Code. Southern Power, together with its noncontrolling partners, owns four solar facilities where PG&E is the energy off-taker for approximately 207 MWs of capacity under long-term PPAs. PG&E is also the transmission provider for these facilities and two of Southern Power's other solar facilities. Southern Power has evaluated the recoverability of its investments in these solar facilities under various scenarios, including selling the related energy into the competitive markets, and has concluded they are not impaired. At December 31, 2018, Southern Power had outstanding accounts receivables due from PG&E of \$1 million related to the PPAs and \$36 million related to the transmission interconnections (of which \$17 million is classified in other deferred charges and assets). Southern Power does not expect a material impact to its financial statements if, as a result of the bankruptcy proceedings, PG&E does not perform in accordance with the PPAs or the terms of the PPAs are renegotiated; however, the ultimate outcome of this matter cannot be determined at this time.

Fuel Costs

Fuel costs for the traditional electric operating companies and Southern Power are expensed as the fuel is used. Fuel expense generally includes fuel transportation costs and the cost of purchased emissions allowances as they are used. For Alabama Power and Georgia Power, fuel expense also includes the amortization of the cost of nuclear fuel. For the traditional electric operating companies, fuel costs also include gains and/or losses from fuel-hedging programs as approved by their respective state PSCs.

Cost of Natural Gas

Excluding Atlanta Gas Light, which does not sell natural gas to end-use customers, Southern Company Gas charges its utility customers for natural gas consumed using natural gas cost recovery mechanisms set by the applicable state regulatory agencies.

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Under these mechanisms, all prudently-incurred natural gas costs are passed through to customers without markup, subject to regulatory review. Southern Company Gas defers or accrues the difference between the actual cost of natural gas and the amount of commodity revenue earned in a given period such that no operating income is recognized related to these costs. The deferred or accrued amount is either billed or refunded to customers prospectively through adjustments to the commodity rate. Deferred and accrued natural gas costs are included in the balance sheets as regulatory assets and regulatory liabilities, respectively.

Southern Company Gas' gas marketing services' customers are charged for actual or estimated natural gas consumed. Within cost of natural gas, Southern Company Gas also includes costs of lost and unaccounted for gas, adjustments to reduce the value of inventories to market value, and gains and losses associated with certain derivatives.

Income Taxes

The registrants use the liability method of accounting for deferred income taxes and provide deferred income taxes for all significant income tax temporary differences. In accordance with regulatory requirements, deferred federal ITCs for the traditional electric operating companies and Southern Company Gas are amortized over the average lives of the related property, with such amortization normally applied as a credit to reduce depreciation in the statements of income.

Under current tax law, certain projects at Southern Power related to the construction of renewable facilities are eligible for federal ITCs. Southern Power estimates eligible costs which, as they relate to acquisitions, may not be finalized until the allocation of the purchase price to assets has been finalized. Southern Power applies the deferred method to ITCs. Under the deferred method, the ITCs are recorded as a deferred credit and amortized to income tax expense over the life of the respective asset. Furthermore, the tax basis of the asset is reduced by 50% of the ITCs received, resulting in a net deferred tax asset. Southern Power has elected to recognize the tax benefit of this basis difference as a reduction to income tax expense in the year in which the plant reaches commercial operation. State ITCs are recognized as an income tax benefit in the period in which the credits are generated. In addition, certain projects are eligible for federal and state PTCs, which are recognized as an income tax benefit based on KWH production.

Federal ITCs and PTCs, as well as state ITCs and other state tax credits available to reduce income taxes payable, were not fully utilized in 2018 and will be carried forward and utilized in future years. In addition, Southern Company is expected to have various state net operating loss (NOL) carryforwards for certain of its subsidiaries, which would result in income tax benefits in the future, if utilized. See Note 10 under "Current and Deferred Income Taxes – Tax Credit Carryforwards" and " – Net Operating Loss Carryforwards" for additional information.

The registrants recognize tax positions that are "more likely than not" of being sustained upon examination by the appropriate taxing authorities. See Note 10 under "Unrecognized Tax Benefits" for additional information.

Other Taxes

Taxes imposed on and collected from customers on behalf of governmental agencies are presented net on the registrants' statements of income and are excluded from the transaction price in determining the revenue related to contracts with a customer accounted for under ASC 606.

Southern Company Gas is taxed on its gas revenues by various governmental authorities, but is allowed to recover these taxes from its customers. Revenue taxes imposed on the natural gas distribution utilities are recorded at the amount charged to customers, which may include a small administrative fee, as operating revenues, and the related taxes imposed on Southern Company Gas are recorded as operating expenses on the statements of income. Revenue taxes included in operating expenses were \$111 million and \$98 million for the successor years ended December 31, 2018 and 2017, respectively, \$31 million for the successor period of July 1, 2016 through December 31, 2016, and \$56 million for the predecessor period of January 1, 2016 through June 30, 2016.

Allowance for Funds Used During Construction and Interest Capitalized

The traditional electric operating companies and certain of the natural gas distribution utilities (Atlanta Gas Light, Chattanooga Gas, and Nicor Gas) record AFUDC, which represents the estimated debt and equity costs of capital funds that are necessary to finance the construction of new regulated facilities. While cash is not realized currently, AFUDC increases the revenue requirement and is recovered over the service life of the asset through a higher rate base and higher depreciation. The equity component of AFUDC is not taxable.

Interest related to the construction of new facilities at Southern Power and new facilities not included in the traditional electric operating companies' and Southern Company Gas' regulated rates is capitalized in accordance with standard interest capitalization requirements.

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Total AFUDC and interest capitalized for the registrants in 2018, 2017, and 2016 was as follows:

	Southern Company	Alabama Power	Georgia Power^(a)	Mississippi Power^(b)	Southern Power
	<i>(in millions)</i>				
2018	\$ 210	\$ 84	\$ 94	\$ —	\$ 17
2017	249	54	63	72	11
2016	327	39	68	124	44

(a) See Note 2 under "Georgia Power – Nuclear Construction" for information on the inclusion of a portion of construction costs related to Plant Vogtle Units 3 and 4 in Georgia Power's rate base.

(b) Mississippi Power's decrease in 2017 resulted from the Kemper IGCC project suspension in June 2017.

	Successor			Predecessor
	Year Ended December 31, 2018	Year Ended December 31, 2017	July 1, 2016 through December 31, 2016	January 1, 2016 through June 30, 2016
	<i>(in millions)</i>			<i>(in millions)</i>
Southern Company Gas	\$ 14	\$ 19	\$ 6	\$ 4

The average AFUDC composite rates for 2018, 2017, and 2016 for the traditional electric operating companies and Southern Company Gas were as follows:

	Alabama Power	Georgia Power	Mississippi Power
2018	8.3%	7.3%	3.3%
2017	8.3%	5.6%	6.7%
2016	8.2%	6.9%	6.5%

	Successor			Predecessor
	Year Ended December 31, 2018	Year Ended December 31, 2017	July 1, 2016 through December 31, 2016	January 1, 2016 through June 30, 2016
Southern Company Gas:				
Atlanta Gas Light ^(a)	7.9%	8.1%	4.1%	4.1%
Chattanooga Gas ^(a)	7.4%	7.4%	3.7%	3.7%
Nicor Gas ^(b)	2.1%	1.2%	1.5%	1.5%

(a) Fixed rates authorized by the Georgia PSC and Tennessee Public Utilities Commission for Atlanta Gas Light and Chattanooga Gas, respectively.

(b) Variable rate determined by the FERC method of AFUDC accounting.

Impairment of Long-Lived Assets

The registrants evaluate long-lived assets and finite-lived intangible assets for impairment when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. The determination of whether an impairment has occurred is based on either a specific regulatory disallowance, a sales transaction price that is less than the asset group's carrying value, or an estimate of undiscounted future cash flows attributable to the asset group, as compared with the carrying value of the assets. If an impairment has occurred, the amount of the impairment recognized is determined by either the amount of regulatory disallowance or by estimating the fair value of the assets and recording a loss if the carrying value is greater than the fair value. For assets identified as held for sale, the carrying value is compared to the estimated fair value less the cost to sell in order to determine if an impairment loss is required. Until the assets are disposed of, their estimated fair value is re-evaluated when circumstances or events change. See Note 15 under "Southern Power" for information regarding impairment charges recorded in 2018. Also see "Revenues" and "Leveraged Leases" herein and Note 3 under "Other Matters – Southern Company Gas" for additional information.

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Goodwill and Other Intangible Assets and Liabilities

Southern Power's intangible assets consist primarily of certain PPAs acquired, which are amortized over the term of the respective PPA. Southern Company Gas' goodwill and other intangible assets and liabilities primarily relate to its 2016 acquisition by Southern Company. In addition to these items, Southern Company's goodwill and other intangible assets also relate to its 2016 acquisition of PowerSecure. See Note 15 under "Southern Company Merger with Southern Company Gas" and "Southern Company Acquisition of PowerSecure" for additional information.

Goodwill is not amortized, but is subject to an annual impairment test during the fourth quarter of each year, or more frequently if impairment indicators arise. Southern Company Gas recorded a goodwill impairment charge in the first quarter 2018 related to its disposition of Pivotal Home Solutions. Southern Company and Southern Company Gas each evaluated its goodwill in the fourth quarter 2018 and determined no additional impairment was required. The following table presents 2018 changes in goodwill balances for Southern Company and Southern Company Gas:

	Southern Company	Southern Company Gas	
		Gas Distribution Operations	Gas Marketing Services
		<i>(in millions)</i>	
Balance at December 31, 2017	\$ 6,268	\$ 4,702	\$ 1,265
Impairment ^(a)	(42)	—	(42)
Dispositions ^(b)	(910)	(668)	(242)
Balance at December 31, 2018	\$ 5,315 ^(c)	\$ 4,034	\$ 981

(a) On April 11, 2018, Southern Company Gas entered into a stock purchase agreement for the sale of Pivotal Home Solutions. In contemplation of this transaction and based on the purchase price, a goodwill impairment charge of \$42 million was recorded in the first quarter 2018. See Note 15 under "Southern Company Gas" for additional information.

(b) Gas distribution operations reflects goodwill allocated to Elizabethtown Gas, Elkton Gas, and Florida City Gas, which were sold during the third quarter 2018. Gas marketing services reflects goodwill associated with Pivotal Home Solutions, which was sold on June 4, 2018. See Note 15 under "Southern Company Gas" for additional information.

(c) Total does not add due to rounding.

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At December 31, 2018 and 2017, other intangible assets were as follows:

	At December 31, 2018			At December 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Other Intangible Assets, Net	Gross Carrying Amount	Accumulated Amortization	Other Intangible Assets, Net
	(in millions)			(in millions)		
Southern Company						
Other intangible assets subject to amortization:						
Customer relationships ^(a)	\$ 223	\$ (94)	\$ 129	\$ 288	\$ (83)	\$ 205
Trade names ^(a)	70	(21)	49	159	(17)	142
Storage and transportation contracts	64	(54)	10	64	(34)	30
PPA fair value adjustments ^(b)	405	(61)	344	456	(47)	409
Other	11	(5)	6	17	(5)	12
Total other intangible assets subject to amortization	\$ 773	\$ (235)	\$ 538	\$ 984	\$ (186)	\$ 798
Other intangible assets not subject to amortization:						
Federal Communications Commission licenses	75	—	75	75	—	75
Total other intangible assets	\$ 848	\$ (235)	\$ 613	\$ 1,059	\$ (186)	\$ 873

Southern Power

Other intangible assets subject to amortization:

PPA fair value adjustments ^(b)	\$ 405	\$ (61)	\$ 344	\$ 456	\$ (47)	\$ 409
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Southern Company Gas

Other intangible assets subject to amortization:

Gas marketing services ^(a)						
Customer relationships	\$ 156	\$ (84)	\$ 72	\$ 221	\$ (77)	\$ 144
Trade names	26	(7)	19	115	(9)	106
Wholesale gas services						
Storage and transportation contracts	64	(54)	10	64	(34)	30
Total other intangible assets subject to amortization	\$ 246	\$ (145)	\$ 101	\$ 400	\$ (120)	\$ 280

(a) Balances as of December 31, 2018 reflect the sale of Pivotal Home Solutions. See Note 15 under "Southern Company Gas – Sale of Pivotal Home Solutions" for additional information.

(b) Balances as of December 31, 2018 exclude Plant Mankato-related intangible assets that were reclassified as assets held for sale. See Note 15 under "Southern Power – Sales of Natural Gas Plants" for additional information.

Amortization associated with other intangible assets in 2018, 2017, and 2016 was as follows:

	2018	2017	2016
	(in millions)		
Southern Company	\$ 89	\$ 124	\$ 50
Southern Power	\$ 25	\$ 25	\$ 10

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	Successor			Predecessor
	Year Ended December 31, 2018	Year Ended December 31, 2017	July 1, 2016 through December 31, 2016	January 1, 2016 through June 30, 2016
	<i>(in millions)</i>			<i>(in millions)</i>
Southern Company Gas:				
Wholesale gas services ^(a)	\$ 20	\$ 32	\$ 2	\$ —
Gas marketing services ^(b)	32	54	32	8

(a) Recorded as a reduction to operating revenues.

(b) Included in depreciation and amortization.

At December 31, 2018, the estimated amortization associated with other intangible assets for the next five years is as follows:

	2019	2020	2021	2022	2023
	<i>(in millions)</i>				
Southern Company ^(*)	\$ 61	\$ 50	\$ 43	\$ 39	\$ 38
Southern Power ^(*)	20	20	20	20	20
Southern Company Gas	29	19	13	10	9

(*) Excludes amounts related to held for sale assets. See Note 15 under "Southern Power – Sales of Natural Gas Plants" for additional information.

Included in other deferred credits and liabilities on the balance sheet is \$91 million of intangible liabilities that were recorded during acquisition accounting for transportation contracts at Southern Company Gas. At December 31, 2018, the accumulated amortization of these intangible liabilities was \$74 million. In 2019, the remaining \$17 million of amortization associated with the intangible liabilities will be recorded in natural gas revenues.

Acquisition Accounting

At the time of an acquisition, management will assess whether acquired assets and activities meet the definition of a business. For acquisitions that meet the definition of a business, operating results from the date of acquisition are included in the acquiring entity's financial statements. The purchase price, including any contingent consideration, is allocated based on the fair value of the identifiable assets acquired and liabilities assumed (including any intangible assets). Assets acquired that do not meet the definition of a business are accounted for as an asset acquisition.

The purchase price of each asset acquisition is allocated based on the relative fair value of assets acquired. Determining the fair value of assets acquired and liabilities assumed requires management judgment and management may engage independent valuation experts to assist in this process. Fair values are determined by using market participant assumptions and typically include the timing and amounts of future cash flows, incurred construction costs, the nature of acquired contracts, discount rates, power market prices, and expected asset lives. Any due diligence or transition costs incurred for potential or successful acquisitions are expensed as incurred.

Historically, contingent consideration primarily relates to fixed amounts due to the seller once an acquired construction project is placed in service. For contingent consideration with variable payments, management fair values the arrangement with any changes recorded in the statements of income. See Note 13 for additional fair value information.

Development Costs

For Southern Power, development costs are capitalized once a project is probable of completion, primarily based on a review of its economics and operational feasibility, as well as status of power off-take agreements and regulatory approvals, if applicable. Southern Power's capitalized development costs are included in CWIP on the balance sheets. All of Southern Power's development costs incurred prior to the determination that a project is probable of completion are expensed as incurred and included in other operations and maintenance expense in the statements of income. If it is determined that a project is no longer probable of completion, any of Southern Power's capitalized development costs are expensed and included in other operations and maintenance expense in the statements of income.

Long-Term Service Agreements

The traditional electric operating companies and Southern Power have entered into LTSAs for the purpose of securing maintenance support for certain of their generating facilities. The LTSAs cover all planned inspections on the covered equipment,

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which generally includes the cost of all labor and materials. The LTSAs also obligate the counterparties to cover the costs of unplanned maintenance on the covered equipment subject to limits and scope specified in each contract.

Payments made under the LTSAs for the performance of any planned inspections or unplanned capital maintenance are recorded in the statements of cash flows as investing activities. Receipts of major parts into materials and supplies inventory prior to planned inspections are treated as noncash transactions in the statements of cash flows. Any payments made prior to the work being performed are recorded as prepayments in other current assets and noncurrent assets on the balance sheets. At the time work is performed, an appropriate amount is accrued for future payments or transferred from the prepayment and recorded as property, plant, and equipment or expensed.

Transmission Receivables/Prepayments

As a result of Southern Power's acquisition and construction of generating facilities, Southern Power has transmission receivables and/or prepayments representing the portion of interconnection network and transmission upgrades that will be reimbursed to Southern Power. Upon completion of the related project, transmission costs are generally reimbursed by the interconnection provider within a five-year period and the receivable/prepayments are reduced as payments or services are received.

Cash and Cash Equivalents

For purposes of the financial statements, temporary cash investments are considered cash equivalents. Temporary cash investments are securities with original maturities of 90 days or less.

Restricted Cash

The registrants adopted ASU 2016-18 as of January 1, 2018. See "Recently Adopted Accounting Standards – Other" herein for additional information.

At December 31, 2018, Georgia Power had restricted cash related to the redemption of pollution control revenue bonds, which were redeemed subsequent to December 31, 2018. See Note 8 under "Long-term Debt – Pollution Control Revenue Bonds" for additional information. At December 31, 2017, Southern Power had restricted cash primarily related to certain acquisitions and construction projects. At December 31, 2018 and 2017, Southern Company Gas had restricted cash held as collateral for worker's compensation, life insurance, and long-term disability insurance.

The following tables provide a reconciliation of cash, cash equivalents, and restricted cash reported within the balance sheets that total to the amounts shown in the statements of cash flows for the registrants that had restricted cash at December 31, 2018 and/or 2017:

	Southern Company	Georgia Power	Southern Company Gas
	<i>(in millions)</i>		
At December 31, 2018			
Cash and cash equivalents	\$ 1,396	\$ 4	\$ 64
Cash and cash equivalents classified as assets held for sale	9	—	—
Restricted cash:			
Restricted cash	—	108	—
Other accounts and notes receivable	114	—	6
Total cash, cash equivalents, and restricted cash	\$ 1,519	\$ 112	\$ 70

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	Southern Company	Southern Power	Southern Company Gas
	<i>(in millions)</i>		
At December 31, 2017			
Cash and cash equivalents	\$ 2,130	\$ 129	\$ 73
Restricted cash:			
Other accounts and notes receivable	5	—	5
Deferred charges and other assets	12	11	—
Total cash, cash equivalents, and restricted cash	\$ 2,147	\$ 140	\$ 78

Storm Damage Reserves

Each traditional electric operating company maintains a reserve to cover or is allowed to defer and recover the cost of damages from major storms to its transmission and distribution lines and, for Mississippi Power, the cost of uninsured damages to its generation facilities and other property. In accordance with their respective state PSC orders, the traditional electric operating companies accrued the following amounts related to storm damage reserves in 2018, 2017, and 2016:

	Southern Company^(*)	Alabama Power	Georgia Power	Mississippi Power
	<i>(in millions)</i>			
2018	\$ 74	\$ 16	\$ 30	\$ 1
2017	41	4	30	3
2016	40	3	30	4

(*) Includes accruals at Gulf Power of \$26.9 million in 2018 and \$3.5 million in each of 2017 and 2016. See Note 15 under "Southern Company's Sale of Gulf Power" for information regarding the sale of Gulf Power.

Alabama Power and Mississippi Power also have authority based on orders from their state PSCs to accrue certain additional amounts as circumstances warrant. There were no such additional accruals for Alabama Power and Mississippi Power in any year presented.

See Note 2 under "Alabama Power – Rate NDR," "Georgia Power – Storm Damage Recovery," and "Mississippi Power – System Restoration Rider" for additional information regarding each company's storm damage reserve.

Leveraged Leases

A subsidiary of Southern Holdings has several leveraged lease agreements, with original terms ranging up to 45 years, which relate to international and domestic energy generation, distribution, and transportation assets. Southern Company receives federal income tax deductions for depreciation and amortization, as well as interest on long-term debt related to these investments. Southern Company reviews all important lease assumptions at least annually, or more frequently if events or changes in circumstances indicate that a change in assumptions has occurred or may occur. These assumptions include the effective tax rate, the residual value, the credit quality of the lessees, and the timing of expected tax cash flows.

The ability of the lessees to make required payments to the Southern Holdings subsidiary is dependent on the operational performance of the assets. In 2017, the financial and operational performance of one of the lessees and the associated generation assets raised significant concerns about the short-term ability of the generation assets to produce cash flows sufficient to support ongoing operations and the lessee's contractual obligations and its ability to make the remaining semi-annual lease payments to the Southern Holdings subsidiary beginning in June 2018. As a result of operational improvements in 2018, the 2018 lease payments were paid in full. However, operational issues and the resulting cash liquidity challenges persist and significant concerns continue regarding the lessee's ability to make the remaining semi-annual lease payments. These operational challenges may also impact the expected residual value of the assets at the end of the lease term in 2047. If any future lease payment is not paid in full, the Southern Holdings subsidiary may be unable to make its corresponding payment to the holders of the underlying non-recourse debt related to the generation assets. Failure to make the required payment to the debtholders could represent an event of default that would give the debtholders the right to foreclose on, and take ownership of, the generation assets from the Southern Holdings subsidiary, in effect terminating the lease and resulting in the write-off of the related lease receivable, which would result in a reduction in net income of approximately \$86 million after tax based on the lease receivable balance at December 31, 2018. Southern Company has evaluated the recoverability of the lease receivable and the expected residual value of

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the generation assets at the end of the lease under various scenarios and has concluded that its investment in the leveraged lease is not impaired at December 31, 2018. Southern Company will continue to monitor the operational performance of the underlying assets and evaluate the ability of the lessee to continue to make the required lease payments. The ultimate outcome of this matter cannot be determined at this time.

Southern Company's net investment in domestic and international leveraged leases consists of the following at December 31:

	2018	2017
	<i>(in millions)</i>	
Net rentals receivable	\$ 1,563	\$ 1,498
Unearned income	(765)	(723)
Investment in leveraged leases	798	775
Deferred taxes from leveraged leases	(255)	(252)
Net investment in leveraged leases	\$ 543	\$ 523

A summary of the components of income from the leveraged leases follows:

	2018	2017	2016
	<i>(in millions)</i>		
Pretax leveraged lease income	\$ 25	\$ 25	\$ 25
Net impact of Tax Reform Legislation	—	48	—
Income tax expense	(6)	(9)	(9)
Net leveraged lease income	\$ 19	\$ 64	\$ 16

Materials and Supplies

Materials and supplies for the traditional electric operating companies generally includes the average cost of transmission, distribution, and generating plant materials. Materials and supplies for Southern Company Gas generally includes propane gas inventory, fleet fuel, and other materials and supplies. Materials and supplies for Southern Power generally includes the average cost of generating plant materials.

Materials are recorded to inventory when purchased and then expensed or capitalized to property, plant, and equipment, as appropriate, at weighted average cost when installed. In addition, certain major parts are recorded as inventory when acquired and then capitalized at cost when installed to property, plant, and equipment.

Fuel Inventory

Fuel inventory for the traditional electric operating companies includes the average cost of coal, natural gas, oil, transportation, and emissions allowances. Fuel inventory for Southern Power, which is included in other current assets, includes the average cost of oil, natural gas, biomass, and emissions allowances. Fuel is recorded to inventory when purchased and then expensed, at weighted average cost, as used. Emissions allowances granted by the EPA are included in inventory at zero cost. The traditional electric operating companies recover fuel expense through fuel cost recovery rates approved by each state PSC or, for wholesale rates, the FERC.

Natural Gas for Sale

With the exception of Nicor Gas, the natural gas distribution utilities record natural gas inventories on a WACOG basis. In Georgia's deregulated, competitive environment, Marketers sell natural gas to firm end-use customers at market-based prices. On a monthly basis, Atlanta Gas Light assigns to Marketers the majority of the pipeline storage services that it has under contract, along with a corresponding amount of inventory. Atlanta Gas Light retains and manages a portion of its pipeline storage assets and related natural gas inventories for system balancing and to serve system demand.

Nicor Gas' natural gas inventory is carried at cost on a LIFO basis. Inventory decrements occurring during the year that are restored prior to year end are charged to cost of natural gas at the estimated annual replacement cost. Inventory decrements that are not restored prior to year end are charged to cost of natural gas at the actual LIFO cost of the inventory layers liquidated. The cost of natural gas, including inventory costs, is recovered from customers under a purchased gas recovery mechanism adjusted

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for differences between actual costs and amounts billed; therefore, LIFO liquidations have no impact on Southern Company's or Southern Company Gas' net income. At December 31, 2018, the Nicor Gas LIFO inventory balance was \$165 million. Based on the average cost of gas purchased in December 2018, the estimated replacement cost of Nicor Gas' inventory at December 31, 2018 was \$409 million. During 2018, Nicor Gas did not liquidate any LIFO-based inventory.

Southern Company Gas' gas marketing services, wholesale gas services, and all other segments record inventory at LOCOM, with cost determined on a WACOG basis. For these segments, Southern Company Gas evaluates the weighted average cost of its natural gas inventories against market prices to determine whether any declines in market prices below the WACOG are other than temporary. For any declines considered to be other than temporary, Southern Company Gas recorded LOCOM adjustments to cost of natural gas to reduce the value of its natural gas inventories to market value. LOCOM adjustments were \$10 million during 2018 for wholesale gas services and immaterial for all other periods presented.

Energy Marketing Receivables and Payables

Southern Company Gas' wholesale gas services provides services to retail gas marketers, wholesale gas marketers, utility companies, and industrial customers. These counterparties utilize netting agreements that enable wholesale gas services to net receivables and payables by counterparty upon settlement. Southern Company Gas' wholesale gas services also nets across product lines and against cash collateral, provided the netting and cash collateral agreements include such provisions. While the amounts due from, or owed to, wholesale gas services' counterparties are settled net, they are recorded on a gross basis in the balance sheets as energy marketing receivables and energy marketing payables.

Southern Company Gas' wholesale gas services has trade and credit contracts that contain minimum credit rating requirements. These credit rating requirements typically give counterparties the right to suspend or terminate credit if Southern Company Gas' credit ratings are downgraded to non-investment grade status. Under such circumstances, Southern Company Gas' wholesale gas services would need to post collateral to continue transacting business with some of its counterparties. As of December 31, 2018 and 2017, the required collateral in the event of a credit rating downgrade was \$30 million and \$8 million, respectively.

Credit policies were established to determine and monitor the creditworthiness of counterparties, including requirements to post collateral or other credit security, as well as the quality of pledged collateral. Collateral or credit security is most often in the form of cash or letters of credit from an investment-grade financial institution, but may also include cash or U.S. government securities held by a trustee. When Southern Company Gas' wholesale gas services is engaged in more than one outstanding derivative transaction with the same counterparty and it also has a legally enforceable netting agreement with that counterparty, the "net" mark-to-market exposure represents the netting of the positive and negative exposures with that counterparty combined with a reasonable measure of Southern Company Gas' credit risk. Southern Company Gas' wholesale gas services also uses other netting agreements with certain counterparties with whom it conducts significant transactions.

See "Concentration of Credit Risk" herein for additional information.

Provision for Uncollectible Accounts

The customers of the traditional electric operating companies and natural gas distribution utilities are billed monthly. For the majority of receivables, a provision for uncollectible accounts is established based on historical collection experience and other factors. For the remaining receivables, if the company is aware of a specific customer's inability to pay, a provision for uncollectible accounts is recorded to reduce the receivable balance to the amount reasonably expected to be collected. If circumstances change, the estimate of the recoverability of accounts receivable could change as well. Circumstances that could affect this estimate include, but are not limited to, customer credit issues, customer deposits, and general economic conditions. Customers' accounts are written off once they are deemed to be uncollectible. For all periods presented, uncollectible accounts averaged less than 1% of revenues for each registrant.

Credit risk exposure at Nicor Gas is mitigated by a bad debt rider approved by the Illinois Commission. The bad debt rider provides for the recovery from (or refund to) customers of the difference between Nicor Gas' actual bad debt experience on an annual basis and the benchmark bad debt expense used to establish its base rates for the respective year.

Concentration of Credit Risk

Southern Company Gas' wholesale gas services business has a concentration of credit risk for services it provides to its counterparties. This credit risk is generally concentrated in 20 of its counterparties and is measured by 30-day receivable exposure plus forward exposure. Counterparty credit risk is evaluated using a S&P equivalent credit rating, which is determined by a process of converting the lower of the S&P or Moody's rating to an internal rating ranging from 9 to 1, with 9 being equivalent to AAA/Aaa by S&P and Moody's, respectively, and 1 being equivalent to D/Default by S&P and Moody's, respectively. A counterparty that does not have an external rating is assigned an internal rating based on the strength of its financial ratios. As of

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December 31, 2018, the top 20 counterparties represented 48%, or \$298 million, of the total counterparty exposure and had a weighted average S&P equivalent rating of A-.

Concentration of credit risk occurs at Atlanta Gas Light for amounts billed for services and other costs to its customers, which consist of 15 Marketers in Georgia (including SouthStar). The credit risk exposure to Marketers varies seasonally, with the lowest exposure in the non-peak summer months and the highest exposure in the peak winter months. Marketers are responsible for the retail sale of natural gas to end-use customers in Georgia. The functions of the retail sale of gas include the purchase and sale of natural gas, customer service, billings, and collections. The provisions of Atlanta Gas Light's tariff allow Atlanta Gas Light to obtain credit security support in an amount equal to a minimum of two times a Marketer's highest month's estimated bill from Atlanta Gas Light.

Financial Instruments

The traditional electric operating companies and Southern Power use derivative financial instruments to limit exposure to fluctuations in interest rates, the prices of certain fuel purchases, electricity purchases and sales, and occasionally foreign currency exchange rates. Southern Company Gas uses derivative financial instruments to limit exposure to fluctuations in natural gas prices, weather, interest rates, and commodity prices. All derivative financial instruments are recognized as either assets or liabilities on the balance sheets (included in "Other" or shown separately as "Risk Management Activities") and are measured at fair value. See Note 13 for additional information regarding fair value. Substantially all of the traditional electric operating companies' and Southern Power's bulk energy purchases and sales contracts that meet the definition of a derivative are excluded from fair value accounting requirements because they qualify for the "normal" scope exception, and are accounted for under the accrual method. Derivative contracts that qualify as cash flow hedges of anticipated transactions or are recoverable through the traditional electric operating companies' and the natural gas distribution utilities' fuel-hedging programs result in the deferral of related gains and losses in AOCI or regulatory assets and liabilities, respectively, until the hedged transactions occur. For 2017 and 2016, ineffectiveness arising from cash flow hedges was recognized in net income. Upon the adoption of ASU 2017-12 in 2018, ineffectiveness is no longer separately measured and recorded in earnings. See "Recently Adopted Accounting Standards" herein for additional information. Other derivative contracts that qualify as fair value hedges are marked to market through current period income and are recorded on a net basis in the statements of income. Cash flows from derivatives are classified on the statements of cash flows in the same category as the hedged item. See Note 14 for additional information regarding derivatives.

The registrants offset fair value amounts recognized for multiple derivative instruments executed with the same counterparty under netting arrangements. The registrants had no outstanding collateral repayment obligations or rights to reclaim collateral arising from derivative instruments recognized at December 31, 2018.

The registrants are exposed to potential losses related to financial instruments in the event of counterparties' nonperformance. The registrants have established risk management policies and controls to determine and monitor the creditworthiness of counterparties in order to mitigate their exposure to counterparty credit risk.

Southern Company Gas

Southern Company Gas enters into weather derivative contracts as economic hedges of natural gas revenues in the event of warmer-than-normal weather in the Heating Season. Exchange-traded options are carried at fair value, with changes reflected in natural gas revenues. Non-exchange-traded options are accounted for using the intrinsic value method. Changes in the intrinsic value for non-exchange-traded contracts are also reflected in natural gas revenues in the statements of income.

Wholesale gas services purchases natural gas for storage when the current market price paid to buy and transport natural gas plus the cost to store and finance the natural gas is less than the market price that can be received in the future, resulting in positive net natural gas revenues. NYMEX futures and OTC contracts are used to sell natural gas at that future price to substantially protect the natural gas revenues that will ultimately be realized when the stored natural gas is sold. Southern Company Gas enters into transactions to secure transportation capacity between delivery points in order to serve its customers and various markets. NYMEX futures and OTC contracts are used to capture the price differential or spread between the locations served by the capacity in order to substantially protect the natural gas revenues that will ultimately be realized when the physical flow of natural gas between delivery points occurs. These contracts generally meet the definition of derivatives and are carried at fair value on the balance sheets, with changes in fair value recorded in natural gas revenues on the statements of income in the period of change. These contracts are not designated as hedges for accounting purposes.

The purchase, transportation, storage, and sale of natural gas are accounted for on a weighted average cost or accrual basis, as appropriate, rather than on the fair value basis utilized for the derivatives used to mitigate the natural gas price risk associated with the storage and transportation portfolio. Monthly demand charges are incurred for the contracted storage and transportation

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capacity and payments associated with asset management agreements, and these demand charges and payments are recognized on the statements of income in the period they are incurred. This difference in accounting methods can result in volatility in reported earnings, even though the economic margin is substantially unchanged from the dates the transactions were consummated.

Comprehensive Income

The objective of comprehensive income is to report a measure of all changes in common stock equity of an enterprise that result from transactions and other economic events of the period other than transactions with owners. Comprehensive income consists of net income attributable to the registrant, changes in the fair value of qualifying cash flow hedges, and reclassifications for amounts included in net income. Comprehensive income also consists of certain changes in pension and other postretirement benefit plans for Southern Company, Southern Power, and Southern Company Gas.

AOCI (loss) balances, net of tax effects, for Southern Company, Southern Power, and Southern Company Gas were as follows:

	Qualifying Hedges		Pension and Other Postretirement Benefit Plans		Accumulated Other Comprehensive Income (Loss)
	<i>(in millions)</i>				
Southern Company					
Balance at December 31, 2017	\$	(119)	\$	(70)	\$ (189)
Adjustment to beginning balance ^(*)		(26)		(14)	(40)
Current period change		24		2	26
Balance at December 31, 2018	\$	(121)	\$	(82)	\$ (203)
Southern Power					
Balance at December 31, 2017	\$	25	\$	(27)	\$ (2)
Adjustment to beginning balance ^(*)		4		—	4
Current period change		7		7	14
Balance at December 31, 2018	\$	36	\$	(20)	\$ 16
Southern Company Gas					
Balance at December 31, 2017	\$	(6)	\$	26	\$ 20
Adjustment to beginning balance ^(*)		(1)		5	4
Current period change		4		(2)	2
Balance at December 31, 2018	\$	(3)	\$	29	\$ 26

(*) Reflects the reclassification related to stranded tax effects resulting from the Tax Reform Legislation as allowed by ASU 2018-02. See "Recently Adopted Accounting Standards – Other" herein for additional information.

Variable Interest Entities

The primary beneficiary of a VIE is required to consolidate the VIE when it has both the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE. See Note 7 for additional information regarding VIEs.

Alabama Power has established a wholly-owned trust to issue preferred securities. See Note 8 under "Long-term Debt – Other Long-Term Debt – Alabama Power" for additional information. However, Alabama Power is not considered the primary beneficiary of the trust. Therefore, the investment in the trust is reflected as other investments, and the related loan from the trust is reflected as long-term debt in Alabama Power's balance sheets.

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2. REGULATORY MATTERS

Southern Company

Regulatory Assets and Liabilities

Regulatory assets and (liabilities) reflected in the consolidated balance sheets of Southern Company at December 31, 2018 and 2017 relate to:

	2018	2017	Note
	<i>(in millions)</i>		
Retiree benefit plans	\$ 3,658	\$ 3,931	(a,p)
Asset retirement obligations-asset	2,933	1,133	(b,p)
Deferred income tax charges	799	814	(b,o)
Property damage reserves-asset	416	333	(c)
Under recovered regulatory clause revenues	407	317	(d)
Environmental remediation-asset	366	511	(e,p)
Loss on reacquired debt	346	223	(f)
Remaining net book value of retired assets	211	306	(g)
Vacation pay	182	183	(h,p)
Long-term debt fair value adjustment	121	138	(i)
Deferred PPA charges	—	119	(j,p)
Other regulatory assets	581	625	(k)
Deferred income tax credits	(6,455)	(7,261)	(b,o)
Other cost of removal obligations	(2,297)	(2,684)	(b)
Customer refunds	(293)	(188)	(n)
Property damage reserves-liability	(76)	(135)	(l)
Over recovered regulatory clause revenues	(47)	(155)	(d)
Other regulatory liabilities	(132)	(104)	(m)
Total regulatory assets (liabilities), net	\$ 720	\$ (1,894)	

Note: Unless otherwise noted, the recovery and amortization periods for these regulatory assets and (liabilities) are approved by the respective PSC or regulatory agency and are as follows:

- (a) Recovered and amortized over the average remaining service period which may range up to 15 years. See Note 11 for additional information.
- (b) Asset retirement and other cost of removal obligations are recorded, deferred income tax assets are recovered, and deferred income tax liabilities are amortized over the related property lives, which may range up to 80 years. Asset retirement and removal liabilities will be settled and trued up following completion of the related activities. Included in the deferred income tax assets is \$28 million for the retiree Medicare drug subsidy, which is being recovered and amortized through 2027.
- (c) Through 2019, Georgia Power is recovering approximately \$30 million annually for storm damage, which is expected to be adjusted in the Georgia Power 2019 Base Rate Case. See "Georgia Power – Storm Damage Recovery" herein for additional information.
- (d) Recorded and recovered or amortized over periods generally not exceeding 10 years.
- (e) Recovered through environmental cost recovery mechanisms when the remediation is performed or the work is performed.
- (f) Recovered over either the remaining life of the original issue or, if refinanced, over the remaining life of the new issue, which may range up to 50 years.
- (g) Amortized over periods not exceeding eight years.
- (h) Recorded as earned by employees and recovered as paid, generally within one year. This includes both vacation and banked holiday pay.
- (i) Recovered over the remaining life of the original debt issuances, which range up to 20 years. For additional information see Note 15 under "Southern Company Merger with Southern Company Gas."
- (j) Related to Gulf Power and reclassified as assets held for sale at December 31, 2018. See Note 15 under "Southern Company's Sale of Gulf Power" for information regarding the sale of Gulf Power.
- (k) Comprised of numerous immaterial components including nuclear outage, fuel-hedging losses, cancelled construction projects, building and generating plant leases, property tax, and other miscellaneous assets. These costs are recorded and recovered or amortized over periods generally not exceeding 50 years.
- (l) Amortized as storm restoration and potential reliability-related expenses are incurred.
- (m) Comprised of numerous components including retiree benefit plans, fuel-hedging gains, AROs, and other liabilities that are recorded and recovered or amortized over periods not exceeding 20 years.
- (n) At December 31, 2018, represents amounts accrued and outstanding for refund, including approximately \$109 million as a result of Alabama Power's 2018 retail return exceeding the allowed range, approximately \$55 million pursuant to the Georgia Power Tax Reform Settlement Agreement, and approximately \$100 million, subject to review and approval by the Georgia PSC, as a result of Georgia Power's 2018 retail ROE exceeding the allowed retail ROE range. See "Alabama Power – Rate RSE" and "Georgia Power – Rate Plans" herein for additional information.
- (o) As a result of the Tax Reform Legislation, these accounts include certain deferred income tax assets and liabilities not subject to normalization. The recovery and amortization of these amounts will be determined in future rate proceedings. See "Georgia Power," "Mississippi Power," and "Southern Company Gas" herein and Note 10 for additional information.
- (p) Not earning a return as offset in rate base by a corresponding asset or liability.

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Gulf Power

On January 1, 2019, Southern Company completed its sale of Gulf Power to NextEra Energy. See Note 15 under "Southern Company's Sale of Gulf Power" for additional information.

In accordance with a Florida PSC-approved settlement agreement, Gulf Power's rates effective for the first billing cycle in July 2017 increased by approximately \$54 million annually (2017 Gulf Power Rate Case Settlement), including a \$62 million increase in base revenues, less an \$8 million purchased power capacity cost recovery clause credit. The 2017 Rate Case Settlement Agreement also resulted in a \$32.5 million write-down of Gulf Power's ownership of Plant Scherer Unit 3, which was recorded in the first quarter 2017.

As a continuation of the 2017 Gulf Power Rate Case Settlement Agreement, on March 26, 2018, the Florida PSC approved a stipulation and settlement agreement addressing Gulf Power's retail revenue requirement effects of the Tax Reform Legislation (Gulf Power Tax Reform Settlement Agreement). Beginning in April 1, 2018, the Gulf Power Tax Reform Settlement Agreement resulted in annual reductions of approximately \$18 million to Gulf Power's base rates and approximately \$16 million to Gulf Power's environmental cost recovery rates and a one-time refund of approximately \$69 million for the retail portion of unprotected (not subject to normalization) deferred tax liabilities, which was credited to customers through Gulf Power's fuel cost recovery rates over the remainder of 2018.

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Alabama Power

Regulatory Assets and Liabilities

Regulatory assets and (liabilities) reflected in the balance sheets of Alabama Power at December 31, 2018 and 2017 relate to:

	2018		2017	Note
	<i>(in millions)</i>			
Retiree benefit plans	\$ 947	\$	946	(a,p)
Deferred income tax charges	241		240	(b,c,d)
Under recovered regulatory clause revenues	176		53	(e)
Asset retirement obligations	147		(33)	(b)
Regulatory clauses	142		142	(f)
Vacation pay	71		70	(g,p)
Loss on reacquired debt	56		62	(h)
Nuclear outage	49		56	(i)
Remaining net book value of retired assets	43		54	(j)
Other regulatory assets	57		58	(k,l)
Deferred income tax credits	(2,027)		(2,082)	(b,d)
Other cost of removal obligations	(497)		(609)	(b)
Rate RSE refund	(109)		—	(m)
Natural disaster reserve	(20)		(38)	(n)
Other regulatory liabilities	(45)		(7)	(l,o)
Total regulatory assets (liabilities), net	\$ (769)	\$	(1,088)	

Note: Unless otherwise noted, the recovery and amortization periods for these regulatory assets and (liabilities) have been accepted or approved by the Alabama PSC and are as follows:

- (a) Recovered and amortized over the average remaining service period which may range up to 15 years. See Note 11 for additional information.
- (b) Asset retirement and removal assets and liabilities are recorded, deferred income tax assets are recovered, and deferred income tax credits are amortized over the related property lives, which may range up to 50 years. Asset retirement and other cost of removal assets and liabilities will be settled and trued up following completion of the related activities.
- (c) Included in the deferred income tax charges are \$10 million for 2018 and \$13 million for 2017 for the retiree Medicare drug subsidy, which is being recovered and amortized through 2027.
- (d) As a result of the Tax Reform Legislation, these accounts include certain deferred income tax assets and liabilities not subject to normalization. The recovery and amortization of these amounts will occur ratably over the related property lives, which may range up to 50 years. See Note 10 for additional information.
- (e) Recorded and recovered or amortized over periods not exceeding 10 years. See "Rate CNP PPA," "Rate CNP Compliance," and "Rate ECR" herein for additional information.
- (f) Will be amortized concurrently with the effective date of Alabama Power's next depreciation study. See "Rate RSE" herein for additional information.
- (g) Recorded as earned by employees and recovered as paid, generally within one year. This includes both vacation and banked holiday pay.
- (h) Recovered over the remaining life of the original issue, which may range up to 50 years.
- (i) Nuclear outage costs are deferred to a regulatory asset when incurred and amortized over a subsequent 18-month period.
- (j) Recorded and amortized over remaining periods up to 8 years.
- (k) Comprised of components including generation site selection/evaluation costs, PPA capacity (to be recovered over the next 12 months), and other miscellaneous assets. Capitalized upon initialization of related construction projects, if applicable.
- (l) Fuel-hedging assets and liabilities are recorded over the life of the underlying hedged purchase contracts, which generally do not exceed three and a half years. Upon final settlement, actual costs incurred are recovered through the energy cost recovery clause.
- (m) Refund accrued as a result of the 2018 retail return exceeding the allowed range. See "Rate RSE" herein for additional information.
- (n) Amortized as storm restoration and potential reliability-related expenses are incurred.
- (o) Comprised of several components, primarily \$33 million deferred as a result of the Alabama PSC accounting order regarding the Tax Reform Legislation. See "Tax Reform Accounting Order" herein for additional information.
- (p) Not earning a return as offset in rate base by a corresponding asset or liability.

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Rate RSE

The Alabama PSC has adopted Rate RSE that provides for periodic annual adjustments based upon Alabama Power's projected weighted common equity return (WCER) compared to an allowable range. Rate RSE adjustments are based on forward-looking information for the applicable upcoming calendar year. Rate RSE adjustments for any two-year period, when averaged together, cannot exceed 4.0% and any annual adjustment is limited to 5.0%. When the projected WCER is under the allowed range, there is an adjusting point of 5.98% and eligibility for a performance-based adder of seven basis points, or 0.07%, to the WCER adjusting point if Alabama Power (i) has an "A" credit rating equivalent with at least one of the recognized rating agencies or (ii) is in the top one-third of a designated customer value benchmark survey. If Alabama Power's actual retail return is above the allowed WCER range, the excess will be refunded to customers unless otherwise directed by the Alabama PSC; however, there is no provision for additional customer billings should the actual retail return fall below the WCER range. Prior to January 2019, retail rates remained unchanged when the WCER range was between 5.75% and 6.21%.

At December 31, 2016, Alabama Power's retail return exceeded the allowed WCER range which resulted in Alabama Power establishing a \$73 million Rate RSE refund liability. In accordance with an Alabama PSC order issued in February 2017, Alabama Power applied the full amount of the refund to reduce the under recovered balance of Rate CNP PPA as discussed further below.

Effective in January 2017, Rate RSE increased 4.48%, or \$245 million annually. At December 31, 2017, Alabama Power's actual retail return was within the allowed WCER range. Retail rates under Rate RSE were unchanged for 2018.

In conjunction with Rate RSE, Alabama Power has an established retail tariff that provides for an adjustment to customer billings to recognize the impact of a change in the statutory income tax rate. In accordance with this tariff, Alabama Power returned \$267 million to retail customers through bill credits during 2018 as a result of the change in the federal income tax rate under the Tax Reform Legislation.

On May 1, 2018, the Alabama PSC approved modifications to Rate RSE and other commitments designed to position Alabama Power to address the growing pressure on its credit quality resulting from the Tax Reform Legislation, without increasing retail rates under Rate RSE in the near term. Alabama Power plans to reduce growth in total debt by increasing equity, with corresponding reductions in debt issuances, thereby de-leveraging its capital structure. Alabama Power's goal is to achieve an equity ratio of approximately 55% by the end of 2025. At December 31, 2018, Alabama Power's equity ratio was approximately 47%.

The approved modifications to Rate RSE began for billings in January 2019. The modifications include reducing the top of the allowed WCER range from 6.21% to 6.15% and modifications to the refund mechanism applicable to prior year actual results. The modifications to the refund mechanism allow Alabama Power to retain a portion of the revenue that causes the actual WCER for a given year to exceed the allowed range.

Generally, if Alabama Power's actual WCER is between 6.15% and 7.65%, customers will receive 25% of the amount between 6.15% and 6.65%, 40% of the amount between 6.65% and 7.15%, and 75% of the amount between 7.15% and 7.65%. Customers will receive all amounts in excess of an actual WCER of 7.65%.

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

On November 30, 2018, Alabama Power made its required annual Rate RSE submission to the Alabama PSC of projected data for calendar year 2019. Projected earnings were within the specified range; therefore, retail rates under Rate RSE remain unchanged for 2019.

At December 31, 2018, Alabama Power's retail return exceeded the allowed WCER range, which resulted in Alabama Power establishing a regulatory liability of \$109 million for Rate RSE refunds. In accordance with an Alabama PSC order issued on February 5, 2019, Alabama Power will apply \$75 million to reduce the Rate ECR under recovered balance and the remaining \$34 million will be refunded to customers through bill credits in July through September 2019.

Rate CNP PPA

Alabama Power's retail rates, approved by the Alabama PSC, provide for adjustments under Rate CNP to recognize the placing of new generating facilities into retail service. Alabama Power may also recover retail costs associated with certificated PPAs under Rate CNP PPA. No adjustments to Rate CNP PPA occurred during the period 2016 through 2018 and no adjustment is expected in 2019. At December 31, 2018 and 2017, Alabama Power had an under recovered Rate CNP PPA balance of \$25 million and \$12 million, respectively, which is included in deferred under recovered regulatory clause revenues in the balance sheet.

In accordance with an accounting order issued in February 2017 by the Alabama PSC, Alabama Power eliminated the under recovered balance in Rate CNP PPA at December 31, 2016, which totaled approximately \$142 million. As discussed herein under

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"Rate RSE," Alabama Power utilized the full amount of its \$73 million Rate RSE refund liability to reduce the amount of the Rate CNP PPA under recovery and reclassified the remaining \$69 million to a separate regulatory asset. The amortization of the new regulatory asset through Rate RSE will begin concurrently with the effective date of Alabama Power's next depreciation study, which is expected to occur no later than 2022. Alabama Power's current depreciation study became effective January 1, 2017.

Rate CNP Compliance

Rate CNP Compliance allows for the recovery of Alabama Power's retail costs associated with laws, regulations, and other such mandates directed at the utility industry involving the environment, security, reliability, safety, sustainability, or similar considerations impacting Alabama Power's facilities or operations. Rate CNP Compliance is based on forward-looking information and provides for the recovery of these costs pursuant to a factor that is calculated annually. Compliance costs to be recovered include operations and maintenance expenses, depreciation, and a return on certain invested capital. Revenues for Rate CNP Compliance, as recorded on the financial statements, are adjusted for differences in actual recoverable costs and amounts billed in current regulated rates. Accordingly, changes in the billing factor will have no significant effect on Southern Company's or Alabama Power's revenues or net income, but will affect annual cash flow. Changes in Rate CNP Compliance-related operations and maintenance expenses and depreciation generally will have no effect on Southern Company's or Alabama Power's net income.

In accordance with an accounting order issued in February 2017 by the Alabama PSC, Alabama Power reclassified \$36 million of its under recovered balance in Rate CNP Compliance to a separate regulatory asset. The amortization of the new regulatory asset through Rate RSE will begin concurrently with the effective date of Alabama Power's next depreciation study, which is expected to occur no later than 2022. Alabama Power's current depreciation study became effective January 1, 2017.

In December 2017, the Alabama PSC issued a consent order that Alabama Power leave in effect for 2018 the factors associated with Alabama Power's compliance costs for the year 2017, with any under-collected amount for prior years deemed recovered before any current year amounts.

On November 30, 2018, Alabama Power submitted calculations associated with its cost of complying with environmental mandates, as provided under Rate CNP Compliance. The filing reflected a projected unrecovered retail revenue requirement for environmental compliance of approximately \$205 million, which is being recovered in the billing months of January 2019 through December 2019.

At December 31, 2018, Alabama Power had an under recovered Rate CNP Compliance balance of \$42 million, which is included in customer accounts receivable, and \$17 million at December 31, 2017 included in deferred under recovered regulatory clause revenues in the balance sheet.

Rate ECR

Alabama Power has established energy cost recovery rates under Alabama Power's Rate ECR as approved by the Alabama PSC. Rates are based on an estimate of future energy costs and the current over or under recovered balance. Revenues recognized under Rate ECR and recorded on the financial statements are adjusted for the difference in actual recoverable fuel costs and amounts billed in current regulated rates. The difference in the recoverable fuel costs and amounts billed give rise to the over or under recovered amounts recorded as regulatory assets or liabilities. Alabama Power, along with the Alabama PSC, continually monitors the over or under recovered cost balance to determine whether an adjustment to billing rates is required. Changes in the Rate ECR factor have no significant effect on Southern Company's or Alabama Power's net income, but will impact operating cash flows.

In accordance with an accounting order issued in February 2017 by the Alabama PSC, Alabama Power reclassified \$36 million of its under recovered balance in Rate ECR to a separate regulatory asset. The amortization of the new regulatory asset through Rate RSE will begin concurrently with the effective date of Alabama Power's next depreciation study, which is expected to occur no later than 2022. Alabama Power's current depreciation study became effective January 1, 2017.

In December 2017, the Alabama PSC issued a consent order that Alabama Power leave in effect for 2018 the energy cost recovery rates which began in 2017.

On May 1, 2018, the Alabama PSC approved an increase to Rate ECR from 2.015 cents per KWH to 2.353 cents per KWH effective July 2018 through December 2018. On December 4, 2018, the Alabama PSC issued a consent order to leave this rate in effect through December 31, 2019. This change is expected to increase collections by approximately \$183 million in 2019. Absent any further order from the Alabama PSC, in January 2020, the rates will return to the originally authorized 5.910 cents per KWH.

As discussed herein under "Rate RSE," in accordance with an Alabama PSC order issued on February 5, 2019, Alabama Power will utilize \$75 million of the 2018 Rate RSE refund liability to reduce the Rate ECR under recovered balance.

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At December 31, 2018, Alabama Power's under recovered fuel costs totaled \$109 million, of which \$18 million is included in customer accounts receivable and \$91 million is included in deferred under recovered regulatory clause revenues on Southern Company's and Alabama Power's balance sheets. At December 31, 2017, Alabama Power had an under recovered fuel balance of \$25 million, which was included in deferred under recovered regulatory clause revenues on Southern Company's and Alabama Power's balance sheets. These classifications are based on estimates, which include such factors as weather, generation availability, energy demand, and the price of energy. A change in any of these factors could have a material impact on the timing of any recovery or return of fuel costs.

Tax Reform Accounting Order

On May 1, 2018, the Alabama PSC approved an accounting order that authorized Alabama Power to defer the benefits of federal excess deferred income taxes associated with the Tax Reform Legislation for the year ended December 31, 2018 as a regulatory liability and to use up to \$30 million of such deferrals to offset under recovered amounts under Rate ECR. The estimated deferrals for the year ended December 31, 2018 totaled approximately \$63 million, subject to adjustment following the filing of the 2018 tax return, of which \$30 million was used to offset the Rate ECR under recovered balance and \$33 million is recorded in other regulatory liabilities, deferred on the balance sheet to be used for the benefit of customers as determined by the Alabama PSC at a future date. See Note 10 under "Current and Deferred Income Taxes" for additional information.

Software Accounting Order

On February 5, 2019, the Alabama PSC approved an accounting order that authorizes Alabama Power to establish a regulatory asset for operations and maintenance costs associated with software implementation projects. The regulatory asset will be amortized ratably over the life of the related software.

Rate NDR

Based on an order from the Alabama PSC, Alabama Power maintains a reserve for operations and maintenance expenses to cover the cost of damages from major storms to its transmission and distribution facilities. The order approves a separate monthly Rate NDR charge to customers consisting of two components. The first component is intended to establish and maintain a reserve balance for future storms and is an on-going part of customer billing. When the reserve balance falls below \$50 million, a reserve establishment charge will be activated (and the on-going reserve maintenance charge concurrently suspended) until the reserve balance reaches \$75 million. In December 2017, the reserve maintenance charge was suspended and the reserve establishment charge was activated as a result of the NDR balance falling below \$50 million. Alabama Power expects to collect approximately \$16 million annually until the reserve balance is restored to \$75 million. The NDR balance at December 31, 2018 was \$20 million and is included in other regulatory liabilities, deferred on the balance sheet.

The second component of the Rate NDR charge is intended to allow recovery of any existing deferred storm-related operations and maintenance costs and any future reserve deficits over a 24-month period. The Alabama PSC order gives Alabama Power authority to record a deficit balance in the NDR when costs of storm damage exceed any established reserve balance. Absent further Alabama PSC approval, the maximum total Rate NDR charge consisting of both components is \$10 per month per non-residential customer account and \$5 per month per residential customer account. Alabama Power has the authority, based on an order from the Alabama PSC, to accrue certain additional amounts as circumstances warrant. The order allows for reliability-related expenditures to be charged against the additional accruals when the NDR balance exceeds \$75 million. Alabama Power may designate a portion of the NDR to reliability-related expenditures as a part of an annual budget process for the following year or during the current year for identified unbudgeted reliability-related expenditures that are incurred. Accruals that have not been designated can be used to offset storm charges. Additional accruals to the NDR will enhance Alabama Power's ability to deal with the financial effects of future natural disasters, promote system reliability, and offset costs retail customers would otherwise bear. No such accruals were recorded or designated in any period presented.

As revenue from the Rate NDR charge is recognized, an equal amount of operations and maintenance expenses related to the NDR will also be recognized. As a result, the Rate NDR charge will not have an effect on net income but will impact operating cash flows.

Environmental Accounting Order

Based on an order from the Alabama PSC (Environmental Accounting Order), Alabama Power is allowed to establish a regulatory asset to record the unrecovered investment costs, including the unrecovered plant asset balance and the unrecovered costs associated with site removal and closure associated with future unit retirements caused by environmental regulations. The regulatory asset is being amortized and recovered over the affected unit's remaining useful life, as established prior to the decision regarding early retirement through Rate CNP Compliance. At December 31, 2018, this regulatory asset had a balance of \$42

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million, of which \$10 million is included in other regulatory assets, current and \$32 million is included in other regulatory assets, deferred on the balance sheet.

Subsequent to December 31, 2018, Alabama Power determined that Plant Gorgas Units 8, 9, and 10 (approximately 1,000 MWs) will be retired by April 15, 2019 due to the expected costs of compliance with federal and state environmental regulations. In accordance with the Environmental Accounting Order, approximately \$740 million of net investment costs will be transferred to a regulatory asset at the retirement date and recovered over the affected units' remaining useful lives, as established prior to the decision to retire.

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Georgia Power

Regulatory Assets and Liabilities

Regulatory assets and (liabilities) reflected in the balance sheets of Georgia Power at December 31, 2018 and 2017 relate to:

	2018		2017	Note
	<i>(in millions)</i>			
Retiree benefit plans	\$	1,295	\$ 1,313	(a, l)
Asset retirement obligations		2,644	945	(b, l)
Deferred income tax charges		522	521	(b, c, l)
Storm damage reserves		416	333	(d)
Remaining net book value of retired assets		127	146	(e)
Loss on reacquired debt		277	127	(f, l)
Vacation pay		91	91	(g, l)
Other cost of removal obligations		68	40	(b)
Environmental remediation		55	49	(h)
Other regulatory assets		135	106	(i)
Deferred income tax credits		(3,080)	(3,248)	(b, c)
Customer refunds		(165)	(188)	(j)
Other regulatory liabilities		(7)	(3)	(k, l)
Total regulatory assets (liabilities), net	\$	2,378	\$ 232	

Note: Unless otherwise noted, the recovery and amortization periods for these regulatory assets and (liabilities) are approved by the Georgia PSC and are as follows:

- (a) Recovered and amortized over the average remaining service period which may range up to 14 years. See Note 11 for additional information.
- (b) Through 2019, Georgia Power is recovering approximately \$60 million annually for AROs, which is expected to be adjusted in the Georgia Power 2019 Base Rate Case. Asset retirement and removal liabilities will be settled and trued up following completion of the related activities. See Note 6 for additional information on AROs. Other cost of removal obligations and deferred income tax assets are recovered and deferred income tax liabilities are amortized over the related property lives, which may range up to 65 years. Included in the deferred income tax assets is \$17 million for the retiree Medicare drug subsidy, which is being recovered and amortized through 2022.
- (c) As a result of the Tax Reform Legislation, these balances include \$145 million of deferred income tax assets related to CWIP for Plant Vogtle Units 3 and 4 and approximately \$610 million of deferred income tax liabilities, neither of which are subject to normalization. The recovery and amortization of these amounts is expected to be determined in the Georgia Power 2019 Base Rate Case. See "Rate Plans" herein and Note 10 for additional information.
- (d) Through 2019, Georgia Power is recovering approximately \$30 million annually for storm damage, which is expected to be adjusted in the Georgia Power 2019 Base Rate Case. See "Storm Damage Recovery" herein and Note 1 under "Storm Damage Reserves" for additional information.
- (e) The net book value of Plant Branch Units 1 through 4 at December 31, 2018 was \$87 million, which is being amortized over the units' remaining useful lives through 2024. The net book value of Plant Mitchell Unit 3 at December 31, 2018 was \$9 million, which will continue to be amortized through December 31, 2019 as provided in the 2013 ARP. Amortization of the remaining approximately \$4 million net book value of Plant Mitchell Unit 3 at December 31, 2019 and a total of approximately \$31 million related to obsolete inventories of certain retired units is expected to be determined in the Georgia Power 2019 Base Rate Case. See "Integrated Resource Plan" herein for additional information.
- (f) Recovered over either the remaining life of the original issue or, if refinanced, over the remaining life of the new issue, which currently does not exceed 34 years.
- (g) Recorded as earned by employees and recovered as paid, generally within one year. This includes both vacation and banked holiday pay.
- (h) Through 2019, Georgia Power is recovering approximately \$2 million annually for environmental remediation, which is expected to be adjusted in the Georgia Power 2019 Base Rate Case. See Note 3 under Environmental Remediation for additional information.
- (i) Comprised of several components including future generation costs, deferred nuclear outage costs, cancelled construction projects, building lease, and fuel-hedging losses. The timing of recovery of approximately \$50 million for a future generation site is expected to be determined in the Georgia Power 2019 Base Rate Case. Nuclear outage costs are recorded and recovered or amortized over the outage cycles of each nuclear unit, which do not exceed 24 months. Approximately \$30 million of costs associated with construction of environmental controls that will not be completed as a result of unit retirements are being amortized through 2022. The building lease is recorded and recovered or amortized through 2020. Fuel-hedging losses are recovered through Georgia Power's fuel cost recovery mechanism upon final settlement. See "Integrated Resource Plan" herein for additional information on future generation costs.
- (j) At December 31, 2018, approximately \$55 million was accrued and outstanding for refund pursuant to the Georgia Power Tax Reform Settlement Agreement and approximately \$100 million was accrued for refund, subject to review and approval by the Georgia PSC, as a result of the 2018 retail ROE exceeding the allowed retail ROE range. See "Rate Plans" herein for additional information.
- (k) Comprised of Demand-Side Management (DSM) tariff over recovery and fuel-hedging gains. The amortization of DSM tariff over recovery of \$3 million at December 31, 2018 is expected to be determined in the Georgia Power 2019 Base Rate Case. Fuel-hedging gains are refunded through Georgia Power's fuel cost recovery mechanism upon final settlement. See "Rate Plans" herein for additional information on customer refunds and DSM tariffs.
- (l) Generally not earning a return as they are excluded from rate base or are offset in rate base by a corresponding asset or liability.

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Rate Plans

Pursuant to the terms and conditions of a settlement agreement related to Southern Company's acquisition of Southern Company Gas approved by the Georgia PSC in 2016, the 2013 ARP will continue in effect until December 31, 2019, and Georgia Power will be required to file its next base rate case by July 1, 2019. Furthermore, through December 31, 2019, Georgia Power will retain its merger savings, net of transition costs, as defined in the settlement agreement; through December 31, 2022, such net merger savings will be shared on a 60/40 basis with customers; thereafter, all merger savings will be retained by customers.

There were no changes to Georgia Power's traditional base tariff rates, Environmental Compliance Cost Recovery (ECCR) tariff, DSM tariffs, or Municipal Franchise Fee tariff in 2017 or 2018.

Under the 2013 ARP, Georgia Power's retail ROE is set at 10.95% and earnings are evaluated against a retail ROE range of 10.00% to 12.00%. Two-thirds of any earnings above 12.00% will be directly refunded to customers, with the remaining one-third retained by Georgia Power. There will be no recovery of any earnings shortfall below 10.00% on an actual basis. In 2016, Georgia Power's retail ROE exceeded 12.00%, and Georgia Power refunded to retail customers in 2018 approximately \$40 million as approved by the Georgia PSC. On February 5, 2019, the Georgia PSC approved a settlement between Georgia Power and the staff of the Georgia PSC under which Georgia Power's retail ROE for 2017 was stipulated to exceed 12.00% and Georgia Power will reduce certain regulatory assets by approximately \$4 million in lieu of providing refunds to retail customers. In 2018, Georgia Power's retail ROE exceeded 12.00%, and Georgia Power accrued approximately \$100 million to refund to retail customers, subject to review and approval by the Georgia PSC.

On April 3, 2018, the Georgia PSC approved the Georgia Power Tax Reform Settlement Agreement. Pursuant to the Georgia Power Tax Reform Settlement Agreement, to reflect the federal income tax rate reduction impact of the Tax Reform Legislation, Georgia Power will refund to customers a total of \$330 million through bill credits. Georgia Power issued bill credits of approximately \$130 million in 2018 and will issue bill credits of approximately \$95 million in June 2019 and \$105 million in February 2020. In addition, Georgia Power is deferring as a regulatory liability (i) the revenue equivalent of the tax expense reduction resulting from legislation lowering the Georgia state income tax rate from 6.00% to 5.75% in 2019 and (ii) the entire benefit of federal and state excess accumulated deferred income taxes, which is expected to total approximately \$700 million at December 31, 2019. At December 31, 2018, the related regulatory liability balance totaled \$610 million. The amortization of these regulatory liabilities is expected to be addressed in the Georgia Power 2019 Base Rate Case. If there is not a base rate case in 2019, customers will receive \$185 million in annual bill credits beginning in 2020, with any additional federal and state income tax savings deferred as a regulatory liability, until Georgia Power's next base rate case.

To address some of the negative cash flow and credit quality impacts of the Tax Reform Legislation, the Georgia PSC also approved an increase in Georgia Power's retail equity ratio to the lower of (i) Georgia Power's actual common equity weight in its capital structure or (ii) 55%, until the Georgia Power 2019 Base Rate Case. At December 31, 2018, Georgia Power's actual retail common equity ratio (on a 13-month average basis) was approximately 55%. Benefits from reduced federal income tax rates in excess of the amounts refunded to customers will be retained by Georgia Power to cover the carrying costs of the incremental equity in 2018 and 2019.

Integrated Resource Plan

In 2016, the Georgia PSC approved Georgia Power's triennial Integrated Resource Plan (2016 IRP) including the reclassification of the remaining net book value of Plant Mitchell Unit 3 and costs associated with materials and supplies remaining at the unit retirement date to a regulatory asset. Recovery of the unit's net book value will continue through December 31, 2019, as provided in the 2013 ARP. The timing of the recovery of the remaining balance of the unit's net book value as of December 31, 2019 and costs associated with materials and supplies remaining at the unit retirement date was deferred for consideration in the Georgia Power 2019 Base Rate Case.

In the 2016 IRP, the Georgia PSC also approved recovery of costs up to \$99 million through June 30, 2019 to preserve nuclear generation as an option at a future generation site in Stewart County, Georgia. In March 2017, the Georgia PSC approved Georgia Power's decision to suspend work at the site due to changing economics, including lower load forecasts and fuel costs. The timing of recovery for costs incurred of approximately \$50 million is expected to be determined by the Georgia PSC in the Georgia Power 2019 Base Rate Case.

On January 31, 2019, Georgia Power filed its triennial IRP (2019 IRP). The filing includes a request to decertify and retire Plant Hammond Units 1 through 4 (840 MWs) and Plant McIntosh Unit 1 (142.5 MWs) upon approval of the 2019 IRP.

In the 2019 IRP, Georgia Power requested approval to reclassify the remaining net book value of Plant Hammond Units 1 through 4 (approximately \$520 million at December 31, 2018) upon retirement to a regulatory asset to be amortized ratably over a period equal to the applicable unit's remaining useful life through 2035. For Plant McIntosh Unit 1, Georgia Power requested approval to

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reclassify the remaining net book value (approximately \$40 million at December 31, 2018) upon retirement to a regulatory asset to be amortized over a three-year period to be determined in the Georgia Power 2019 Base Rate Case. Georgia Power also requested approval to reclassify any unusable material and supplies inventory balances remaining at the applicable unit's retirement date to a regulatory asset for recovery over a period to be determined in the Georgia Power 2019 Base Rate Case.

The 2019 IRP also includes a request to certify approximately 25 MWs of capacity at Plant Scherer Unit 3 for the retail jurisdiction beginning January 1, 2020, following the expiration of a wholesale PPA.

The 2019 IRP also includes details regarding ARO costs associated with ash pond and landfill closures and post-closure care. Georgia Power requested the timing and rate of recovery of these costs be determined by the Georgia PSC in the Georgia Power 2019 Base Rate Case. See Note 6 for additional information regarding Georgia Power's AROs.

Georgia Power also requested approval to issue two capacity-based requests for proposals (RFP). If approved, the first capacity-based RFP will seek resources that can provide capacity beginning in 2022 or 2023 and the second capacity-based RFP will seek resources that can provide capacity beginning in 2026, 2027, or 2028. Additionally, the 2019 IRP includes a request to procure an additional 1,000 MWs of renewable resources through a competitive bidding process. Georgia Power also proposed to invest in a portfolio of up to 50 MWs of battery energy storage technologies.

A decision from the Georgia PSC on the 2019 IRP is expected in mid-2019.

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

Fuel Cost Recovery

Georgia Power has established fuel cost recovery rates approved by the Georgia PSC. In 2016, the Georgia PSC approved Georgia Power's request to lower annual billings under an interim fuel rider by approximately \$313 million effective June 1, 2016, which expired on December 31, 2017. On August 16, 2018, the Georgia PSC approved the deferral of Georgia Power's next fuel case to no later than March 16, 2020, with new rates, if any, to be effective June 1, 2020. Georgia Power continues to be allowed to adjust its fuel cost recovery rates under an interim fuel rider prior to the next fuel case if the under or over recovered fuel balance exceeds \$200 million. Georgia Power's under recovered fuel balance totaled \$115 million and \$165 million at December 31, 2018 and 2017, respectively, and is included in under recovered fuel clause revenues on Southern Company's and Georgia Power's balance sheets.

Georgia Power's fuel cost recovery mechanism includes costs associated with a natural gas hedging program, as revised and approved by the Georgia PSC, allowing the use of an array of derivative instruments within a 48-month time horizon.

Fuel cost recovery revenues as recorded on the financial statements are adjusted for differences in actual recoverable fuel costs and amounts billed in current regulated rates. Accordingly, changes in the billing factor will not have a significant effect on Southern Company's or Georgia Power's revenues or net income, but will affect operating cash flows.

Storm Damage Recovery

Georgia Power defers and recovers certain costs related to damages from major storms as mandated by the Georgia PSC. Beginning January 1, 2014, Georgia Power is accruing \$30 million annually under the 2013 ARP that is recoverable through base rates. At December 31, 2018 and 2017, the balance in the regulatory asset related to storm damage was \$416 million and \$333 million, respectively, with \$30 million included in other regulatory assets, current for each year and \$386 million and \$303 million included in other regulatory assets, deferred, respectively. During October 2018, Hurricane Michael caused significant damage to Georgia Power's transmission and distribution facilities. The incremental restoration costs related to this hurricane deferred in the regulatory asset for storm damage totaled approximately \$115 million. Hurricanes Irma and Matthew also caused significant damage to Georgia Power's transmission and distribution facilities during September 2017 and October 2016, respectively. The incremental restoration costs related to Hurricanes Irma and Matthew deferred in the regulatory asset for storm damage totaled approximately \$250 million. The rate of storm damage cost recovery is expected to be adjusted as part of the Georgia Power 2019 Base Rate Case and further adjusted in future regulatory proceedings as necessary. The ultimate outcome of this matter cannot be determined at this time.

Nuclear Construction

In 2009, the Georgia PSC certified construction of Plant Vogtle Units 3 and 4. Georgia Power holds a 45.7% ownership interest in Plant Vogtle Units 3 and 4. In 2012, the NRC issued the related combined construction and operating licenses, which allowed full construction of the two AP1000 nuclear units (with electric generating capacity of approximately 1,100 MWs each) and related facilities to begin. Until March 2017, construction on Plant Vogtle Units 3 and 4 continued under the Vogtle 3 and 4 Agreement,

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which was a substantially fixed price agreement. In March 2017, the EPC Contractor filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code.

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

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

Cost and Schedule

Georgia Power's approximate proportionate share of the remaining estimated capital cost to complete Plant Vogtle Units 3 and 4 by the expected in-service dates of November 2021 and November 2022, respectively, is as follows:

	<i>(in billions)</i>	
Base project capital cost forecast ^{(a)(b)}	\$	8.0
Construction contingency estimate		0.4
<hr/> Total project capital cost forecast ^{(a)(b)}		<hr/> 8.4
Net investment as of December 31, 2018 ^(b)		(4.6)
Remaining estimate to complete^(a)	\$	3.8

(a) Excludes financing costs expected to be capitalized through AFUDC of approximately \$315 million.

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

Georgia Power estimates that its financing costs for construction of Plant Vogtle Units 3 and 4 will total approximately \$3.1 billion, of which \$1.9 billion had been incurred through December 31, 2018.

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

Georgia Power and Southern Nuclear believe it is a leading practice in connection with a construction project of this size and complexity to periodically validate recent construction progress in comparison to the projected schedule and to verify and update quantities of commodities remaining to install, labor productivity, and forecasted staffing needs. This verification process, led by Southern Nuclear, was underway as of December 31, 2018 and is expected to be completed during the second quarter 2019. Georgia Power currently does not anticipate any material changes to the total estimated project capital cost forecast for Plant Vogtle Units 3 and 4 or the expected in-service dates of November 2021 and November 2022, respectively, resulting from this verification process. However, the ultimate impact on cost and schedule, if any, will not be known until the verification process is completed. Georgia Power is required to report the results and any project impacts to the Georgia PSC by May 15, 2019.

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

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

Joint Owner Contracts

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

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

Amendments to the Vogtle Joint Ownership Agreements

In connection with the vote to continue construction, Georgia Power entered into (i) a binding term sheet (Vogtle Owner Term Sheet) with the other Vogtle Owners and MEAG's wholly-owned subsidiaries MEAG Power SPVJ, LLC (MEAG SPVJ), MEAG Power SPVM, LLC (MEAG SPVM), and MEAG Power SPVP, LLC (MEAG SPVP) to take certain actions which partially mitigate potential financial exposure for the other Vogtle Owners, including additional amendments to the Vogtle Joint Ownership Agreements and the purchase of PTCs from the other Vogtle Owners, and (ii) a term sheet (MEAG Term Sheet) with MEAG and MEAG SPVJ to provide funding with respect to MEAG SPVJ's ownership interest in Plant Vogtle Units 3 and 4 (Project J) under certain circumstances. On January 14, 2019, Georgia Power, MEAG, and MEAG SPVJ entered into an agreement to implement the provisions of the MEAG Term Sheet (MEAG Funding Agreement). On February 18, 2019, Georgia Power, the other Vogtle Owners, and MEAG's wholly-owned subsidiaries MEAG SPVJ, MEAG SPVM, and MEAG SPVP entered into certain amendments to the Vogtle Joint Ownership Agreements to implement the provisions of the Vogtle Owner Term Sheet (Global Amendments).

Pursuant to the Global Amendments, and consistent with the Vogtle Owner Term Sheet, the Vogtle Joint Ownership Agreements were modified as follows: (i) each Vogtle Owner must pay its proportionate share of qualifying construction costs for Plant Vogtle Units 3 and 4 based on its ownership percentage up to the estimated cost at completion (EAC) for Plant Vogtle Units 3 and 4 which formed the basis of Georgia Power's forecast of \$8.4 billion in the nineteenth VCM plus \$800 million; (ii) Georgia Power will be responsible for 55.7% of actual qualifying construction costs between \$800 million and \$1.6 billion over the EAC in the nineteenth VCM (resulting in \$80 million of potential additional costs to Georgia Power), with the remaining Vogtle Owners responsible for 44.3% of such costs pro rata in accordance with their respective ownership interests; and (iii) Georgia Power will be responsible for 65.7% of qualifying construction costs between \$1.6 billion and \$2.1 billion over the EAC in the nineteenth VCM (resulting in a further \$100 million of potential additional costs to Georgia Power), with the remaining Vogtle Owners responsible for 34.3% of such costs pro rata in accordance with their respective ownership interests.

If the EAC is revised and exceeds the EAC in the nineteenth VCM by more than \$2.1 billion, each of the other Vogtle Owners will have a one-time option at the time the project budget forecast is so revised to tender a portion of its ownership interest to

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

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

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

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

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

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

Purchase of PTCs During Commercial Operation

Pursuant to the Global Amendments, and consistent with the Vogtle Owner Term Sheet, Georgia Power has agreed to purchase additional PTCs from OPC, Dalton, MEAG SPVM, MEAG SPVP, and MEAG SPVJ (to the extent any MEAG SPVJ PTC rights remain after any purchases required under the MEAG Funding Agreement as described below) at varying purchase prices dependent upon the actual cost to complete construction of Plant Vogtle Units 3 and 4 as compared to the EAC reflected in the nineteenth VCM report. The purchases are at the option of the applicable Vogtle Owner.

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Potential Funding to MEAG Project J

Pursuant to the MEAG Funding Agreement, and consistent with the MEAG Term Sheet, if MEAG SPVJ is unable to make its payments due under the Vogtle Joint Ownership Agreements solely as a result of the occurrence of one of the following situations that materially impedes access to capital markets for MEAG for Project J: (i) the conduct of JEA or the City of Jacksonville, such as JEA's legal challenges of its obligations under a PPA with MEAG (PPA-J), or (ii) PPA-J is declared void by a court of competent jurisdiction or rejected by JEA under the applicable provisions of the U.S. Bankruptcy Code (each of (i) and (ii), a JEA Default), at MEAG's request, Georgia Power will purchase from MEAG SPVJ the rights to PTCs attributable to MEAG SPVJ's share of Plant Vogtle Units 3 and 4 (approximately 206 MWs) within 30 days of such request at varying prices dependent upon the stage of construction of Plant Vogtle Units 3 and 4. The aggregate purchase price of the PTCs, together with any advances made as described in the next paragraph, shall not exceed \$300 million.

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

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

Under the terms of the MEAG Funding Agreement, Georgia Power may cancel the project in lieu of providing funding in the form of advances or PTC purchases.

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

Regulatory Matters

In 2009, the Georgia PSC voted to certify construction of Plant Vogtle Units 3 and 4 with a certified capital cost of \$4.418 billion. In addition, in 2009 the Georgia PSC approved inclusion of the Plant Vogtle Units 3 and 4 related CWIP accounts in rate base, and the State of Georgia enacted the Georgia Nuclear Energy Financing Act, which allows Georgia Power to recover financing costs for Plant Vogtle Units 3 and 4. Financing costs are recovered on all applicable certified costs through annual adjustments to the NCCR tariff up to the certified capital cost of \$4.418 billion. At December 31, 2018, Georgia Power had recovered approximately \$1.9 billion of financing costs. Financing costs related to capital costs above \$4.418 billion will be recovered through AFUDC; however, Georgia Power will not record AFUDC related to any capital costs in excess of the total deemed reasonable by the Georgia PSC (currently \$7.3 billion) and not requested for rate recovery. On December 18, 2018, the Georgia PSC approved Georgia Power's request to increase the NCCR tariff by \$88 million annually, effective January 1, 2019.

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

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

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Power's revised schedule placing Plant Vogtle Units 3 and 4 in service in November 2021 and November 2022, respectively; (vi) confirmed that the revised cost forecast does not represent a cost cap and that prudence decisions on cost recovery will be made at a later date, consistent with applicable Georgia law; (vii) reduced the ROE used to calculate the NCCR tariff (a) from 10.95% (the ROE rate setting point authorized by the Georgia PSC in the 2013 ARP) to 10.00% effective January 1, 2016, (b) from 10.00% to 8.30%, effective January 1, 2020, and (c) from 8.30% to 5.30%, effective January 1, 2021 (provided that the ROE in no case will be less than Georgia Power's average cost of long-term debt); (viii) reduced the ROE used for AFUDC equity for Plant Vogtle Units 3 and 4 from 10.00% to Georgia Power's average cost of long-term debt, effective January 1, 2018; and (ix) agreed that upon Unit 3 reaching commercial operation, retail base rates would be adjusted to include carrying costs on those capital costs deemed prudent in the Vogtle Cost Settlement Agreement. The January 11, 2018 order also stated that if Plant Vogtle Units 3 and 4 are not commercially operational by June 1, 2021 and June 1, 2022, respectively, the ROE used to calculate the NCCR tariff will be further reduced by 10 basis points each month (but not lower than Georgia Power's average cost of long-term debt) until the respective Unit is commercially operational. The ROE reductions negatively impacted earnings by approximately \$100 million, \$25 million, and \$20 million in 2018, 2017, and 2016, respectively, and are estimated to have negative earnings impacts of approximately \$75 million in 2019 and an aggregate of approximately \$615 million from 2020 to 2022.

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

On February 12, 2018, Georgia Interfaith Power & Light, Inc. (GIPL) and Partnership for Southern Equity, Inc. (PSE) filed a petition appealing the Georgia PSC's January 11, 2018 order with the Fulton County Superior Court. On March 8, 2018, Georgia Watch filed a similar appeal to the Fulton County Superior Court for judicial review of the Georgia PSC's decision and denial of Georgia Watch's motion for reconsideration. On December 21, 2018, the Fulton County Superior Court granted Georgia Power's motion to dismiss the two appeals. On January 9, 2019, GIPL, PSE, and Georgia Watch filed an appeal of this decision with the Georgia Court of Appeals. Georgia Power believes the appeal has no merit; however, an adverse outcome in the appeal combined with subsequent adverse action by the Georgia PSC could have a material impact on Southern Company's and Georgia Power's results of operations, financial condition, and liquidity.

In preparation for its nineteenth VCM filing, Georgia Power requested Southern Nuclear to perform a full cost reforecast for the project. This reforecast, performed prior to the nineteenth VCM filing, resulted in a \$0.7 billion increase to the base capital cost forecast reported in the second quarter 2018. This base cost increase primarily resulted from changed assumptions related to the finalization of contract scopes and management responsibilities for Bechtel and over 60 subcontractors, labor productivity rates, and craft labor incentives, as well as the related levels of project management, oversight, and support, including field supervision and engineering support.

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

On August 31, 2018, Georgia Power filed its nineteenth VCM report with the Georgia PSC, which requested approval of \$578 million of construction capital costs incurred from January 1, 2018 through June 30, 2018. On February 19, 2019, the Georgia PSC approved the nineteenth VCM, but deferred approval of \$51.6 million of expenditures related to Georgia Power's portion of an administrative claim filed in the Westinghouse bankruptcy proceedings. Through the nineteenth VCM, the Georgia PSC has approved total construction capital costs incurred through June 30, 2018 of \$5.4 billion (before \$1.7 billion of payments received under the Guarantee Settlement Agreement and approximately \$188 million in related Customer Refunds). In addition, the staff of the Georgia PSC requested, and Georgia Power agreed, to file its twentieth VCM report concurrently with the twenty-first VCM report by August 31, 2019.

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

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DOE Financing

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

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

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Mississippi Power

Regulatory Assets and Liabilities

Regulatory assets and (liabilities) reflected in the balance sheets of Mississippi Power at December 31, 2018 and 2017 relate to:

	2018	2017	Note
	<i>(in millions)</i>		
Retiree benefit plans – regulatory assets	\$ 171	\$ 174	(a)
Asset retirement obligations	143	95	(b)
Kemper County energy facility assets, net	69	88	(c)
Remaining net book value of retired assets	41	44	(d)
Property tax	44	43	(e)
Deferred charges related to income taxes	34	36	(b)
Plant Daniel Units 3 and 4	36	36	(f)
ECO carryforward	26	26	(g)
Other regulatory assets	28	28	(h)
Deferred credits related to income taxes	(377)	(377)	(i)
Other cost of removal obligations	(185)	(178)	(b)
Property damage	(56)	(57)	(j)
Other regulatory liabilities	(9)	—	(k)
Total regulatory assets (liabilities), net	\$ (35)	\$ (42)	

Note: Unless otherwise noted, the recovery and amortization periods for these regulatory assets and (liabilities) are approved by the Mississippi PSC and are as follows:

- (a) Recovered and amortized over the average remaining service period which may range up to 15 years. See Note 11 for additional information.
- (b) Asset retirement and other cost of removal obligations and deferred charges related to income taxes are generally recovered over the related property lives, which may range up to 48 years. Asset retirement and other cost of removal obligations will be settled and tried up upon completion of removal activities over a period to be determined by the Mississippi PSC.
- (c) Includes \$91 million of regulatory assets and \$22 million of regulatory liabilities. The retail portion includes \$75 million of regulatory assets and \$22 million of regulatory liabilities that are being recovered in rates over an eight-year period through 2025 and a six-year period through 2023, respectively. Recovery of the wholesale portion of the regulatory assets in the amount of \$16 million is expected to be determined in a settlement agreement with wholesale customers in 2019. For additional information, see "Kemper County Energy Facility – Rate Recovery – Kemper Settlement Agreement" herein.
- (d) Retail portion includes approximately \$26 million being recovered over a five-year period through 2021 and 2022 for Plant Watson and Plant Greene County, respectively. Recovery of the wholesale portion of approximately \$15 million is expected to be determined in a settlement agreement with wholesale customers in 2019.
- (e) Recovered through the ad valorem tax adjustment clause over a 12-month period beginning in April of the following year. See "Ad Valorem Tax Adjustment" herein for additional information.
- (f) Represents the difference between the revenue requirement under the purchase option and the revenue requirement assuming operating lease accounting treatment for the extended term, which will be amortized over a 10-year period beginning October 2021.
- (g) Generally recovered through the ECO Plan clause in the year following the deferral. See "Environmental Compliance Plan" herein.
- (h) Comprised of \$9 million related to vacation pay, \$8 million related to loss on reacquired debt, and other miscellaneous assets. These costs are recorded and recovered or amortized over periods which may range up to 50 years. This amount also includes fuel-hedging assets which are recorded over the life of the underlying hedged purchase contracts, which generally do not exceed three years. Upon final settlement, actual costs incurred are recovered through the ECM.
- (i) Includes excess deferred income taxes primarily associated with Tax Reform Legislation of \$377 million, of which \$266 million is related to protected deferred income taxes to be recovered over the related property lives utilizing the average rate assumption method in accordance with IRS normalization principles and \$111 million related to unprotected (not subject to normalization). The unprotected portion associated with the Kemper County energy facility is \$46 million, of which \$33 million is being amortized over eight years through 2025 for retail and the amortization of \$15 million is expected to be determined in a settlement agreement with wholesale customers in 2019. Mississippi Power also has \$9 million of excess deferred income tax benefits associated with the System Restoration Rider being amortized over an eight-year period through 2025. Amortization of the remaining portions of the unprotected deferred income taxes associated with the Tax Reform Legislation are expected to be determined in Mississippi Power's next base rate proceeding, which is scheduled to be filed in the fourth quarter 2019 (Mississippi Power 2019 Base Rate Case). See "Kemper County Energy Facility" and "FERC Matters – Mississippi Power – Municipal and Rural Associations Tariff" herein and Note 10 for additional information.
- (j) For additional information, see "System Restoration Rider" herein.
- (k) Comprised of numerous immaterial components including deferred income tax credits and other miscellaneous liabilities that are recorded and refunded or amortized generally over periods not exceeding one year.

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Operations Review

In August 2018, the Mississippi PSC began an operations review of Mississippi Power, for which the final report is expected prior to the conclusion of the Mississippi Power 2019 Base Rate Case. Mississippi Power expects that the review will include, but not be limited to, a comparative analysis of its costs, its cost recovery framework, and ways in which it may streamline management operations for the reasonable benefit of ratepayers. The ultimate outcome of this matter cannot be determined at this time.

Performance Evaluation Plan

Mississippi Power's retail base rates generally are set under the PEP, a rate plan approved by the Mississippi PSC. Two filings are made for each calendar year: the PEP projected filing, which is typically filed prior to the beginning of the year based on a projected revenue requirement, and the PEP lookback filing, which is filed after the end of the year and allows for review of the actual revenue requirement compared to the projected filing.

In 2011, Mississippi Power submitted its annual PEP lookback filing for 2010, which recommended no surcharge or refund. Later in 2011, the MPUS disputed certain items in the 2010 PEP lookback filing. In 2012, the Mississippi PSC issued an order canceling Mississippi Power's PEP lookback filing for 2011. In 2013, the MPUS contested Mississippi Power's PEP lookback filing for 2012, which indicated a refund due to customers of \$5 million. In 2014 through 2018, Mississippi Power submitted its annual PEP lookback filings for the prior years, which for each of 2013, 2014, and 2017 indicated no surcharge or refund and for each of 2015 and 2016 indicated a \$5 million surcharge. Additionally, in July 2016, in November 2016, and in November 2017, Mississippi Power submitted its annual projected PEP filings for 2016, 2017, and 2018, respectively, which for 2016 and 2017 indicated no change in rates and for 2018 indicated a rate increase of 4%, or \$38 million in annual revenues. The Mississippi PSC suspended each of these filings to allow more time for review.

On February 7, 2018, Mississippi Power revised its annual projected PEP filing for 2018 to reflect the impacts of the Tax Reform Legislation. The revised filing requested an increase of \$26 million in annual revenues, based on a performance adjusted ROE of 9.33% and an increased equity ratio of 55%. On July 27, 2018, Mississippi Power and the MPUS entered into a settlement agreement, which was approved by the Mississippi PSC on August 7, 2018, with respect to the 2018 PEP filing and all unresolved PEP filings for prior years (PEP Settlement Agreement). Rates under the PEP Settlement Agreement became effective with the first billing cycle of September 2018. The PEP Settlement Agreement provides for an increase of approximately \$21.6 million in annual base retail revenues, which excludes certain compensation costs contested by the MPUS, as well as approximately \$2 million which was subsequently approved for recovery through the 2018 Energy Efficiency Cost Rider as discussed below. Under the PEP Settlement Agreement, Mississippi Power is deferring the contested compensation costs for 2018 and 2019 as a regulatory asset, which totaled \$4 million as of December 31, 2018 and is included in other regulatory assets, deferred on the balance sheet. The Mississippi PSC is currently expected to rule on the appropriate treatment for such costs in connection with the Mississippi Power 2019 Base Rate Case. The ultimate outcome of this matter cannot be determined at this time.

Pursuant to the PEP Settlement Agreement, Mississippi Power's performance-adjusted allowed ROE is 9.31% and its allowed equity ratio is capped at 51%, pending further review by the Mississippi PSC. In lieu of the requested equity ratio increase, Mississippi Power retained \$44 million of excess accumulated deferred income taxes resulting from the Tax Reform Legislation until the conclusion of the Mississippi Power 2019 Base Rate Case. Further, Mississippi Power agreed to seek equity contributions sufficient to restore its equity ratio to 50% by December 31, 2018. Since Mississippi Power's actual average equity ratio for 2018 was more than 1% lower than the 50% target, Mississippi Power deferred the corresponding difference in its revenue requirement of approximately \$4 million as a regulatory liability for resolution in the Mississippi Power 2019 Base Rate Case. Pursuant to the PEP Settlement Agreement, PEP proceedings are suspended until after the conclusion of the Mississippi Power 2019 Base Rate Case and Mississippi Power is not required to make any PEP filings for regulatory years 2018, 2019, and 2020. The PEP Settlement Agreement also resolved all open PEP filings with no change to customer rates. As a result, in the third quarter 2018, Mississippi Power recognized revenues of \$5 million previously reserved in connection with the 2012 PEP lookback filing.

Energy Efficiency

In 2013, the Mississippi PSC approved an energy efficiency and conservation rule requiring electric and gas utilities in Mississippi serving more than 25,000 customers to implement energy efficiency programs and standards. Quick Start Plans, which include a portfolio of energy efficiency programs that are intended to provide benefits to a majority of customers, were extended by an order issued by the Mississippi PSC in July 2016, until the time the Mississippi PSC approves a comprehensive portfolio plan program. The ultimate outcome of this matter cannot be determined at this time.

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On May 8, 2018, the Mississippi PSC issued an order approving Mississippi Power's revised annual projected Energy Efficiency Cost Rider 2018 compliance filing, which increased annual retail revenues by approximately \$3 million effective with the first billing cycle for June 2018.

On February 5, 2019, the Mississippi PSC issued an order approving Mississippi Power's Energy Efficiency Cost Rider 2019 compliance filing, which included a slight decrease in annual retail revenues, effective with the first billing cycle in March 2019.

Environmental Compliance Overview Plan

In accordance with a 2011 accounting order from the Mississippi PSC, Mississippi Power has the authority to defer in a regulatory asset for future recovery all plant retirement- or partial retirement-related costs resulting from environmental regulations. The Mississippi PSC approved \$41 million and \$17 million of costs that were reclassified to regulatory assets associated with the fuel conversion of Plant Watson and Plant Greene County, respectively, for amortization over five-year periods that began in July 2016 and July 2017, respectively. As a result, these decisions are not expected to have a material impact on Mississippi Power's financial statements.

In August 2016, the Mississippi PSC approved Mississippi Power's revised ECO Plan filing for 2016, which requested the maximum 2% annual increase in revenues, or approximately \$18 million, primarily related to the Plant Daniel Units 1 and 2 scrubbers placed in service in 2015. The revised rates became effective with the first billing cycle for September 2016. Approximately \$22 million of related revenue requirements in excess of the 2% maximum was deferred for inclusion in the 2017 filing, along with related carrying costs.

In May 2017, the Mississippi PSC approved Mississippi Power's ECO Plan filing for 2017, which requested the maximum 2% annual increase in revenues, or approximately \$18 million, primarily related to the carryforward from the prior year. The rates became effective with the first billing cycle for June 2017. Approximately \$26 million, plus carrying costs, of related revenue requirements in excess of the 2% maximum was deferred for inclusion in the 2018 filing.

On February 14, 2018, Mississippi Power submitted its ECO Plan filing for 2018, including the effects of the Tax Reform Legislation, which requested the maximum 2% annual increase in revenues, or approximately \$17 million, primarily related to the carryforward from the prior year.

On August 3, 2018, Mississippi Power and the MPUS entered into the ECO Settlement Agreement, which provides for an increase of approximately \$17 million in annual base retail revenues and was approved by the Mississippi PSC on August 7, 2018. Rates under the ECO Settlement Agreement became effective with the first billing cycle of September 2018 and will continue in effect until modified by the Mississippi PSC. These revenues are expected to be sufficient to recover the costs included in Mississippi Power's request for 2018, as well as the remaining deferred amounts, totaling \$26 million at December 31, 2018, along with the related carrying costs. In accordance with the ECO Settlement Agreement, ECO Plan proceedings are suspended until after the conclusion of the Mississippi Power 2019 Base Rate Case and Mississippi Power is not required to make any ECO Plan filings for 2018, 2019, and 2020, with any necessary adjustments to be reflected in the Mississippi Power 2019 Base Rate Case. The ECO Settlement Agreement contains the same terms as the PEP Settlement Agreement described herein with respect to allowed ROE and equity ratio. At December 31, 2018, Mississippi Power has recorded \$2 million in other regulatory liabilities, deferred on the balance sheet related to the actual December 31, 2018 average equity ratio differential from target applicable to the ECO Plan.

Fuel Cost Recovery

Mississippi Power establishes, annually, a retail fuel cost recovery factor that is approved by the Mississippi PSC. Mississippi Power is required to file for an adjustment to the retail fuel cost recovery factor annually. In January 2017, the Mississippi PSC approved the 2017 retail fuel cost recovery factor, effective February 2017 through January 2018, which resulted in an annual revenue increase of \$55 million. On January 16, 2018, the Mississippi PSC approved the 2018 retail fuel cost recovery factor, effective February 2018 through January 2019, which resulted in an annual revenue increase of \$39 million. At December 31, 2018, the amount of over recovered retail fuel costs included in the balance sheet in other accounts payable was approximately \$8 million compared to \$6 million under recovered at December 31, 2017. On January 10, 2019, the Mississippi PSC approved the 2019 retail fuel cost recovery factor, effective February 2019, which results in a \$35 million decrease in annual revenues as a result of lower expected fuel costs.

Mississippi Power's operating revenues are adjusted for differences in actual recoverable fuel cost and amounts billed in accordance with the currently approved cost recovery rate. Accordingly, changes in the billing factor should have no significant effect on Southern Company's or Mississippi Power's revenues or net income but will affect operating cash flows.

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Ad Valorem Tax Adjustment

Mississippi Power establishes annually an ad valorem tax adjustment factor that is approved by the Mississippi PSC to collect the ad valorem taxes paid by Mississippi Power. In 2018, 2017, and 2016, the Mississippi PSC approved Mississippi Power's annual ad valorem tax adjustment factor filing, which included a rate increase of 0.8%, or \$7 million, in 2018, a rate increase of 0.85%, or \$8 million, in 2017, and a rate decrease of 0.07%, or \$1 million, in 2016.

System Restoration Rider

Mississippi Power carries insurance for the cost of certain types of damage to generation plants and general property. However, Mississippi Power is self-insured for the cost of storm, fire, and other uninsured casualty damage to its property, including transmission and distribution facilities. As permitted by the Mississippi PSC and the FERC, Mississippi Power accrues for the cost of such damage through an annual expense accrual credited to regulatory liability accounts for the retail and wholesale jurisdictions. The cost of repairing actual damage resulting from such events that individually exceed \$50,000 is charged to the reserve. Every three years the Mississippi PSC, the MPUS, and Mississippi Power will agree on SRR revenue level(s) for the ensuing period, based on historical data, expected exposure, type and amount of insurance coverage, excluding insurance cost, and any other relevant information. The accrual amount and the reserve balance are determined based on the SRR revenue level(s). If a significant change in circumstances occurs, then the SRR revenue level can be adjusted more frequently if Mississippi Power and the MPUS or the Mississippi PSC deem the change appropriate. The property damage reserve accrual will be the difference between the approved SRR revenues and the SRR revenue requirement, excluding any accrual to the reserve. In addition, SRR allows Mississippi Power to set up a regulatory asset, pending review, if the allowable actual retail property damage costs exceed the amount in the retail property damage reserve. Mississippi Power made retail accruals of \$1 million, \$3 million, and \$4 million for 2018, 2017, and 2016, respectively. Mississippi Power also accrued \$0.3 million annually in 2018, 2017, and 2016 for the wholesale jurisdiction. As of December 31, 2018, the property damage reserve balances were \$55 million and \$1 million for retail and wholesale, respectively.

Based on Mississippi Power's annual SRR rate filings, the SRR rate was zero for all years presented and Mississippi Power accrued \$2 million, \$4 million, and \$3 million to the property damage reserve in 2018, 2017, and 2016, respectively. The SRR rate filings were suspended by the Mississippi PSC for review for a period not to exceed 120 days from their respective filing dates, after which the filings became effective.

In January 2017, a tornado caused extensive damage to Mississippi Power's transmission and distribution infrastructure. The cost of storm damage repairs was approximately \$9 million. A portion of these costs was charged to the retail property damage reserve and addressed in the 2018 SRR rate filing.

Kemper County Energy Facility

Overview

The Kemper County energy facility was designed to utilize IGCC technology with an expected output capacity of 582 MWs and to be fueled by locally mined lignite (an abundant, lower heating value coal) from a mine owned by Mississippi Power and situated adjacent to the Kemper County energy facility. The mine, operated by North American Coal Corporation, started commercial operation in 2013. In connection with the Kemper County energy facility construction, Mississippi Power constructed approximately 61 miles of CO₂ pipeline infrastructure for the transport of captured CO₂ for use in enhanced oil recovery.

Schedule and Cost Estimate

In 2012, the Mississippi PSC issued an order (2012 MPSC CPCN Order), confirming the CPCN originally approved by the Mississippi PSC in 2010 authorizing the acquisition, construction, and operation of the Kemper County energy facility. The certificated cost estimate of the Kemper County energy facility included in the 2012 MPSC CPCN Order was \$2.4 billion, net of approximately \$0.57 billion for the cost of the lignite mine and equipment, the cost of the CO₂ pipeline facilities, AFUDC, and certain general exceptions (Cost Cap Exceptions). The 2012 MPSC CPCN Order approved a construction cost cap of up to \$2.88 billion, with recovery of prudently-incurred costs subject to approval by the Mississippi PSC. The Kemper County energy facility was originally projected to be placed in service in May 2014. Mississippi Power placed the combined cycle and the associated common facilities portion of the Kemper County energy facility in service in August 2014. The combined cycle and associated common facilities portions of the Kemper County energy facility were dedicated as Plant Ratcliffe on April 27, 2018.

On June 21, 2017, the Mississippi PSC stated its intent to issue an order, which occurred on July 6, 2017, directing Mississippi Power to pursue a settlement under which the Kemper County energy facility would be operated as a natural gas plant, rather than an IGCC plant, and address all issues associated with the Kemper County energy facility. The order established a new docket for the purpose of pursuing a global settlement of the related costs (Kemper Settlement Docket). On June 28, 2017, Mississippi

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Power notified the Mississippi PSC that it would begin a process to suspend operations and start-up activities on the gasifier portion of the Kemper County energy facility, given the uncertainty as to its future.

At the time of project suspension in June 2017, the total cost estimate for the Kemper County energy facility was approximately \$7.38 billion, including approximately \$5.95 billion of costs subject to the construction cost cap, and was net of the \$137 million in additional grants from the DOE received in April 2016. In the aggregate, Mississippi Power had recorded charges to income of \$3.07 billion (\$1.89 billion after tax) as a result of changes in the cost estimate above the cost cap for the Kemper IGCC through May 31, 2017.

Given the Mississippi PSC's stated intent regarding no further rate increase for the Kemper County energy facility and the subsequent suspension, cost recovery of the gasifier portions became no longer probable; therefore, Mississippi Power recorded an additional charge to income in June 2017 of \$2.8 billion (\$2.0 billion after tax), which included estimated costs associated with the gasification portions of the plant and lignite mine. During the third and fourth quarters of 2017, Mississippi Power recorded charges to income of \$242 million (\$206 million after tax), including \$164 million for ongoing project costs, estimated mine and gasifier-related costs, and certain termination costs during the suspension period prior to conclusion of the Kemper Settlement Docket, as well as the charge associated with the Kemper Settlement Agreement discussed below.

In 2018, Mississippi Power recorded pre-tax charges to income of \$37 million (\$27 million after tax), primarily resulting from the abandonment and related closure activities and ongoing period costs, net of sales proceeds, for the mine and gasifier-related assets at the Kemper County energy facility. In addition, Mississippi Power recorded a credit to earnings of \$95 million in the fourth quarter 2018 primarily resulting from the reduction of a valuation allowance for a state income tax NOL carryforward associated with the Kemper County energy facility. Additional closure costs for the mine and gasifier-related assets, currently estimated at up to \$10 million pre-tax (excluding salvage, net of dismantlement costs), may be incurred through the first half of 2020. In addition, period costs, including, but not limited to, costs for compliance and safety, ARO accretion, and property taxes for the mine and gasifier-related assets, are estimated to total \$11 million in 2019 and \$2 million to \$4 million annually in 2020 through 2023. Mississippi Power is currently evaluating its options regarding the final disposition of the CO₂ pipeline, including removal of the pipeline. This evaluation is expected to be complete later in 2019. If Mississippi Power ultimately decides to remove the CO₂ pipeline, the cost of removal would have a material impact on Mississippi Power's financial statements and could have a material impact on Southern Company's financial statements. The ultimate outcome of these matters cannot be determined at this time.

See Note 10 for additional information.

Rate Recovery

Kemper Settlement Agreement

In 2015, the Mississippi PSC issued an order (In-Service Asset Rate Order) regarding the Kemper County energy facility assets that were commercially operational and providing service to customers (the transmission facilities, combined cycle, natural gas pipeline, and water pipeline) and other related costs. The In-Service Asset Rate Order provided for retail rate recovery of an annual revenue requirement of approximately \$126 million which went into effect on December 17, 2015.

On February 6, 2018, the Mississippi PSC voted to approve a settlement agreement related to cost recovery for the Kemper County energy facility among Mississippi Power, the MPUS, and certain intervenors (Kemper Settlement Agreement), which resolved all cost recovery issues, modified the CPCN to limit the Kemper County energy facility to natural gas combined cycle operation, and provided for an annual revenue requirement of approximately \$99.3 million for costs related to the Kemper County energy facility, which included the impact of the Tax Reform Legislation. The revenue requirement is based on (i) a fixed ROE for 2018 of 8.6% excluding any performance adjustment, (ii) a ROE for 2019 calculated in accordance with PEP, excluding the performance adjustment, (iii) for future years, a performance-based ROE calculated pursuant to PEP, and (iv) amortization periods for the related regulatory assets and liabilities of eight years and six years, respectively. The revenue requirement also reflects a disallowance related to a portion of Mississippi Power's investment in the Kemper County energy facility requested for inclusion in rate base, which was recorded in the fourth quarter 2017 as an additional charge to income of approximately \$78 million (\$85 million net of accumulated depreciation of \$7 million) pre-tax (\$48 million after tax).

Under the Kemper Settlement Agreement, retail customer rates reflect a reduction of approximately \$26.8 million annually, effective with the first billing cycle of April 2018, and include no recovery for costs associated with the gasifier portion of the Kemper County energy facility in 2018 or at any future date.

Reserve Margin Plan

On August 6, 2018, Mississippi Power filed its proposed Reserve Margin Plan (RMP), as required by the Mississippi PSC's order in the Kemper Settlement Docket. Under the RMP, Mississippi Power proposed alternatives that would reduce its reserve margin,

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with the most economic of the alternatives being the two-year and seven-year acceleration of the retirement of Plant Watson Units 4 and 5, respectively, to the first quarter 2022 and the four-year acceleration of the retirement of Plant Greene County Units 1 and 2 to the third quarter 2021 and the third quarter 2022, respectively, in order to lower or avoid operating costs. The Plant Greene County unit retirements would require the completion by Alabama Power of proposed transmission and system reliability improvements, as well as agreement by Alabama Power. The RMP filing also states that, in the event the Mississippi PSC ultimately approves an alternative that includes an accelerated retirement, Mississippi Power would require authorization to defer in a regulatory asset for future recovery the remaining net book value of the units at the time of retirement. A decision by the Mississippi PSC that does not include recovery of the remaining book value of any generating units retired could have a material impact on Mississippi Power's and Southern Company's financial statements. The ultimate outcome of this matter cannot be determined at this time.

Lignite Mine and CO₂ Pipeline Facilities

Mississippi Power owns the lignite mine and equipment and mineral reserves located around the Kemper County energy facility site. The mine started commercial operation in June 2013.

In 2010, Mississippi Power executed a 40-year management fee contract with Liberty Fuels Company, LLC (Liberty Fuels), a wholly-owned subsidiary of The North American Coal Corporation, which developed, constructed, and is responsible for the mining operations through the end of the mine reclamation. As the mining permit holder, Liberty Fuels has a legal obligation to perform mine reclamation and Mississippi Power has a contractual obligation to fund all reclamation activities. As a result of the abandonment of the Kemper IGCC, final mine reclamation began in 2018 and is expected to be substantially completed in 2020, with monitoring expected to continue through 2027. See Note 6 and Note 7 under "Mississippi Power" for additional information.

In addition, Mississippi Power constructed the CO₂ pipeline for the planned transport of captured CO₂ for use in enhanced oil recovery and entered into an agreement with Denbury Onshore (Denbury) to purchase the captured CO₂. The agreement with Denbury was terminated in December 2018 and did not have a material impact on Southern Company's or Mississippi Power's results of operations. Mississippi Power is currently evaluating its options regarding the final disposition of the CO₂ pipeline, including removal of the pipeline. This evaluation is expected to be complete later in 2019. If Mississippi Power ultimately decides to remove the CO₂ pipeline, the cost of removal would have a material impact on Mississippi Power's financial statements and could have a material impact on Southern Company's financial statements. The ultimate outcome of this matter cannot be determined at this time.

Government Grants

In 2010, the DOE, through a cooperative agreement with SCS, agreed to fund \$270 million of the Kemper County energy facility through the grants awarded to the project by the DOE under the Clean Coal Power Initiative Round 2. Through December 31, 2018, Mississippi Power received total DOE grants of \$387 million, of which \$382 million reduced the construction costs of the Kemper County energy facility and \$5 million reimbursed Mississippi Power for expenses associated with DOE reporting. On December 12, 2018, Mississippi Power filed with the DOE its request for property closeout certification under the contract related to the grants received. Mississippi Power and the DOE are currently in discussions regarding the requested closeout and property disposition, which may require payment to the DOE for a portion of certain property that is to be retained by Mississippi Power. The ultimate outcome of this matter cannot be determined at this time; however, it could have a material impact on Mississippi Power's financial statements and a significant impact on Southern Company's financial statements.

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Southern Company Gas

Regulatory Assets and Liabilities

Regulatory assets and (liabilities) reflected in the balance sheets of Southern Company Gas at December 31, 2018 and 2017 relate to:

	2018		2017	Note
		<i>(in millions)</i>		
Environmental remediation	\$ 311	\$	410	(a,b)
Retiree benefit plans	161		270	(a,c)
Long-term debt fair value adjustment	121		138	(d)
Under recovered regulatory clause revenues	90		98	(e)
Other regulatory assets	59		79	(f)
Other cost of removal obligations	(1,585)		(1,646)	(g)
Deferred income tax credits	(940)		(1,063)	(g,i)
Over recovered regulatory clause revenues	(43)		(144)	(e)
Other regulatory liabilities	(46)		(21)	(h)
Total regulatory assets (liabilities), net	\$ (1,872)	\$	(1,879)	

Note: Unless otherwise noted, the recovery and amortization periods for these regulatory assets and (liabilities) have been approved or accepted by the relevant state PSC or other regulatory body and are as follows:

- (a) Not earning a return as offset in rate base by a corresponding asset or liability.
- (b) Recovered through environmental cost recovery mechanisms when the remediation is performed or the work is performed.
- (c) Recovered and amortized over the average remaining service period which range up to 15 years. See Note 11 for additional information.
- (d) Recovered over the remaining life of the original debt issuances, which range up to 20 years.
- (e) Recorded and recovered or amortized over periods generally not exceeding seven years. In addition to natural gas cost recovery mechanisms, the natural gas distribution utilities are authorized to utilize 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.
- (f) Comprised of several components including unamortized loss on reacquired debt, weather normalization, franchise gas, deferred depreciation, and financial instrument-hedging assets, which are recovered or amortized over periods generally not exceeding 10 years, except for financial hedging-instruments. Financial instrument-hedging assets are recorded over the life of the underlying hedged purchase contracts, which generally do not exceed two years. Upon final settlement, actual costs incurred are recovered, and actual income earned is refunded through the energy cost recovery clause.
- (g) Other cost of removal obligations are recorded and deferred income tax liabilities are amortized over the related property lives, which may range up to 80 years. Cost of removal liabilities will be settled and trued up following completion of the related activities.
- (h) Comprised of several components including amounts to be refunded to customers as a result of the Tax Reform Legislation, energy efficiency programs, and unamortized bond issuance costs and financial instrument-hedging liabilities which are recovered or amortized over periods generally not exceeding 20 years, except for financial hedging-instruments. Financial instrument-hedging liabilities are recorded over the life of the underlying hedged purchase contracts, which generally do not exceed two years. Upon final settlement, actual costs incurred are recovered, and actual income earned is refunded through the energy cost recovery clause. See "Rate Proceedings" herein for additional information regarding customer refunds resulting from the Tax Reform Legislation.
- (i) Includes excess deferred income tax liabilities not subject to normalization as a result of the Tax Reform Legislation, the recovery and amortization of which is expected to be determined by the applicable state regulatory agencies in future rate proceedings. See "Rate Proceedings" herein and Note 10 for additional details.

Infrastructure Replacement Programs and Capital Projects

In addition to capital expenditures recovered through base rates by each of the natural gas distribution utilities, Nicor Gas and Virginia Natural Gas have separate rate riders that provide timely recovery of capital expenditures for specific infrastructure replacement programs. Descriptions of the infrastructure replacement programs and capital projects at the natural gas distribution utilities follow:

Nicor Gas

In 2013, Illinois enacted legislation that allows Nicor Gas to provide more widespread safety and reliability enhancements to its distribution system. The legislation stipulates that rate increases to customers as a result of any infrastructure investments shall not exceed a cumulative annual average of 4.0% or, in any given year, 5.5% of base rate revenues. In 2014, the Illinois Commission approved the nine-year regulatory infrastructure program, Investing in Illinois, subject to annual review. In conjunction with the base rate case order issued by the Illinois Commission on January 31, 2018, Nicor Gas is recovering program costs incurred prior to December 31, 2017 through base rates. Nicor Gas has requested that the program costs incurred

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subsequent to December 31, 2017, which are currently being recovered through a separate rider, be addressed in the base rate case filed November 9, 2018. See "Rate Proceedings" herein for additional information.

Virginia Natural Gas

In 2012, the Virginia Commission approved the Steps to Advance Virginia's Energy (SAVE) program, an accelerated infrastructure replacement program, to be completed over a five-year period. In 2016, the Virginia Commission approved an extension to the SAVE program for Virginia Natural Gas to replace more than 200 miles of aging pipeline infrastructure and invest up to \$30 million in 2016 and up to \$35 million annually through 2021.

The SAVE program is subject to annual review by the Virginia Commission. In conjunction with the base rate case order issued by the Virginia Commission in December 2017, Virginia Natural Gas is recovering program costs incurred prior to September 1, 2017 through base rates. Program costs incurred subsequent to September 1, 2017 are currently recovered through a separate rider and are subject to future base rate case proceedings.

Atlanta Gas Light

GRAM

In February 2017, the Georgia PSC approved GRAM and a \$20 million increase in annual base rate revenues for Atlanta Gas Light, effective March 1, 2017. GRAM adjusts base rates annually, up or down, using an earnings band based on the previously approved ROE of 10.75% and does not collect revenue through special riders and surcharges. Atlanta Gas Light adjusts rates up to the lower end of the band of 10.55% and adjusts rates down to the higher end of the band of 10.95%. Various infrastructure programs previously authorized by the Georgia PSC under Atlanta Gas Light's STRIDE program including the Integrated Vintage Plastic Replacement Program to replace aging plastic pipe and the Integrated System Reinforcement Program to upgrade Atlanta Gas Light's distribution system and LNG facilities in Georgia continue under GRAM and the recovery of and return on the infrastructure program investments are included in annual base rate adjustments. The Georgia PSC reviews Atlanta Gas Light's performance annually under GRAM. See "Rate Proceedings" herein for additional information.

Pursuant to the GRAM approval, Atlanta Gas Light and the staff of the Georgia PSC agreed to a variation of the Integrated Customer Growth Program to extend pipeline facilities to serve customers in areas without pipeline access and create new economic development opportunities in Georgia, which was formerly part of the STRIDE program. As a result, a new tariff was created, effective October 10, 2017, to provide up to \$15 million annually for Atlanta Gas Light to commit to strategic economic development projects. Projects under this tariff must be approved by the Georgia PSC.

The orders for the STRIDE program provide for recovery of all prudent costs incurred in the performance of the program. Atlanta Gas Light will recover from end-use customers, through billings to Marketers, the costs related to the program, net of any related cost savings. The regulatory asset represents incurred program costs that will be collected through GRAM. The future expected costs to be recovered through rates related to allowed, but not incurred, costs are recognized in an unrecognized ratemaking amount that is not reflected on the balance sheets. This allowed cost is primarily the equity return on the capital investment under the program. See "Unrecognized Ratemaking Amounts" herein for additional information.

Atlanta Gas Light capitalizes and depreciates the capital expenditure costs incurred from the STRIDE programs over the life of the assets. Operations and maintenance costs are expensed as incurred. Recoveries, which are recorded as revenue, are based on a formula that allows Atlanta Gas Light to recover operations and maintenance costs in excess of those included in its current base rates, depreciation, and an allowed rate of return on capital expenditures. However, Atlanta Gas Light is allowed the recovery of carrying costs on the under recovered balance resulting from the timing difference.

PRP

In 2015, Atlanta Gas Light began recovering incremental PRP surcharge amounts through three phased-in increases in addition to its already existing PRP surcharge amount, which was established to address recovery of the under recovered PRP balance of \$144 million and the estimated amounts to be earned under the program through 2025. The unrecovered balance is the result of the continued revenue requirement earned under the program offset by the existing and incremental PRP surcharges. The under recovered balance at December 31, 2018 was \$171 million, including \$95 million of unrecognized equity return. The PRP surcharge will remain in effect until the earlier of the full recovery of the under recovered amount or December 31, 2025. See "Rate Proceedings" and "Unrecognized Ratemaking Amounts" herein for additional information.

One of the capital projects under the PRP experienced construction issues and Atlanta Gas Light was required to complete mitigation work prior to placing it in service. These mitigation costs were included in base rates in 2018. In 2017, Atlanta Gas Light recovered \$20 million from the settlement of contractor litigation claims and recovered an additional \$7 million from the

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final settlement of contractor litigation claims during the first quarter 2018. Mitigation costs recovered through the legal process are retained by Atlanta Gas Light.

Natural Gas Cost Recovery

With the exception of Atlanta Gas Light, the natural gas distribution utilities are authorized by the relevant regulatory agencies in the states in which they serve to use natural gas cost recovery mechanisms that adjust rates to reflect changes in the wholesale cost of natural gas and ensure recovery of all costs prudently incurred in purchasing natural gas for customers. Natural gas cost recovery revenues are adjusted for differences in actual recoverable natural gas costs and amounts billed in current regulated rates. Changes in the billing factor will not have a significant effect on Southern Company's or Southern Company Gas' revenues or net income, but will affect cash flows.

Rate Proceedings

Nicor Gas

On January 31, 2018, the Illinois Commission approved a \$137 million increase in annual base rate revenues, including \$93 million related to the recovery of investments under the Investing in Illinois program, effective February 8, 2018, based on a ROE of 9.8%.

On April 19, 2018, the Illinois Commission approved Nicor Gas' variable income tax adjustment rider. This rider provides for refund or recovery of changes in income tax expense that result from income tax rates that differ from those used in Nicor Gas' last rate case. Customer refunds, via bill credits, related to the impacts of the Tax Reform Legislation from January 25, 2018 through May 4, 2018 began on July 1, 2018 and are expected to conclude in the second quarter 2019.

On May 2, 2018, the Illinois Commission approved Nicor Gas' rehearing request for revised base rates to incorporate the reduction in the federal income tax rate as a result of the Tax Reform Legislation. The resulting decrease of approximately \$44 million in annual base rate revenues became effective May 5, 2018. Nicor Gas' previously-authorized capital structure and ROE of 9.80% were not addressed in the rehearing and remain unchanged.

On November 9, 2018, Nicor Gas filed a general base rate case with the Illinois Commission requesting a \$230 million increase in annual base rate revenues. The requested increase is based on a projected test year for the 12-month period ending September 30, 2020, a ROE of 10.6%, and an increase in the equity ratio from 52.0% to 54.0% to address the negative cash flow and credit metric impacts of the Tax Reform Legislation. The Illinois Commission is expected to rule on the requested increase within the 11-month statutory time limit, after which rate adjustments will be effective. The ultimate outcome of this matter cannot be determined at this time.

Atlanta Gas Light

On February 23, 2018, Atlanta Gas Light revised its annual base rate filing to reflect the impacts of the Tax Reform Legislation and requested a \$16 million rate reduction in 2018. On May 15, 2018, the Georgia PSC approved a stipulation for Atlanta Gas Light's annual base rates to remain at the 2017 level for 2018 and 2019, with customer credits of \$8 million in each of July 2018 and October 2018 to reflect the impacts of the Tax Reform Legislation. The Georgia PSC maintained Atlanta Gas Light's previously authorized earnings band based on a ROE between 10.55% and 10.95% and increased the allowed equity ratio by 4% to an equity ratio of 55% to address the negative cash flow and credit metric impacts of the Tax Reform Legislation. Additionally, Atlanta Gas Light is required to file a traditional base rate case on or before June 1, 2019 for rates effective January 1, 2020.

Atlanta Gas Light's recovery of the previously unrecovered PRP revenue through 2014, as well as the mitigation costs associated with the PRP that were not previously included in its rates, were included in GRAM. In connection with the GRAM approval, the last monthly PRP surcharge increase became effective March 1, 2017.

Virginia Natural Gas

On December 21, 2017, the Virginia Commission approved a settlement for a \$34 million increase in annual base rate revenues, effective September 1, 2017, including \$13 million related to the recovery of investments under the SAVE program. See "Regulatory Infrastructure Programs" herein for additional information. An authorized ROE range of 9.0% to 10.0% with a midpoint of 9.5% will be used to determine the revenue requirement in any filing, other than for a change in base rates.

On December 17, 2018, the Virginia Commission approved Virginia Natural Gas' annual information form filing, which reduced annual base rates by \$14 million effective January 1, 2019 due to lower tax expense as a result of the lower corporate income tax rate and the impact of the flowback of excess deferred income taxes. This approval also requires Virginia Natural Gas to issue

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customer refunds, via bill credits, for the entire \$14 million which was deferred as a regulatory liability, current, on the balance sheet at December 31, 2018. These customer refunds are expected to be completed in the first quarter 2019.

energySMART

The Illinois Commission approved Nicor Gas' energySMART program, which includes energy efficiency program offerings and therm reduction goals. Through December 31, 2017, Nicor Gas spent \$107 million of the initial authorized expenditure of \$113 million. A new program began on January 1, 2018, with an additional authorized expenditure of \$160 million through 2021. Through December 31, 2018, Nicor Gas had spent \$29 million.

Unrecognized Ratemaking Amounts

The following table illustrates Southern Company Gas' authorized ratemaking amounts that are not recognized on its balance sheets. These amounts are primarily composed of an allowed equity rate of return on assets associated with certain regulatory infrastructure programs. These amounts will be recognized as revenues in Southern Company Gas' financial statements in the periods they are billable to customers, the majority of which will be recovered by 2025.

	December 31, 2018	December 31, 2017
	<i>(in millions)</i>	
Atlanta Gas Light	\$ 95	\$ 104
Virginia Natural Gas	11	11
Nicor Gas	4	2
Total	\$ 110	\$ 117

FERC Matters

Open Access Transmission Tariff

On May 10, 2018, AMEA and Cooperative Energy filed with the FERC a complaint against SCS and the traditional electric operating companies claiming that the current 11.25% base ROE used in calculating the annual transmission revenue requirements of the traditional electric operating companies' open access transmission tariff is unjust and unreasonable as measured by the applicable FERC standards. The complaint requested that the base ROE be set no higher than 8.65% and that the FERC order refunds for the difference in revenue requirements that results from applying a just and reasonable ROE established in this proceeding upon determining the current ROE is unjust and unreasonable. On June 18, 2018, SCS and the traditional electric operating companies filed their response challenging the adequacy of the showing presented by the complainants and offering support for the current ROE. On September 6, 2018, the FERC issued an order establishing a refund effective date of May 10, 2018 in the event a refund is due and initiating an investigation and settlement procedures regarding the current base ROE. Through December 31, 2018, the estimated maximum potential refund is not expected to be material to Southern Company's or the traditional electric operating companies' results of operations or cash flows. The ultimate outcome of this matter cannot be determined at this time.

Mississippi Power

Municipal and Rural Associations Tariff

Mississippi Power provides wholesale electric service to Cooperative Energy, East Mississippi Electric Power Association, and the City of Collins, all located in southeastern Mississippi, under a long-term cost-based, FERC-regulated MRA tariff.

In 2016, Mississippi Power reached a settlement agreement with its wholesale customers, which was subsequently approved by the FERC, for an increase in wholesale base revenues under the MRA cost-based electric tariff, primarily as a result of placing scrubbers for Plant Daniel Units 1 and 2 in service in 2015. The settlement agreement became effective for services rendered beginning May 1, 2016, resulting in an estimated annual revenue increase of \$7 million under the MRA cost-based electric tariff. Additionally, under the settlement agreement, the tariff customers agreed to similar regulatory treatment for MRA tariff ratemaking as the treatment approved for retail ratemaking under the In-Service Asset Rate Order. This regulatory treatment primarily included (i) recovery of the operational Kemper County energy facility assets providing service to customers and other related costs, (ii) amortization of the Kemper County energy facility-related regulatory assets included in rates under the settlement agreement over the 36 months ending April 30, 2019, (iii) Kemper County energy facility-related expenses included in rates under the settlement agreement no longer being deferred and charged to expense, and (iv) removing all of the Kemper

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County energy facility CWIP from rate base with a corresponding increase in accrual of AFUDC, which totaled approximately \$22 million through the suspension of Kemper IGCC start-up activities.

Mississippi Power expects to reach a subsequent settlement agreement with its wholesale customers and will make a filing with the FERC during the first quarter 2019. The settlement agreement is intended to be consistent with the Kemper Settlement Agreement, including the impact of the Tax Reform Legislation. The ultimate outcome of this matter cannot be determined at this time.

In September 2017, Mississippi Power and Cooperative Energy executed a Shared Service Agreement (SSA), as part of the MRA tariff, under which Mississippi Power and Cooperative Energy will share in providing electricity to all Cooperative Energy delivery points, in lieu of the current arrangement under which each delivery point is specifically assigned to either entity. The SSA accepted by the FERC in October 2017 became effective on January 1, 2018 and may be cancelled by Cooperative Energy with 10 years notice after December 31, 2020. The SSA provides Cooperative Energy the option to decrease its use of Mississippi Power's generation services under the MRA tariff, subject to annual and cumulative caps and a one-year notice requirement. In the event Cooperative Energy elects to reduce these services, the related reduction in Mississippi Power's revenues is not expected to be significant through 2020.

Fuel Cost Recovery

Mississippi Power has a wholesale MRA and a Market Based (MB) fuel cost recovery factor. Effective with the first billing cycle for January 2018, fuel rates increased \$11 million annually for wholesale MRA customers and \$1 million annually for wholesale MB customers. Effective January 1, 2019, the wholesale MRA fuel rate decreased \$16 million annually and the wholesale MB fuel rate decreased by an immaterial amount. At December 31, 2018, over recovered wholesale MRA fuel costs included in other regulatory liabilities, current on the balance sheet were approximately \$6 million compared to an immaterial amount at December 31, 2017. Under recovered wholesale MB fuel costs included in the balance sheets were immaterial at December 31, 2018 and 2017.

Mississippi Power's operating revenues are adjusted for differences in actual recoverable fuel cost and amounts billed in accordance with the currently approved cost recovery rate. Accordingly, changes in the billing factor should have no significant effect on Mississippi Power's revenues or net income, but will affect cash flow.

Southern Company Gas

At December 31, 2018, Southern Company Gas was involved in two gas pipeline construction projects. These projects, along with Southern Company Gas' existing pipelines, are intended to provide diverse sources of natural gas supplies to customers, resolve current and long-term supply planning for new capacity, enhance system reliability, and generate economic development in the areas served.

On January 19, 2018, the PennEast Pipeline received FERC approval. Work continues with state and federal agencies to obtain the required permits to begin construction. Any material delays may impact forecasted capital expenditures and the expected in-service date.

In October 2017, the Atlantic Coast Pipeline received FERC approval. This joint venture has experienced challenges to its permits since construction began in 2018. During the third and fourth quarters 2018, a FERC stop work order, together with delays in obtaining permits necessary for construction and construction delays due to judicial actions, impacted the cost and schedule for the project. As a result, total project cost estimates have increased from between \$6.0 billion and \$6.5 billion to between \$7.0 billion and \$7.8 billion, excluding financing costs. Southern Company Gas' share of the total project costs is 5% and Southern Company Gas' investment at December 31, 2018 totaled \$83 million. The operator of the joint venture currently expects to achieve a late 2020 in-service date for at least key segments of the Atlantic Coast Pipeline, while the remainder may extend into early 2021. Southern Company Gas has evaluated the recoverability of its investment and determined there was no impairment as of December 31, 2018. Abnormal weather, work delays (including due to judicial or regulatory action), and other conditions may result in additional cost or schedule modifications, which could result in an impairment of Southern Company Gas' investment and could have a material impact on Southern Company's and Southern Company Gas' financial statements.

The ultimate outcome of these matters cannot be determined at this time. See Notes 7 and 9 under "Southern Company Gas – Equity Method Investments" and "Guarantees," respectively, for additional information on these pipeline projects.

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3. CONTINGENCIES

General Litigation Matters

Each registrant is subject to certain claims and legal actions arising in the ordinary course of business. In addition, the business activities of Southern Company's subsidiaries are subject to extensive governmental regulation related to public health and the environment, such as laws and regulations governing air, water, land, and protection of other natural resources. Litigation over environmental issues and claims of various types, including property damage, personal injury, common law nuisance, and citizen enforcement of environmental laws and regulations has occurred throughout the U.S. This litigation has included claims for damages alleged to have been caused by CO₂ and other emissions, CCR, and alleged exposure to hazardous materials, and/or requests for injunctive relief in connection with such matters.

The ultimate outcome of such pending or potential litigation against each registrant and any subsidiaries cannot be predicted at this time; however, for current proceedings not specifically reported herein, management does not anticipate that the ultimate liabilities, if any, arising from such current proceedings would have a material effect on such registrant's financial statements.

Southern Company

In January 2017, a putative securities class action complaint was filed against Southern Company, certain of its officers, and certain former Mississippi Power officers in the U.S. District Court for the Northern District of Georgia, Atlanta Division, by Monroe County Employees' Retirement System on behalf of all persons who purchased shares of Southern Company's common stock between April 25, 2012 and October 29, 2013. The complaint alleges that Southern Company, certain of its officers, and certain former Mississippi Power officers made materially false and misleading statements regarding the Kemper County energy facility in violation of certain provisions under the Securities Exchange Act of 1934, as amended. The complaint seeks, among other things, compensatory damages and litigation costs and attorneys' fees. In June 2017, the plaintiffs filed an amended complaint that provided additional detail about their claims, increased the purported class period by one day, and added certain other former Mississippi Power officers as defendants. In July 2017, the defendants filed a motion to dismiss the plaintiffs' amended complaint with prejudice, to which the plaintiffs filed an opposition in September 2017. On March 29, 2018, the U.S. District Court for the Northern District of Georgia, Atlanta Division, issued an order granting, in part, the defendants' motion to dismiss. The court dismissed certain claims against certain officers of Southern Company and Mississippi Power and dismissed the allegations related to a number of the statements that plaintiffs challenged as being false or misleading. On April 26, 2018, the defendants filed a motion for reconsideration of the court's order, seeking dismissal of the remaining claims in the lawsuit. On August 10, 2018, the court denied the motion for reconsideration and denied a motion to certify the issue for interlocutory appeal.

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

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

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

Alabama Power

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

Georgia Power

In 2011, plaintiffs filed a putative class action against Georgia Power in the Superior Court of Fulton County, Georgia alleging that Georgia Power's collection in rates of amounts for municipal franchise fees (which fees are paid to municipalities) exceeded the amounts allowed in orders of the Georgia PSC and alleging certain state tort law claims. In 2016, the Georgia Court of Appeals reversed the trial court's previous dismissal of the case and remanded the case to the trial court. Georgia Power filed a petition for writ of certiorari with the Georgia Supreme Court, which was granted in August 2017. On June 18, 2018, the Georgia Supreme Court affirmed the judgment of the Georgia Court of Appeals and remanded the case to the trial court for further proceedings. Following a motion by Georgia Power, on February 13, 2019, the Superior Court of Fulton County entered an order staying this lawsuit for 60 days and ordered the parties to submit petitions to the Georgia PSC within 20 days for a declaratory ruling to address certain terms the court previously held were ambiguous as used in the Georgia PSC's orders. The order entered by the Superior Court of Fulton County also conditionally certified the proposed class. Georgia Power believes the plaintiffs' claims have no merit and will continue to vigorously defend itself in this matter. The amount of any possible losses cannot be calculated at this time because, among other factors, it is unknown whether conditional class certification will be upheld and the ultimate composition of any class; and whether any losses would be subject to recovery from any municipalities. The ultimate outcome of this matter cannot be determined at this time.

Mississippi Power

In 2016, a complaint against Mississippi Power was filed in Harrison County Circuit Court (Circuit Court) by Biloxi Freezing & Processing Inc., Gulfside Casino Partnership, and John Carlton Dean, which was amended and refiled to include, among other things, Southern Company as a defendant. The individual plaintiff alleged that Mississippi Power and Southern Company violated the Mississippi Unfair Trade Practices Act. All plaintiffs alleged that Mississippi Power and Southern Company concealed, falsely represented, and failed to fully disclose important facts concerning the cost and schedule of the Kemper County energy facility and that these alleged breaches unjustly enriched Mississippi Power and Southern Company. The plaintiffs sought unspecified actual damages and punitive damages; asked the Circuit Court to appoint a receiver to oversee, operate, manage, and otherwise control all affairs relating to the Kemper County energy facility; asked the Circuit Court to revoke any licenses or certificates authorizing Mississippi Power or Southern Company to engage in any business related to the Kemper County energy facility in Mississippi; and sought attorney's fees, costs, and interest. The plaintiffs also sought an injunction to prevent any Kemper County energy facility costs from being charged to customers through electric rates. In June 2017, the Circuit Court ruled in favor of motions by Southern Company and Mississippi Power and dismissed the case. In July 2017, the plaintiffs filed notice of an appeal. On July 13, 2018, Mississippi Power and Southern Company reached a settlement agreement with the plaintiffs and the plaintiffs' appeal was dismissed with prejudice. The settlement had no material impact on Southern Company's or Mississippi Power's financial statements.

On May 18, 2018, Southern Company and Mississippi Power received a notice of dispute and arbitration demand filed by Martin Product Sales, LLC (Martin) based on two agreements, both related to Kemper IGCC byproducts for which Mississippi Power provided termination notices in September 2017. Martin alleges breach of contract, breach of good faith and fair dealing, fraud and misrepresentation, and civil conspiracy and makes a claim for damages in the amount of approximately \$143 million, as well as additional unspecified damages, attorney's fees, costs, and interest. In the first quarter 2019, Mississippi Power and Southern Company filed motions to dismiss. Southern Company and Mississippi Power believe this legal challenge has no merit; however, an adverse outcome in this proceeding 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 will vigorously defend themselves in this matter, the ultimate outcome of which cannot be determined at this time.

On November 21, 2018, Ray C. Turnage and 10 other individual plaintiffs filed a putative class action complaint against Mississippi Power and the three current members of the Mississippi PSC in the U.S. District Court for the Southern District of Mississippi. Mississippi Power received Mississippi PSC approval in 2013 to charge a mirror CWIP rate premised upon including

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in its rate base pre-construction and construction costs for the Kemper IGCC prior to placing the Kemper IGCC into service. The Mississippi Supreme Court reversed that approval and ordered Mississippi Power to refund the amounts paid by customers under the previously-approved mirror CWIP rate. The plaintiffs allege that the initial approval process, and the amount approved, were improper. They also allege that Mississippi Power underpaid customers in the refund process because it applied the wrong interest rate to the payments. The plaintiffs seek to recover, on behalf of themselves and their putative class, actual damages, punitive damages, pre-judgment interest, post-judgment interest, attorney's fees, and costs. Mississippi Power believes this legal challenge has no merit; however, an adverse outcome in this proceeding could have a material impact on Mississippi Power's results of operations, financial condition, and liquidity. Mississippi Power will vigorously defend itself in this matter, the ultimate outcome of which cannot be determined at this time.

Southern Power

Southern Power indirectly owns a 51% membership interest in RE Roserock LLC (Roserock), the owner of the Roserock facility in Pecos County, Texas. Prior to the facility being placed in service in November 2016, certain solar panels were damaged during installation by the construction contractor, McCarthy Building Companies, Inc. (McCarthy), and certain solar panels were damaged by a hail event that also occurred during construction. In connection therewith, Southern Power is withholding payments of approximately \$26 million from the construction contractor, which has placed a lien on the Roserock facility for the same amount. In May 2017, Roserock filed a lawsuit in the state district court in Pecos County, Texas, (State Court lawsuit) against XL Insurance America, Inc. (XL) and North American Elite Insurance Company (North American Elite) seeking recovery from an insurance policy for damages resulting from the hail storm and McCarthy's installation practices. On June 1, 2018, the court in the State Court lawsuit granted Roserock's motion for partial summary judgment, finding that the insurers were in breach of contract and in violation of the Texas Insurance Code for failing to pay any monies owed for the hail claim. In addition to the State Court lawsuit, lawsuits were filed between Roserock and McCarthy, as well as other parties, and that litigation has been consolidated in the U.S. District Court for the Western District of Texas. Southern Power intends to vigorously pursue and defend these matters, the ultimate outcome of which cannot be determined at this time.

Southern Company Gas

Nicor Energy Services Company, doing business as Pivotal Home Solutions, formerly a wholly-owned subsidiary of Southern Company Gas, was a defendant in a putative class action initially filed in 2017 in the state court in Indiana. The plaintiffs purported to represent a class of the customers who purchased products from Nicor Energy Services Company and alleged that the marketing, sale, and billing of the products violated the Indiana Consumer Fraud and Deceptive Business Practices Act, constituting common law fraud and resulting in unjust enrichment of these entities. In 2018, Nicor Energy Services Company was named in a second class action filed in the state court of Ohio asserting nearly identical allegations and legal claims. The plaintiffs sought, on behalf of the classes they purported to represent, actual and punitive damages, interest costs, attorney fees, and injunctive relief. To facilitate the sale of Pivotal Home Solutions, Southern Company Gas retained most of the financial responsibility for these lawsuits following the completion of the sale. On June 12, 2018, the parties settled these claims and Southern Company Gas recorded an \$11 million charge, which is included in other operations and maintenance expenses for the year ended December 31, 2018.

Southern Company Gas is involved in litigation relating to an incident that occurred in one of its prior service territories that resulted in several deaths, injuries, and property damage. Southern Company Gas has resolved all claims for personal injuries or death, but it is continuing to defend litigation seeking to recover alleged property damages. Southern Company Gas has insurance that provides full coverage of the expected financial exposure in excess of \$11 million per incident. During the successor period ended December 31, 2016, Southern Company Gas recorded reserves for substantially all of its potential exposure from these cases.

Environmental Remediation

The Southern Company system must comply with environmental laws and regulations governing the handling and disposal of waste and releases of hazardous substances. Under these various laws and regulations, the Southern Company system could incur substantial costs to clean up affected sites. The traditional electric operating companies and the natural gas distribution utilities conduct studies to determine the extent of any required cleanup and have recognized the estimated costs to clean up known impacted sites in the financial statements. A liability for environmental remediation costs is recognized only when a loss is determined to be probable and reasonably estimable. The traditional electric operating companies and the natural gas distribution utilities in Illinois and Georgia have each received authority from their respective state PSCs or other applicable state regulatory agencies to recover approved environmental compliance costs through regulatory mechanisms. These regulatory mechanisms are adjusted annually or as necessary within limits approved by the state PSCs or other applicable state regulatory agencies. At

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December 31, 2018 and 2017, the environmental remediation liabilities of Alabama Power and Mississippi Power were immaterial.

Georgia Power has been designated or identified as a potentially responsible party at sites governed by the Georgia Hazardous Site Response Act and/or by the federal Comprehensive Environmental Response, Compensation, and Liability Act, and assessment and potential cleanup of such sites is expected. In 2013, the Georgia PSC approved the 2013 ARP including the recovery of approximately \$2 million annually through the ECCR tariff. Georgia Power recognizes a liability for environmental remediation costs only when it determines a loss is probable and reasonably estimable and reduces the reserve as expenditures are incurred. Any difference between the liabilities accrued and costs recovered through rates is deferred as a regulatory asset or liability. The annual recovery amount is expected to be adjusted as part of the Georgia Power 2019 Base Rate Case and further adjusted in future regulatory proceedings.

Southern Company Gas is subject to environmental remediation liabilities associated with 40 former MGP sites in four different states. Southern Company Gas' accrued environmental remediation liability at December 31, 2018 and 2017 was based on the estimated cost of environmental investigation and remediation associated with known current and former MGP operating sites. These environmental remediation expenditures are recoverable from customers through rate mechanisms approved by the applicable state regulatory agencies of the natural gas distribution utilities, with the exception of one site representing \$2 million of the accrued remediation costs.

At December 31, 2018 and 2017, the environmental remediation liability and the balance of under recovered environmental remediation costs were reflected in the balance sheets as follows:

	Southern Company	Georgia Power	Southern Company Gas
	<i>(in millions)</i>		
December 31, 2018:			
Environmental remediation liability:			
Other current liabilities	\$ 49	\$ 23	\$ 26
Accrued environmental remediation	268	—	268
Under recovered environmental remediation costs:			
Other regulatory assets, current	\$ 21	\$ 2	\$ 19
Other regulatory assets, deferred	345	53	292
December 31, 2017:			
Environmental remediation liability:			
Other current liabilities	\$ 73	\$ 22	\$ 46
Accrued environmental remediation ^(*)	389	—	342
Under recovered environmental remediation costs:			
Other regulatory assets, current	\$ 38	\$ 2	\$ 31
Other regulatory assets, deferred	473	47	379

(*) At December 31, 2017, \$85 million of Southern Company Gas' total environmental remediation liability related to Elizabethtown Gas, which was sold on July 1, 2018. See Note 15 under "Southern Company Gas" for more information regarding Southern Company Gas' sale of Elizabethtown Gas.

The ultimate outcome of these matters cannot be determined at this time; however, as a result of the regulatory treatment for environmental remediation expenses described above, the final disposition of these matters is not expected to have a material impact on the financial statements of Southern Company, Georgia Power, or Southern Company Gas.

Nuclear Fuel Disposal Costs

Acting through the DOE and pursuant to the Nuclear Waste Policy Act of 1982, the U.S. government entered into contracts with Alabama Power and Georgia Power that require the DOE to dispose of spent nuclear fuel and high level radioactive waste generated at Plants Farley, Hatch, and Vogtle Units 1 and 2 beginning no later than January 31, 1998. The DOE has yet to commence the performance of its contractual and statutory obligation to dispose of spent nuclear fuel. Consequently, Alabama Power and Georgia Power pursued and continue to pursue legal remedies against the U.S. government for its partial breach of contract.

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In 2014, Alabama Power and Georgia Power filed lawsuits against the U.S. government for the costs of continuing to store spent nuclear fuel at Plants Farley, Hatch, and Vogtle Units 1 and 2 for the period from January 1, 2011 through December 31, 2013. The damage period was subsequently extended to December 31, 2014. In October 2017, Alabama Power and Georgia Power filed additional lawsuits against the U.S. government in the Court of Federal Claims for the costs of continuing to store spent nuclear fuel at Plants Farley, Hatch, and Vogtle Units 1 and 2 for the period from January 1, 2015 through December 31, 2017. Damages will continue to accumulate until the issue is resolved, the U.S. government disposes of Alabama Power's and Georgia Power's spent nuclear fuel pursuant to its contractual obligations, or alternative storage is otherwise provided. No amounts have been recognized in the financial statements as of December 31, 2018 for any potential recoveries from the pending lawsuits. The final outcome of these matters cannot be determined at this time. However, Alabama Power and Georgia Power expect to credit any recoveries back for the benefit of customers in accordance with direction from their respective PSC and, therefore, no material impact on Southern Company's, Alabama Power's, or Georgia Power's net income is expected.

On-site dry spent fuel storage facilities are operational at all three plants and can be expanded to accommodate spent fuel through the expected life of each plant.

Nuclear Insurance

Under the Price-Anderson Amendments Act (Act), Alabama Power and Georgia Power maintain agreements of indemnity with the NRC that, together with private insurance, cover third-party liability arising from any nuclear incident occurring at the companies' nuclear power plants. The Act provides funds up to \$14.1 billion for public liability claims that could arise from a single nuclear incident. Each nuclear plant is insured against this liability to a maximum of \$450 million by American Nuclear Insurers (ANI), with the remaining coverage provided by a mandatory program of deferred premiums that could be assessed, after a nuclear incident, against all owners of commercial nuclear reactors. A company could be assessed up to \$138 million per incident for each licensed reactor it operates but not more than an aggregate of \$20 million per incident to be paid in a calendar year for each reactor. Such maximum assessment, excluding any applicable state premium taxes, for Alabama Power and Georgia Power, based on its ownership and buyback interests in all licensed reactors, is \$275 million and \$267 million, respectively, per incident, but not more than an aggregate of \$41 million and \$40 million, respectively, to be paid for each incident in any one year. Both the maximum assessment per reactor and the maximum yearly assessment are adjusted for inflation at least every five years. The next scheduled adjustment is due no later than September 10, 2023. See Note 5 under "Joint Ownership Agreements" for additional information on joint ownership agreements.

Alabama Power and Georgia Power are members of Nuclear Electric Insurance Limited (NEIL), a mutual insurer established to provide property damage insurance in an amount up to \$1.5 billion for members' operating nuclear generating facilities. Additionally, both companies have NEIL policies that currently provide decontamination, excess property insurance, and premature decommissioning coverage up to \$1.25 billion for nuclear losses and policies providing coverage up to \$750 million for non-nuclear losses in excess of the \$1.5 billion primary coverage.

NEIL also covers the additional costs that would be incurred in obtaining replacement power during a prolonged accidental outage at a member's nuclear plant. Members can purchase this coverage, subject to a deductible waiting period of up to 26 weeks, with a maximum per occurrence per unit limit of \$490 million. After the deductible period, weekly indemnity payments would be received until either the unit is operational or until the limit is exhausted. Alabama Power and Georgia Power each purchase limits based on the projected full cost of replacement power, subject to ownership limitations, and have each elected a 12-week deductible waiting period for each nuclear plant.

A builders' risk property insurance policy has been purchased from NEIL for the construction of Plant Vogtle Units 3 and 4. This policy provides the Vogtle Owners up to \$2.75 billion for accidental property damage occurring during construction.

Under each of the NEIL policies, members are subject to assessments each year if losses exceed the accumulated funds available to the insurer. The maximum annual assessments for Alabama Power and Georgia Power as of December 31, 2018 under the NEIL policies would be \$56 million and \$85 million, respectively.

Claims resulting from terrorist acts are covered under both the ANI and NEIL policies (subject to normal policy limits). The aggregate, however, that NEIL will pay for all claims resulting from terrorist acts in any 12-month period is \$3.2 billion plus such additional amounts NEIL can recover through reinsurance, indemnity, or other sources.

For all on-site property damage insurance policies for commercial nuclear power plants, the NRC requires that the proceeds of such policies shall be dedicated first for the sole purpose of placing the reactor in a safe and stable condition after an accident. Any remaining proceeds are to be applied next toward the costs of decontamination and debris removal operations ordered by the NRC, and any further remaining proceeds are to be paid either to the applicable company or to its debt trustees as may be appropriate under the policies and applicable trust indentures. In the event of a loss, the amount of insurance available might not be adequate to cover property damage and other expenses incurred. Uninsured losses and other expenses, to the extent not

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recovered from customers, would be borne by Alabama Power or Georgia Power, as applicable, and could have a material effect on Southern Company's, Alabama Power's, and Georgia Power's financial condition and results of operations.

All retrospective assessments, whether generated for liability, property, or replacement power, may be subject to applicable state premium taxes.

Other Matters

Mississippi Power

In 2013, Mississippi Power submitted a lost revenue claim under the Deep Horizon Economic and Property Damages Settlement Agreement associated with the oil spill that occurred in the Gulf of Mexico in 2010. On May 14, 2018, Mississippi Power's claim was settled. The settlement proceeds of \$18 million, net of expenses and income tax, are included in Mississippi Power's earnings for 2018. As of December 31, 2018, Mississippi Power had received half of the settlement proceeds.

Southern Company Gas

A wholly-owned subsidiary of Southern Company Gas owns and operates a natural gas storage facility consisting of two salt dome caverns in Louisiana. Periodic integrity tests are required in accordance with rules of the Louisiana Department of Natural Resources (DNR). In August 2017, in connection with an ongoing integrity project, updated seismic mapping indicated the proximity of one of the caverns to the edge of the salt dome may be less than the required minimum and could result in Southern Company Gas retiring the cavern early. At December 31, 2018, the facility's property, plant, and equipment had a net book value of \$109 million, of which the cavern itself represents approximately 20%. A potential early retirement of this cavern is dependent upon several factors including compliance with an order from the Louisiana DNR detailing the requirements to place the cavern back in service, which includes, among other things, obtaining core samples to determine the composition of the sheath surrounding the edge of the salt dome.

The cavern continues to maintain its pressures and overall structural integrity. These events were considered in connection with Southern Company Gas' annual long-lived asset impairment analysis, which determined there was no impairment as of December 31, 2018. Any changes in results of monitoring activities, rates at which expiring capacity contracts are re-contracted, timing of placing the cavern back in service, or Louisiana DNR requirements could trigger impairment. Further, early retirement of the cavern could trigger impairment of other long-lived assets associated with the natural gas storage facility. The ultimate outcome of this matter cannot be determined at this time, but could have a significant impact on Southern Company's or Southern Company Gas' financial statements.

4. REVENUE FROM CONTRACTS WITH CUSTOMERS

The registrants generate revenues from a variety of sources, some of which are excluded from the scope of ASC 606, such as leases, derivatives, and certain cost recovery mechanisms. See Note 1 under "Recently Adopted Accounting Standards – Revenue" for additional information on the adoption of ASC 606 for revenue from contracts with customers and under "Revenues" for additional information on the revenue policies of the registrants.

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The following tables disaggregate revenue sources for the year ended December 31, 2018:

	2018
	<i>(in millions)</i>
Southern Company	
<i>Operating revenues</i>	
Retail electric revenues ^(a)	
Residential	\$ 6,608
Commercial	5,266
Industrial	3,224
Other	124
Natural gas distribution revenues	3,175
Alternative revenue programs ^(b)	(20)
<i>Total retail electric and gas distribution revenues</i>	\$ 18,377
Wholesale energy revenues ^{(c)(d)}	1,896
Wholesale capacity revenues ^(d)	620
Other natural gas revenues ^(e)	699
Other revenues ^(f)	1,903
<i>Total operating revenues</i>	\$ 23,495

- (a) Retail electric revenues include \$75 million of leases and a net increase of \$60 million from certain cost recovery mechanisms that are not accounted for as revenue under ASC 606. See Note 2 for additional information on cost recovery mechanisms.
- (b) See Note 1 under "Revenues" for additional information on alternative revenue programs at the natural gas distribution utilities. Alternative revenue program revenues are presented net of any previously recognized program amounts billed to customers during the same accounting period.
- (c) Wholesale energy revenues include \$299 million of revenues accounted for as derivatives, primarily related to short-term physical energy sales in the wholesale electricity market. See Note 1 under "Revenues – Southern Power" and Note 14 for additional information on energy-related derivative contracts.
- (d) Wholesale energy and wholesale capacity revenues include \$384 million and \$121 million, respectively, of PPA contracts accounted for as leases.
- (e) Other natural gas revenues related to Southern Company Gas' energy and risk management activities are presented net of the related costs of those activities and include gross third-party revenues of \$7.0 billion of which \$3.9 billion relates to contracts that are accounted for as derivatives. See Note 16 under "Southern Company Gas" for additional information on the components of wholesale gas services operating revenues.
- (f) Other revenues include \$322 million of revenues not accounted for under ASC 606.

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	2018		
	Alabama Power	Georgia Power	Mississippi Power
	<i>(in millions)</i>		
Operating revenues			
Retail revenues ^{(a)(b)}			
Residential	\$ 2,335	\$ 3,301	\$ 273
Commercial	1,578	3,023	286
Industrial	1,428	1,344	321
Other	26	84	9
Total retail electric revenues	\$ 5,367	\$ 7,752	\$ 889
Wholesale energy revenues ^(c)	297	133	348
Wholesale capacity revenues	101	54	6
Other revenues ^{(b)(d)}	267	481	22
Total operating revenues	\$ 6,032	\$ 8,420	\$ 1,265

- (a) Retail revenues at Alabama Power, Georgia Power, and Mississippi Power include a net increase or (net reduction) of \$152 million, \$(19) million, and \$(13) million, respectively, related to certain cost recovery mechanisms that are not accounted for as revenue under ASC 606. See Note 2 for additional information on cost recovery mechanisms.
- (b) Retail revenues and other revenues at Georgia Power include \$74 million and \$135 million, respectively, of revenues accounted for as leases.
- (c) Wholesale energy revenues at Alabama Power, Georgia Power, and Mississippi Power include \$20 million, \$29 million, and \$4 million, respectively, accounted for as derivatives primarily related to short-term physical energy sales in the wholesale electricity market. See Note 14 for additional information on energy-related derivative contracts.
- (d) Other revenues at Alabama Power and Georgia Power include \$57 million and \$109 million, respectively, of revenues not accounted for under ASC 606.

	2018	
	<i>(in millions)</i>	
Southern Power		
PPA capacity revenues ^(a)	\$	580
PPA energy revenues ^(a)		1,140
Non-PPA revenues ^(b)		472
Other revenues		13
Total operating revenues	\$	2,205

- (a) PPA capacity revenues and PPA energy revenues include \$186 million and \$413 million, respectively, related to PPAs accounted for as leases. See Note 1 under "Revenues – Southern Power" for additional information on capacity revenues accounted for as leases.
- (b) Non-PPA revenues include \$242 million of revenues from short-term sales related to physical energy sales in the wholesale electricity market accounted for as derivatives. See Note 1 under "Revenues – Southern Power" and Note 14 for additional information on energy-related derivative contracts.

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2018

(in millions)

Southern Company Gas

Operating revenues

Natural gas distribution revenues		
Residential	\$	1,525
Commercial		436
Transportation		944
Industrial		40
Other		230
Alternative revenue programs ^(a)		(20)
Total natural gas distribution revenues	\$	3,155
Gas pipeline investments		32
Wholesale gas services ^(b)		101
Gas marketing services ^(c)		568
Other revenues		53
Total operating revenues	\$	3,909

- (a) See Note 1 under "Revenues – Southern Company Gas" for additional information on alternative revenue programs at the natural gas distribution utilities. Alternative revenue program revenues are presented net of any previously recognized program amounts billed to customers during the same accounting period.
- (b) Wholesale gas services revenues are presented net of the related costs associated with its energy trading and risk management activities. Operating revenues, as presented, include gross third-party revenues of \$7.0 billion of which \$3.9 billion relates to contracts that are accounted for as derivatives. See Note 16 under "Southern Company Gas" for additional information on the components of wholesale gas services operating revenues and Note 14 for additional information on energy-related derivative contracts.
- (c) Gas marketing services includes \$3 million of revenues not accounted for under ASC 606.

Contract Balances

The following table reflects the closing balances of receivables, contract assets, and contract liabilities related to revenues from contracts with customers at December 31, 2018:

	Receivables	Contract Assets	Contract Liabilities
		<i>(in millions)</i>	
Southern Company	\$ 2,630	\$ 102	\$ 32
Alabama Power	520	—	12
Georgia Power	721	58	7
Mississippi Power	100	—	—
Southern Power	118	—	11
Southern Company Gas	952	—	2

As of December 31, 2018, Alabama Power had contract liabilities for outstanding performance obligations primarily related to extended service agreements. Georgia Power had contract assets primarily related to fixed retail customer bill programs where the payment is contingent upon Georgia Power's continued performance and the customer's continued participation in the program over the one-year contract term and to unregulated service agreements where payment is contingent upon project completion. Georgia Power also had contract liabilities for outstanding performance obligations primarily related to unregulated service agreements. Southern Power's contract liabilities relate to collections recognized in advance of revenue for certain levelized PPAs with Georgia Power. Southern Company's unregulated distributed generation business had \$39 million and \$11 million of contract assets and contract liabilities, respectively, at December 31, 2018 remaining for outstanding performance obligations.

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Remaining Performance Obligations

The traditional electric operating companies and Southern Power have long-term contracts with customers in which revenues are recognized as performance obligations are satisfied over the contract term. These contracts primarily relate to PPAs whereby the traditional electric operating companies and Southern Power provide electricity and generation capacity to a customer. The revenue recognized for the delivery of electricity is variable; however, certain PPAs include a fixed payment for fixed generation capacity over the term of the contract. Southern Company's unregulated distributed generation business also has partially satisfied performance obligations related to certain fixed price contracts. Revenues from contracts with customers related to these performance obligations remaining at December 31, 2018 are expected to be recognized as follows:

	2019	2020	2021	2022	2023	2024 and Thereafter
	<i>(in millions)</i>					
Southern Company ^(*)	\$ 487	\$ 341	\$ 315	\$ 315	\$ 306	\$ 2,103
Alabama Power	23	22	26	23	22	140
Georgia Power	41	38	40	30	31	82
Mississippi Power	3	3	1	—	—	—
Southern Power	323	295	270	281	275	2,028

(*) Excludes amounts related to held for sale assets. See Note 15 under "Southern Company's Sale of Gulf Power" for additional information.

5. PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment is stated at original cost or fair value at acquisition, as appropriate, less any regulatory disallowances and impairments. Original cost may include: materials; labor; minor items of property; appropriate administrative and general costs; payroll-related costs such as taxes, pensions, and other benefits; and the interest capitalized and/or cost of equity funds used during construction.

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The registrants' property, plant, and equipment in service consisted of the following at December 31, 2018 and 2017:

At December 31, 2018:	Southern Company	Alabama Power	Georgia Power	Mississippi Power	Southern Power	Southern Company Gas
	<i>(in millions)</i>					
Electric utilities:						
Generation	\$ 52,324	\$ 16,533	\$ 19,145	\$ 2,849	\$ 13,246	\$ —
Transmission	11,344	4,380	6,156	769	—	—
Distribution	18,746	7,389	10,389	968	—	—
General/other	4,446	2,100	1,985	314	25	—
Electric utilities' plant in service	86,860	30,402	37,675	4,900	13,271	—
Southern Company Gas:						
Natural gas distribution utilities transportation and distribution	12,409	—	—	—	—	12,409
Storage facilities	1,640	—	—	—	—	1,640
Other	1,128	—	—	—	—	1,128
Southern Company Gas plant in service	15,177	—	—	—	—	15,177
Other plant in service	1,669	—	—	—	—	—
Total plant in service	\$ 103,706	\$ 30,402	\$ 37,675	\$ 4,900	\$ 13,271	\$ 15,177

At December 31, 2017:	Southern Company	Alabama Power	Georgia Power	Mississippi Power	Southern Power	Southern Company Gas
	<i>(in millions)</i>					
Electric utilities:						
Generation	\$ 51,279	\$ 14,213	\$ 17,038	\$ 2,801	\$ 13,737	\$ —
Transmission	11,562	4,119	5,947	737	—	—
Distribution	19,239	7,034	9,978	946	—	—
General/other	4,402	1,960	1,898	289	18	—
Electric utilities' plant in service	86,482	27,326	34,861	4,773	13,755	—
Southern Company Gas:						
Natural gas distribution utilities transportation and distribution	13,079	—	—	—	—	13,079
Storage facilities	1,599	—	—	—	—	1,599
Other	1,155	—	—	—	—	1,155
Southern Company Gas plant in service	15,833	—	—	—	—	15,833
Other plant in service	1,227	—	—	—	—	—
Total plant in service	\$ 103,542	\$ 27,326	\$ 34,861	\$ 4,773	\$ 13,755	\$ 15,833

The cost of replacements of property, exclusive of minor items of property, is capitalized. The cost of maintenance, repairs, and replacement of minor items of property is charged to other operations and maintenance expenses as incurred or performed with the exception of nuclear refueling costs and certain maintenance costs including those described below.

In accordance with orders from their respective state PSCs, Alabama Power and Georgia Power defer nuclear outage operations and maintenance expenses to a regulatory asset when the charges are incurred. Alabama Power amortizes the costs over a subsequent 18-month period with Plant Farley's fall outage cost amortization beginning in January of the following year and spring outage cost amortization beginning in July of the same year. Georgia Power amortizes its costs over each unit's operating cycle, or 18 months for Plant Vogtle Units 1 and 2 and 24 months for Plant Hatch Units 1 and 2.

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A portion of Mississippi Power's railway track maintenance costs is charged to fuel stock and recovered through Mississippi Power's fuel clause.

The portion of Southern Company Gas' non-working gas used to maintain the structural integrity of natural gas storage facilities that is considered to be non-recoverable is recorded as depreciable property, plant, and equipment, while the recoverable or retained portion is recorded as non-depreciable property, plant, and equipment.

Capital Leases

Assets acquired under a capital lease are included in property, plant, and equipment and are further detailed in the table below for the applicable registrants:

	Southern Company	Georgia Power
	<i>(in millions)</i>	
At December 31, 2018:		
Office buildings	\$ 216	\$ 61
PPAs ^(*)	—	144
Computer-related equipment	43	—
Gas pipeline	7	—
Less: Accumulated amortization	(75)	(84)
Balance, net of amortization	\$ 191	\$ 121
At December 31, 2017:		
Office buildings	\$ 216	\$ 61
PPAs ^(*)	—	144
Computer-related equipment	51	—
Gas pipeline	6	—
Less: Accumulated amortization	(72)	(68)
Balance, net of amortization	\$ 201	\$ 137

(*) Represents Georgia Power's affiliate PPAs with Southern Power. See Note 1 under "Affiliate Transactions" and Note 9 under "Fuel and Power Purchase Agreements – Affiliate" for additional information.

See Note 8 under "Long-term Debt – Capital Leases" for additional information.

Depreciation and Amortization

The traditional electric operating companies' and Southern Company Gas' depreciation of the original cost of utility plant in service is provided primarily by using composite straight-line rates. The approximate rates for 2018, 2017, and 2016 are as follows:

	2018	2017	2016
	<i>(percent)</i>		
Alabama Power	3.0%	2.9%	3.0%
Georgia Power	2.6%	2.7%	2.8%
Mississippi Power ^(*)	4.1%	3.7%	4.2%
Southern Company Gas	2.9%	2.9%	2.8%

(*) Mississippi Power's decrease in 2017 is primarily the result of recording a loss on its lignite mine in June 2017.

Depreciation studies are conducted periodically to update the composite rates. These studies are filed with the respective state PSC and/or other applicable state and federal regulatory agencies for the traditional electric operating companies and natural gas distribution utilities. In 2016, Alabama Power submitted an updated depreciation study to the FERC and received authorization to use the recommended rates beginning January 2017. The study was also provided to the Alabama PSC.

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Under the terms of the 2013 ARP, Georgia Power amortized approximately \$14 million annually from 2014 through 2016 of its remaining regulatory liability related to other cost of removal obligations.

Southern Company's 2017 depreciation includes \$34 million of reductions in depreciation recognized by Gulf Power under the terms of its 2013 rate case settlement agreement with the Florida PSC.

When property, plant, and equipment subject to composite depreciation is retired or otherwise disposed of in the normal course of business, its original cost, together with the cost of removal, less salvage, is charged to accumulated depreciation. For other property dispositions, the applicable cost and accumulated depreciation are removed from the balance sheet accounts, and a gain or loss is recognized. Minor items of property included in the original cost of the asset are retired when the related property unit is retired.

At December 31, 2018 and 2017, accumulated depreciation for utility plant in service totaled \$30.3 billion and \$30.8 billion, respectively, for Southern Company and \$4.3 billion and \$4.5 billion, respectively, for Southern Company Gas.

Depreciation of the original cost of other plant in service is provided primarily on a straight-line basis over estimated useful lives, which for Southern Company range up to 65 years and for Southern Company Gas range from five to 15 years for transportation equipment, 40 to 60 years for storage facilities, and up to 65 years for other assets. At December 31, 2018 and 2017, accumulated depreciation for other plant in service totaled \$766 million and \$673 million, respectively, for Southern Company and \$129 million and \$75 million, respectively, for Southern Company Gas.

Southern Power

Southern Power applies component depreciation, where depreciation is computed principally by the straight-line method over the estimated useful life of the asset. Certain of Southern Power's generation assets related to natural gas-fired facilities are depreciated on a units-of-production basis, using hours or starts, to better match outage and maintenance costs to the usage of, and revenues from, these assets. The primary assets in Southern Power's property, plant, and equipment are generating facilities, which generally have estimated useful lives as follows:

Southern Power Generating Facility	Useful life
Natural gas	Up to 45 years
Biomass	Up to 40 years
Solar	Up to 35 years
Wind	Up to 30 years

Southern Power reviews its estimated useful lives and salvage values on an ongoing basis. The results of these reviews could result in changes which could have a material impact on Southern Power's net income in the near term.

When Southern Power's depreciable property, plant, and equipment is retired, or otherwise disposed of in the normal course of business, the applicable cost and accumulated depreciation is removed and a gain or loss is recognized in the statements of income.

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Joint Ownership Agreements

At December 31, 2018, the registrants' percentage ownership and investment (exclusive of nuclear fuel) in jointly-owned facilities in commercial operation were as follows:

Facility (Type)	Percent Ownership		Plant in Service		Accumulated Depreciation		CWIP
					<i>(in millions)</i>		
Alabama Power							
Greene County (natural gas) Units 1 and 2	60.0% ^(a)	\$	274	\$	71	\$	1
Plant Miller (coal) Units 1 and 2	91.8 ^(b)		2,056		619		138
Georgia Power							
Plant Hatch (nuclear)	50.1% ^(c)	\$	1,569	\$	615	\$	54
Plant Vogtle (nuclear) Units 1 and 2	45.7 ^(c)		3,804		2,150		84
Plant Scherer (coal) Units 1 and 2	8.4 ^(c)		266		96		14
Plant Scherer (coal) Unit 3	75.0 ^(c)		1,238		493		66
Plant Wansley (coal)	53.5 ^(c)		1,179		362		160
Rocky Mountain (pumped storage)	25.4 ^(d)		184		135		—
Mississippi Power							
Greene County (natural gas) Units 1 and 2	40.0% ^(a)	\$	180	\$	93	\$	1
Plant Daniel (coal) Units 1 and 2	50.0 ^(e)		723		201		7
Southern Company Gas							
Dalton Pipeline (natural gas pipeline)	50.0% ^(f)	\$	270	\$	6	\$	—

(a) Jointly owned by Alabama Power and Mississippi Power and operated and maintained by Alabama Power.

(b) Jointly owned with PowerSouth and operated and maintained by Alabama Power.

(c) Georgia Power owns undivided interests in Plants Hatch, Vogtle Units 1 and 2, Scherer, and Wansley in varying amounts jointly with one or more of the following entities: OPC, MEAG Power, Dalton, Florida Power & Light Company, JEA, and Gulf Power. Georgia Power has been contracted to operate and maintain the plants as agent for the co-owners and is jointly and severally liable for third party claims related to these plants.

(d) Jointly owned with OPC, which is the operator of the plant.

(e) Jointly owned by Gulf Power and Mississippi Power. In accordance with the operating agreement, Mississippi Power acts as Gulf Power's agent with respect to the operation and maintenance of these units.

(f) Jointly owned with The Williams Companies, Inc. The Dalton Pipeline is a 115-mile natural gas pipeline that serves as an extension of the Transco natural gas pipeline system into northwest Georgia. Southern Company Gas also entered into an agreement to lease its 50% undivided ownership in the Dalton Pipeline that became effective when it was placed in service in August 2017. Under the lease, Southern Company Gas will receive approximately \$26 million annually for an initial term of 25 years. The lessee is responsible for maintaining the pipeline during the lease term and for providing service to transportation customers under its FERC-regulated tariff.

Georgia Power also owns 45.7% of Plant Vogtle Units 3 and 4, which are currently under construction and had a CWIP balance of \$4.5 billion at December 31, 2018. See Note 2 under "Georgia Power – Nuclear Construction" for additional information.

On December 4, 2018, Southern Power completed the sale of its 65% ownership interest in Plant Stanton Unit A, which Southern Power previously jointly-owned with OUC, the FMPA, and the KUA, to NextEra Energy. See Note 15 under "Southern Power – Sales of Natural Gas Plants" for additional information.

In conjunction with Southern Company's sale of Gulf Power, Mississippi Power and Gulf Power have committed to seek a restructuring of their 50% undivided ownership interests in Plant Daniel such that each of them would, after the restructuring, own 100% of a generating unit. On January 15, 2019, Gulf Power provided notice to Mississippi Power that Gulf Power will retire its share of the generating capacity of Plant Daniel on January 15, 2024. Mississippi Power has the option to purchase Gulf Power's ownership interest for \$1 on January 15, 2024, provided that Mississippi Power exercises the option no later than 120 days prior to that date. Mississippi Power is assessing the potential operational and economic effects of Gulf Power's notice. The ultimate outcome of these matters remains subject to completion of Mississippi Power's evaluations and applicable regulatory

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approvals, including the FERC and the Mississippi PSC, and cannot now be determined. See Note 15 under "Southern Company's Sale of Gulf Power" for information regarding the sale of Gulf Power.

The registrants' proportionate share of their jointly-owned facility operating expenses is included in the corresponding operating expenses in the statements of income and each registrant is responsible for providing its own financing.

Assets Subject to Lien

On October 2, 2018, the Mississippi PSC approved executed agreements between Mississippi Power and its largest retail customer, Chevron Products Company (Chevron), for Mississippi Power to continue providing retail service to the Chevron refinery in Pascagoula, Mississippi through 2038. The agreements grant Chevron a security interest in the co-generation assets, with a net book value of approximately \$101 million at December 31, 2018, located at the refinery that is exercisable upon the occurrence of (i) certain bankruptcy events or (ii) other events of default coupled with specific reductions in steam output at the facility and a downgrade of Mississippi Power's credit rating to below investment grade by two of the three rating agencies.

Under the terms of the PPA and the expansion PPA for Southern Power's Plant Mankato, which was acquired in 2016, approximately \$563 million of assets, primarily related to property, plant, and equipment, are subject to lien at December 31, 2018. See Note 15 under "Southern Power – Sales of Natural Gas Plants" for additional information regarding the proposed sale of Plant Mankato.

See Note 3 under "General Litigation Matters – Southern Power" for information regarding liens on Southern Power's Roserock facility.

See Note 8 under "Secured Debt" for information regarding debt secured by certain assets of Georgia Power, Mississippi Power, and Southern Company Gas.

6. ASSET RETIREMENT OBLIGATIONS

AROs are computed as the present value of the estimated costs for an asset's future retirement and are recorded in the period in which the liability is incurred. The estimated costs are capitalized as part of the related long-lived asset and depreciated over the asset's useful life. In the absence of quoted market prices, AROs are estimated using present value techniques in which estimates of future cash outlays associated with the asset retirements are discounted using a credit-adjusted risk-free rate. Estimates of the timing and amounts of future cash outlays are based on projections of when and how the assets will be retired and the cost of future removal activities. Each traditional electric operating company and natural gas distribution utility has received accounting guidance from its state PSC or applicable state regulatory agency allowing the continued accrual or recovery of other retirement costs for long-lived assets that it does not have a legal obligation to retire. Accordingly, the accumulated removal costs for these obligations are reflected in the balance sheets as regulatory liabilities and amounts to be recovered are reflected in the balance sheets as regulatory assets.

The ARO liabilities for the traditional electric operating companies primarily relate to facilities that are subject to the CCR Rule, principally ash ponds. In addition, Alabama Power and Georgia Power have retirement obligations related to the decommissioning of nuclear facilities (Alabama Power's Plant Farley and Georgia Power's ownership interests in Plant Hatch and Plant Vogtle Units 1 and 2). See "Nuclear Decommissioning" herein for additional information. The traditional electric operating companies also have AROs related to various landfill sites, asbestos removal, and underground storage tanks, as well as, for Alabama Power, disposal of polychlorinated biphenyls in certain transformers and sulfur hexafluoride gas in certain substation breakers, for Georgia Power, gypsum cells, and for Mississippi Power, mine reclamation and water wells. The ARO liability for Southern Power primarily relates to Southern Power's solar and wind facilities, which are located on long-term land leases requiring the restoration of land at the end of the lease.

The traditional electric operating companies and Southern Company Gas also have identified other retirement obligations, such as obligations related to certain electric transmission and distribution facilities, certain asbestos containing material within long-term assets not subject to ongoing repair and maintenance activities, certain wireless communication towers, the disposal of polychlorinated biphenyls in certain transformers, leasehold improvements, equipment on customer property, and property associated with the Southern Company system's rail lines and natural gas pipelines. However, liabilities for the removal of these assets have not been recorded because the settlement timing for certain retirement obligations related to these assets is indeterminable and, therefore, the fair value of the retirement obligations cannot be reasonably estimated. A liability for these retirement obligations will be recognized when sufficient information becomes available to support a reasonable estimation of the ARO.

Southern Company and the traditional electric operating companies will continue to recognize in their respective statements of income allowed removal costs in accordance with regulatory treatment. Any differences between costs recognized in accordance

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with accounting standards related to asset retirement and environmental obligations and those reflected in rates are recognized as either a regulatory asset or liability in the balance sheets as ordered by the various state PSCs.

Details of the AROs included in the balance sheets are as follows:

	Southern Company	Alabama Power	Georgia Power	Mississippi Power	Southern Power
	<i>(in millions)</i>				
Balance at December 31, 2016	\$ 4,514	\$ 1,533	\$ 2,532	\$ 179	\$ 64
Liabilities incurred	16	—	4	—	6
Liabilities settled	(177)	(26)	(120)	(23)	—
Accretion	179	77	89	5	4
Cash flow revisions	292	125	133	13	4
Balance at December 31, 2017	\$ 4,824	\$ 1,709	\$ 2,638	\$ 174	\$ 78
Liabilities incurred	29	—	27	—	2
Liabilities settled	(244)	(55)	(116)	(35)	—
Accretion	217	106	94	5	4
Cash flow revisions	4,737	1,450	3,186	16	—
Reclassification to held for sale	(169)	—	—	—	—
Balance at December 31, 2018	\$ 9,394	\$ 3,210	\$ 5,829	\$ 160	\$ 84

In June 2018, Alabama Power recorded an increase of approximately \$1.2 billion to its AROs related to the CCR Rule. Mississippi Power also recorded an increase of approximately \$11 million to its AROs related to an ash pond at Plant Greene County, which is jointly-owned with Alabama Power. The revised cost estimates were based on information from feasibility studies performed on ash ponds in use at plants operated by Alabama Power, including Plant Greene County. During the second quarter 2018, Alabama Power's management completed its analysis of these studies which indicated that additional closure costs, primarily related to increases in estimated ash volume, water management requirements, and design revisions, will be required to close these ash ponds under the planned closure-in-place methodology. As the level of work becomes more defined in the next 12 months, it is likely that these cost estimates will change and the change could be material.

In December 2018, Georgia Power recorded an increase of approximately \$3.1 billion to its AROs related to the CCR Rule and the related state rule. During the second half of 2018, Georgia Power completed a strategic assessment related to its plans to close the ash ponds at all of its generating plants in compliance with the CCR Rule and the related state rule. This assessment included engineering and constructability studies related to design assumptions for ash pond closures and advanced engineering methods. The results indicated that additional closure costs will be required to close these ash ponds, primarily due to changes in closure strategies, the estimated amount of ash to be excavated, and additional water management requirements necessary to support closure strategies. These factors also impact the estimated timing of future cash outlays.

In June 2018, Alabama Power completed an updated decommissioning cost site study for Plant Farley. The estimated cost of decommissioning based on the study resulted in an increase in Alabama Power's ARO liability of approximately \$300 million. In December 2018, Georgia Power completed updated decommissioning cost site studies for Plant Hatch and Plant Vogtle Units 1 and 2. The estimated cost of decommissioning based on the studies resulted in an increase in Georgia Power's ARO liability of approximately \$130 million. See "Nuclear Decommissioning" below for additional information.

The 2018 reclassification of a portion of the ARO liability to liabilities held for sale by Southern Company represents the AROs related to Gulf Power. See Note 15 under "Southern Company's Sale of Gulf Power" and "Assets Held for Sale" for additional information.

In 2017, Alabama Power's and Georgia Power's cash flow revisions were primarily related to changes in closure strategy for ash ponds and landfills. Georgia Power's cash flow revisions in 2017 also related to changes in closure strategy for gypsum cells. Mississippi Power's cash flow revisions in 2017 primarily related to a revision in the closure date of its lignite mine. The liabilities settled in 2017 for Alabama Power, Georgia Power, and Mississippi Power were primarily related to ash pond closure activity.

The cost estimates for AROs related to the CCR Rule are based on information at December 31, 2018 using various assumptions related to closure and post-closure costs, timing of future cash outlays, inflation and discount rates, and the potential methods for

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complying with the CCR Rule requirements for closure. The traditional electric operating companies expect to continue to periodically update their ARO cost estimates, which could increase further, as additional information becomes available. Absent continued recovery of ARO costs through regulated rates, Southern Company's and the traditional electric operating companies' results of operations, cash flows, and financial condition could be materially impacted. The ultimate outcome of this matter cannot be determined at this time.

Nuclear Decommissioning

The NRC requires licensees of commercial nuclear power reactors to establish a plan for providing reasonable assurance of funds for future decommissioning. Alabama Power and Georgia Power have external trust funds (Funds) to comply with the NRC's regulations. Use of the Funds is restricted to nuclear decommissioning activities. The Funds are managed and invested in accordance with applicable requirements of various regulatory bodies, including the NRC, the FERC, and state PSCs, as well as the IRS. While Alabama Power and Georgia Power are allowed to prescribe an overall investment policy to the Funds' managers, neither Southern Company nor its subsidiaries or affiliates are allowed to engage in the day-to-day management of the Funds or to mandate individual investment decisions. Day-to-day management of the investments in the Funds is delegated to unrelated third-party managers with oversight by the management of Alabama Power and Georgia Power. The Funds' managers are authorized, within certain investment guidelines, to actively buy and sell securities at their own discretion in order to maximize the return on the Funds' investments. The Funds are invested in a tax-efficient manner in a diversified mix of equity and fixed income securities and are reported as trading securities.

Alabama Power and Georgia Power record the investment securities held in the Funds at fair value, as disclosed in Note 13, as management believes that fair value best represents the nature of the Funds. Gains and losses, whether realized or unrealized, are recorded in the regulatory liability for AROs in the balance sheets and are not included in net income or OCI. Fair value adjustments and realized gains and losses are determined on a specific identification basis.

The Funds at Georgia Power participate in a securities lending program through the managers of the Funds. Under this program, Georgia Power's Funds' investment securities are loaned to institutional investors for a fee. Securities loaned are fully collateralized by cash, letters of credit, and/or securities issued or guaranteed by the U.S. government or its agencies or instrumentalities. At December 31, 2018 and 2017, approximately \$27 million and \$76 million, respectively, of the fair market value of Georgia Power's Funds' securities were on loan and pledged to creditors under the Funds' managers' securities lending program. The fair value of the collateral received was approximately \$28 million and \$77 million at December 31, 2018 and 2017, respectively, and can only be sold by the borrower upon the return of the loaned securities. The collateral received is treated as a non-cash item in the statements of cash flows.

Investment securities in the Funds for December 31, 2018 and 2017 were as follows:

	Southern Company	Alabama Power	Georgia Power
	<i>(in millions)</i>		
At December 31, 2018:			
Equity securities	\$ 919	\$ 594	\$ 325
Debt securities	726	201	525
Other securities	74	51	23
Total investment securities in the Funds	\$ 1,719	\$ 846	\$ 873
At December 31, 2017:			
Equity securities	\$ 1,059	\$ 644	\$ 415
Debt securities	725	223	502
Other securities	47	35	12
Total investment securities in the Funds	\$ 1,831	\$ 902	\$ 929

These amounts exclude receivables related to investment income and pending investment sales and payables related to pending investment purchases. For Southern Company and Georgia Power, these amounts include Georgia Power's investment securities pledged to creditors and collateral received and excludes payables related to Georgia Power's securities lending program.

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The fair value increases (decreases) of the Funds, including reinvested interest and dividends and excluding the Funds' expenses, for 2018, 2017, and 2016 are shown in the table below. The fair value increases (decreases) included unrealized gains (losses) on securities held in the Funds at each of December 31, 2018, 2017, and 2016, which are also shown in the table below.

	Southern Company	Alabama Power	Georgia Power
	<i>(in millions)</i>		
Fair value increases (decreases)			
2018	\$ (67)	\$ (38)	\$ (29)
2017	233	125	108
2016	114	76	38
Unrealized gains (losses)			
At December 31, 2018	\$ (183)	\$ (96)	\$ (87)
At December 31, 2017	181	98	83
At December 31, 2016	48	34	14

The investment securities held in the Funds continue to be managed with a long-term focus. Accordingly, all purchases and sales within the Funds are presented separately in the statements of cash flows as investing cash flows, consistent with the nature of the securities and purpose for which the securities were acquired.

For Alabama Power, approximately \$17 million and \$18 million at December 31, 2018 and 2017, respectively, previously recorded in internal reserves is being transferred into the Funds through 2040 as approved by the Alabama PSC. The NRC's minimum external funding requirements are based on a generic estimate of the cost to decommission only the radioactive portions of a nuclear unit based on the size and type of reactor. Alabama Power and Georgia Power have filed plans with the NRC designed to ensure that, over time, the deposits and earnings of the Funds will provide the minimum funding amounts prescribed by the NRC.

At December 31, 2018 and 2017, the accumulated provisions for the external decommissioning trust funds were as follows:

	2018	2017
	<i>(in millions)</i>	
Alabama Power		
Plant Farley	\$ 846	\$ 902
Georgia Power		
Plant Hatch	\$ 547	\$ 583
Plant Vogtle Units 1 and 2	326	346
Total	\$ 873	\$ 929

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Site study cost is the estimate to decommission a specific facility as of the site study year. The decommissioning cost estimates are based on prompt dismantlement and removal of the plant from service. The actual decommissioning costs may vary from these estimates because of changes in the assumed date of decommissioning, changes in NRC requirements, or changes in the assumptions used in making these estimates. The estimated costs of decommissioning at December 31, 2018 based on the most current studies, which were each performed in 2018, were as follows:

	Plant Farley	Plant Hatch^(*)	Plant Vogtle Units 1 and 2^(*)
Decommissioning periods:			
Beginning year	2037	2034	2047
Completion year	2076	2075	2079
<i>(in millions)</i>			
Site study costs:			
Radiated structures	\$ 1,234	\$ 734	\$ 601
Spent fuel management	387	172	162
Non-radiated structures	99	56	79
Total site study costs	\$ 1,720	\$ 962	\$ 842

(*) Based on Georgia Power's ownership interests.

For ratemaking purposes, Alabama Power's decommissioning costs are based on the site study and Georgia Power's decommissioning costs are based on the NRC generic estimate to decommission the radioactive portion of the facilities and the site study estimate for spent fuel management as of 2012. Significant assumptions used to determine these costs for ratemaking were an estimated inflation rate of 4.5% and 2.4% for Alabama Power and Georgia Power, respectively, and an estimated trust earnings rate of 7.0% and 4.4% for Alabama Power and Georgia Power, respectively.

Amounts previously contributed to the Funds for Plant Farley are currently projected to be adequate to meet the decommissioning obligations. Alabama Power will continue to provide site-specific estimates of the decommissioning costs and related projections of funds in the external trust to the Alabama PSC and, if necessary, would seek the Alabama PSC's approval to address any changes in a manner consistent with NRC and other applicable requirements.

Under the 2013 ARP, the Georgia PSC approved Georgia Power's annual decommissioning cost for ratemaking of \$4 million and \$2 million for Plant Hatch and Plant Vogtle Units 1 and 2, respectively. Georgia Power expects the Georgia PSC to review and adjust, if necessary, the amounts collected in rates for nuclear decommissioning costs in the Georgia Power 2019 Base Rate Case.

7. CONSOLIDATED ENTITIES AND EQUITY METHOD INVESTMENTS

The registrants may hold ownership interests in a number of business ventures with varying ownership structures. Partnership interests and other variable interests are evaluated to determine if each entity is a VIE. If a venture is a VIE for which a registrant is the primary beneficiary, the assets, liabilities, and results of operations of the entity are consolidated. The registrants reassess the conclusion as to whether an entity is a VIE upon certain occurrences, which are deemed reconsideration events.

For entities that are not determined to be VIEs, the registrants evaluate whether they have control or significant influence over the investee to determine the appropriate consolidation and presentation. Generally, entities under the control of a registrant are consolidated, and entities over which a registrant can exert significant influence, but which a registrant does not control, are accounted for under the equity method of accounting. However, the registrants may also invest in partnerships and limited liability companies that maintain separate ownership accounts. All such investments are required to be accounted for under the equity method unless the interest is so minor that there is virtually no influence over operating and financial policies, as are all investments in joint ventures.

Investments accounted for under the equity method are recorded within equity investments in unconsolidated subsidiaries in the balance sheets and, for Southern Company and Southern Company Gas, the equity income is recorded within earnings from equity method investments in the statements of income. See "SEGCO" and "Southern Company Gas" herein for additional information.

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SEGCO

Alabama Power and Georgia Power own equally all of the outstanding capital stock of SEGCO, which owns electric generating units with a total rated capacity of 1,020 MWs, as well as associated transmission facilities. Alabama Power and Georgia Power account for SEGCO using the equity method; Southern Company consolidates SEGCO. SEGCO uses natural gas as the primary fuel source for 1,000 MWs of its generating capacity. The capacity of these units is sold equally to Alabama Power and Georgia Power. Alabama Power and Georgia Power make payments sufficient to provide for the operating expenses, taxes, interest expense, and a ROE. The share of purchased power included in purchased power, affiliates in the statements of income totaled \$102 million in 2018, \$76 million in 2017, and \$55 million in 2016 for Alabama Power and \$105 million in 2018, \$78 million in 2017, and \$57 million in 2016 for Georgia Power.

SEGCO paid \$18 million of dividends in 2018 and \$24 million in each of 2017 and 2016, of which one-half of each was paid to each of Alabama Power and Georgia Power. In addition, Alabama Power and Georgia Power each recognize 50% of SEGCO's net income.

Alabama Power, which owns and operates a generating unit adjacent to the SEGCO generating units, has 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.

See Note 9 under "Guarantees" for additional information regarding guarantees of Alabama Power and Georgia Power related to SEGCO.

Southern Power

Variable Interest Entities

Southern Power has certain wholly-owned subsidiaries that are determined to be VIEs. Southern Power is considered the primary beneficiary of these VIEs because it controls the most significant activities of the VIEs, including operating and maintaining the respective assets, and has the obligation to absorb expected losses of these VIEs to the extent of its equity interests.

SP Solar

On May 22, 2018, Southern Power sold a noncontrolling 33% limited partnership interest in SP Solar to Global Atlantic Financial Group Limited (Global Atlantic). See Note 15 under "Southern Power" for additional information. A wholly-owned subsidiary of Southern Power is the general partner and holds a 1% ownership interest in SP Solar and another wholly-owned subsidiary of Southern Power owns the remaining 66% ownership in SP Solar. SP Solar qualifies as a VIE since the arrangement is structured as a limited partnership and the 33% limited partner does not have substantive kick-out rights against the general partner. Southern Power previously consolidated SP Solar and will continue to do so as the primary beneficiary of the VIE since it controls the most significant activities of the partnership, including operating and maintaining its assets.

At December 31, 2018, SP Solar had total assets of \$6.3 billion, total liabilities of \$113 million, and noncontrolling interests of \$1.2 billion. Cash distributions from SP Solar are allocated 67% to Southern Power and 33% to Global Atlantic in accordance with their partnership interest percentage. Under the terms of the limited partnership agreement, distributions without limited partner consent are limited to available cash and SP Solar is obligated to distribute all such available cash to its partners each quarter. Available cash includes all cash generated in the quarter subject to the maintenance of appropriate operating reserves.

Transfers and sales of the assets in the VIE are subject to limited partner consent and the liabilities do not have recourse to the general credit of Southern Power. Liabilities consist of customary working capital items and do not include any long-term debt.

SP Wind

On December 11, 2018, Southern Power sold a noncontrolling tax-equity interest in SP Wind to three financial investors. SP Wind owns eight operating wind farms. See Note 15 under "Southern Power" for additional information. Southern Power owns 100% of the class B membership interests and the three financial investors own 100% of the Class A membership interests. SP Wind qualifies as a VIE since the structure of the arrangement is similar to a limited partnership and the Class A members do not have substantive kick-out rights against Southern Power. Southern Power previously consolidated SP Wind and will continue to do so as the primary beneficiary of the VIE since it controls the most significant activities of the entity, including operating and maintaining its assets.

At December 31, 2018, SP Wind had total assets of \$2.5 billion, total liabilities of \$51 million, and noncontrolling interests of \$47 million. Under the terms of the limited liability agreement, distributions without Class A member consent are limited to available cash and SP Wind is obligated to distribute all such available cash to its members each quarter. Available cash includes all cash

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generated in the quarter subject to the maintenance of appropriate operating reserves. Cash distributions from SP Wind are generally allocated 60% to Southern Power and 40% to the three financial investors in accordance with the limited liability agreement.

Transfers and sales of the assets in the VIE are subject to Class A member consent and the liabilities do not have recourse to the general credit of Southern Power. Liabilities consist of customary working capital items and do not include any long-term debt.

Redeemable Noncontrolling Interests

In April 2017, Southern Power reclassified approximately \$114 million from redeemable noncontrolling interests to non-redeemable noncontrolling interests due to the expiration of an option allowing SunPower Corporation to require Southern Power to purchase its redeemable noncontrolling interest at fair market value. In addition, in October 2017, Turner Renewable Energy, LLC redeemed at fair value its 10% interest of redeemable noncontrolling interest in certain of Southern Power's solar facilities. At December 31, 2018 and 2017, there were no outstanding redeemable noncontrolling interests.

The following table presents the changes in Southern Power's redeemable noncontrolling interests for the years ended December 31, 2017 and 2016:

	2017		2016
	<i>(in millions)</i>		
Beginning balance	\$	164	\$ 43
Net income attributable to redeemable noncontrolling interests		2	4
Distributions to redeemable noncontrolling interests		(2)	(1)
Capital contributions from redeemable noncontrolling interests		2	118
Redemption of redeemable noncontrolling interests		(59)	—
Reclassification to non-redeemable noncontrolling interests		(114)	—
Change in fair value of redeemable noncontrolling interests		7	—
Ending balance	\$	—	\$ 164

The following table presents the attribution of net income to Southern Power and the noncontrolling interests for the years ended December 31, 2017 and 2016:

	2017		2016
	<i>(in millions)</i>		
Net income	\$	1,117	\$ 374
Less: Net income attributable to noncontrolling interests		44	32
Less: Net income attributable to redeemable noncontrolling interests		2	4
Net income attributable to Southern Power	\$	1,071	\$ 338

Southern Company Gas

SouthStar, previously a joint venture owned 85% by Southern Company Gas and 15% by Piedmont, was the only VIE for which Southern Company Gas was the primary beneficiary, prior to October 2016 when Southern Company Gas completed its purchase of Piedmont's remaining interest in SouthStar.

In 2015, Georgia Natural Gas Company (GNG), a 100%-owned, direct subsidiary of Southern Company Gas, notified Piedmont of its election, pursuant to a change in control of SouthStar, to purchase Piedmont's 15% interest in SouthStar at fair market value. This purchase was contingent upon the closing of the merger between Piedmont and Duke Energy Corporation (Duke Energy). In October 2016, after Piedmont and Duke Energy completed their merger, GNG completed its purchase of Piedmont's interest in SouthStar and paid a purchase price of \$160 million and \$15 million for Piedmont's share of SouthStar's 2016 earnings through the date of acquisition.

Southern Company Gas' cash flows used for financing activities included SouthStar's distribution to Piedmont for its portion of SouthStar's annual earnings from the previous year. For the successor period of July 1, 2016 through December 31, 2016, SouthStar made a distribution of \$15 million upon completion of the purchase of Piedmont's interest in SouthStar. For the predecessor period of January 1, 2016 through June 30, 2016, SouthStar distributed \$19 million to Piedmont.

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Equity Method Investments

The carrying amounts of Southern Company Gas' equity method investments at December 31, 2018 and 2017 and related income from those investments for the successor years ended December 31, 2018 and 2017, the successor period of July 1, 2016 through December 31, 2016, and the predecessor period of January 1, 2016 through June 30, 2016 were as follows:

Investment Balance	December 31, 2018	December 31, 2017
	<i>(in millions)</i>	
SNG	\$ 1,261	\$ 1,262
PennEast Pipeline	71	57
Atlantic Coast Pipeline	83	41
Other	123	117
Total	\$ 1,538	\$ 1,477

Earnings from Equity Method Investments	Successor			Predecessor
	Year ended December 31, 2018	Year ended December 31, 2017	July 1, 2016 through December 31, 2016	January 1, 2016 through June 30, 2016
	<i>(in millions)</i>			<i>(in millions)</i>
SNG	\$ 131	\$ 88	\$ 56	\$ —
PennEast Pipeline	5	6	—	—
Atlantic Coast Pipeline	7	6	1	—
Other	5	6	3	2
Total	\$ 148	\$ 106	\$ 60	\$ 2

SNG

In 2016, Southern Company Gas, through a wholly-owned, indirect subsidiary, acquired a 50% equity interest in SNG, which is accounted for as an equity method investment. See Note 15 under "Southern Company Gas – Investment in SNG" for additional information. Selected financial information of SNG at December 31, 2018 and 2017 and for the years ended December 31, 2018 and 2017 and for the period September 1, 2016 through December 31, 2016 is as follows:

Balance Sheet Information	At December 31,	
	2018	2017
	<i>(in millions)</i>	
Current assets	\$ 104	\$ 82
Property, plant, and equipment	2,606	2,439
Deferred charges and other assets	121	121
Total Assets	\$ 2,831	\$ 2,642
Current liabilities	\$ 103	\$ 110
Long-term debt	1,103	1,102
Other deferred charges and other liabilities	212	76
Total Liabilities	\$ 1,418	\$ 1,288
Total Stockholders' Equity	\$ 1,413	\$ 1,354
Total Liabilities and Stockholders' Equity	\$ 2,831	\$ 2,642

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Income Statement Information	Year ended December 31, 2018	Year ended December 31, 2017	September 1, 2016 through December 31, 2016
		<i>(in millions)</i>	
Revenues	\$ 604	\$ 544	\$ 230
Operating income	310	242	137
Net income	261	175	115

Other Investments

Pipelines

In 2014, Southern Company Gas entered into a partnership in which it holds a 20% ownership interest in the PennEast Pipeline, an interstate pipeline company formed to develop and operate a 118-mile natural gas pipeline between New Jersey and Pennsylvania. The initial transportation capacity of 1.0 Bcf per day, is under long-term contracts, mainly with public utilities and other market-serving entities, such as electric generation companies, in New Jersey, Pennsylvania, and New York.

Also in 2014, Southern Company Gas entered into a project in which it holds a 5% ownership interest in the Atlantic Coast Pipeline, an interstate pipeline company formed to develop and operate a 594-mile natural gas pipeline in North Carolina, Virginia, and West Virginia with initial transportation capacity of 1.5 Bcf per day.

See Note 2 under "FERC Matters – Southern Company Gas" for additional information on these pipeline projects.

Pivotal JAX LNG, LLC

Southern Company Gas owns a 50% interest in a LNG liquefaction and storage facility in Jacksonville, Florida, which was placed in service in October 2018. This facility is outfitted with a 2.0 million gallon storage tank with the capacity to produce in excess of 120,000 gallons of LNG per day.

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8. FINANCING

Securities Due Within One Year

A summary of long-term securities due within one year at each of December 31, 2018 and 2017 is as follows:

	December 31, 2018					
	Southern Company	Alabama Power	Georgia Power	Mississippi Power	Southern Power	Southern Company Gas
	<i>(in millions)</i>					
Senior notes	\$ 2,950	\$ 200	\$ 500	\$ —	\$ 600	\$ 300
Revenue bonds ^(a)	173	—	108	40	—	—
First mortgage bonds	50	—	—	—	—	50
Capitalized leases	24	1	13	—	—	—
Other ^(b)	1	—	(4)	—	(1)	7
Total	\$ 3,198	\$ 201	\$ 617	\$ 40	\$ 599	\$ 357

(a) For Southern Company and Mississippi Power, includes \$40 million in pollution control revenue bonds classified as short term since they are variable rate demand obligations supported by short-term credit facilities; however, the final maturity dates range from 2020 to 2028.

(b) Represents unamortized debt related amounts, acquisition accounting fair value adjustments, and/or fair value hedges. See Note 14 for additional information regarding fair value hedges.

	December 31, 2017				
	Southern Company	Georgia Power	Mississippi Power	Southern Power	Southern Company Gas
	<i>(in millions)</i>				
Senior notes	\$ 2,354	\$ 750	\$ —	\$ 350	\$ 155
Long-term bank term loans	1,420	100	900	420	—
Revenue bonds ^(a)	90	—	90	—	—
Capitalized leases	31	11	—	—	—
Other ^(b)	(3)	(4)	(1)	—	2
Total	\$ 3,892	\$ 857	\$ 989	\$ 770	\$ 157

(a) For Southern Company and Mississippi Power, includes \$50 million in revenue bonds classified as short term at December 31, 2017 that were remarketed in an index rate mode subsequent to December 31, 2017. Also for Southern Company and Mississippi Power, includes \$40 million in pollution control revenue bonds classified as short term since they are variable rate demand obligations supported by short-term credit facilities; however, the final maturity dates range from 2020 to 2028.

(b) Represents unamortized debt related amounts, acquisition accounting fair value adjustments, and fair value hedges. See Note 14 for additional information regarding fair value hedges.

Maturities of long-term debt for the next five years are as follows:

	Southern Company^(a)	Alabama Power	Georgia Power^(a)	Mississippi Power	Southern Power^(b)	Southern Company Gas
	<i>(in millions)</i>					
2019	\$ 3,156	\$ 200	\$ 621	\$ —	\$ 600	\$ 350
2020	4,041	250	1,006	307	825	—
2021	3,186	310	375	270	300	330
2022	1,974	750	505	—	677	46
2023	2,388	300	153	—	290	400

(a) Amounts include principal amortization related to the FFB borrowings beginning in 2020; however, the final maturity date is February 20, 2044. See "Long-term Debt – DOE Loan Guarantee Borrowings" herein for additional information.

(b) Southern Power's 2022 maturity represents euro-denominated debt at the U.S. dollar denominated hedge settlement amount.

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Long-term Debt

Senior Notes

Total senior notes (including amounts due within one year) outstanding at December 31, 2018 and 2017 were as follows:

	Southern Company ^(a)	Alabama Power	Georgia Power	Mississippi Power	Southern Power	Southern Company Gas ^(b)
	<i>(in millions)</i>					
December 31, 2018	\$ 32,725	\$ 6,875	\$ 5,600	\$ 1,200	\$ 5,050	\$ 4,000
December 31, 2017	35,148	6,375	7,100	755	5,459	4,157

(a) Includes \$10.0 billion and \$10.2 billion of senior notes at the Southern Company parent entity at December 31, 2018 and 2017, respectively.

(b) Represents senior notes issued by Southern Company Gas Capital, which are fully and unconditionally guaranteed by Southern Company Gas. See "Structural Considerations" herein for additional information.

See Note 14 for information regarding fair value hedges of existing senior notes.

Except as otherwise described herein, Southern Company and its subsidiaries used the proceeds of 2018 senior note issuances for long-term debt redemptions and maturities, to repay short-term indebtedness, and for general corporate purposes, including working capital. The subsidiaries also used the proceeds for their construction programs.

In August 2018, Southern Company issued \$750 million aggregate principal amount of Series 2018A Floating Rate Senior Notes due February 14, 2020 bearing interest based on three-month LIBOR.

Subsequent to December 31, 2018, through cash tender offers, Southern Company repurchased and retired approximately \$522 million of the \$1.0 billion aggregate principal amount outstanding of its 1.85% Senior Notes due July 1, 2019 (1.85% Notes), approximately \$180 million of the \$350 million aggregate principal amount outstanding of its Series 2014B 2.15% Senior Notes due September 1, 2019 (Series 2014B Notes), and approximately \$504 million of the \$750 million aggregate principal amount outstanding of its Series 2018A Floating Rate Notes due February 14, 2020 (Series 2018A Notes), for an aggregate purchase price, excluding accrued and unpaid interest, of approximately \$1.2 billion. In addition, subsequent to December 31, 2018, and following the completion of the cash tender offers, Southern Company completed the redemption of all of the Series 2018A Notes remaining outstanding and called for redemption all of the 1.85% Notes and Series 2014B Notes remaining outstanding.

In June 2018, Alabama Power issued \$500 million aggregate principal amount of Series 2018A 4.30% Senior Notes due July 15, 2048.

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

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

In March 2018, Mississippi Power issued \$300 million aggregate principal amount of Series 2018A Floating Rate Senior Notes due March 27, 2020 bearing interest based on three-month LIBOR and \$300 million aggregate principal amount of Series 2018B 3.95% Senior Notes due March 30, 2028.

In October 2018, Mississippi Power completed the redemption of all \$30 million aggregate principal amount outstanding of its Series G 5.40% Senior Notes due July 1, 2035 and all \$125 million aggregate principal amount outstanding of its Series 2009A 5.55% Senior Notes due March 1, 2019.

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Junior Subordinated Notes

Total junior subordinated notes outstanding for Southern Company and Georgia Power at December 31, 2018 and 2017 were as follows:

	Southern Company^(*)	Georgia Power
	<i>(in millions)</i>	
December 31, 2018	\$ 3,570	\$ 270
December 31, 2017	3,570	270

(*) Includes \$3.3 billion of junior subordinated notes at the Southern Company parent entity at both December 31, 2018 and 2017.

Pollution Control Revenue Bonds

Pollution control revenue bond obligations represent loans to the traditional electric operating companies from public authorities of funds derived from sales by such authorities of revenue bonds issued to finance pollution control and solid waste disposal facilities. In some cases, the pollution control revenue bond obligations represent obligations under installment sales agreements with respect to facilities constructed with the proceeds of revenue bonds issued by public authorities. The traditional electric operating companies are required to make payments sufficient for the authorities to meet principal and interest requirements of such bonds. Proceeds from certain issuances are restricted until qualifying expenditures are incurred. Total tax-exempt pollution control revenue bond obligations (including amounts due within one year) outstanding at December 31, 2018 and 2017 were as follows:

	Southern Company	Alabama Power	Georgia Power	Mississippi Power
	<i>(in millions)</i>			
December 31, 2018	\$ 2,585	\$ 1,060	\$ 1,460	\$ 40
December 31, 2017	3,297	1,060	1,821	83

In October 2018, Alabama Power purchased and held \$120 million aggregate principal amount of The Industrial Development Board of the City of Mobile, Alabama Pollution Control Revenue Bonds (Alabama Power Company Plant Barry Project), Series 2008. Alabama Power reoffered these bonds to the public in November 2018.

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

- approximately \$105 million aggregate principal amount of Development Authority of Burke County (Georgia) Pollution Control Revenue Bonds (Georgia Power Company Plant Vogtle Project), First Series 2013
- \$173 million aggregate principal amount of Development Authority of Bartow County (Georgia) Pollution Control Revenue Bonds (Georgia Power Company Plant Bowen Project), First Series 2009
- \$55 million aggregate principal amount of Development Authority of Burke County (Georgia) Pollution Control Revenue Bonds (Georgia Power Company Plant Vogtle Project), Fifth Series 1994
- \$65 million aggregate principal amount of Development Authority of Burke County (Georgia) Pollution Control Revenue Bonds (Georgia Power Company Plant Vogtle Project), Second Series 2008
- approximately \$72 million aggregate principal amount of Development Authority of Bartow County (Georgia) Pollution Control Revenue Bonds (Georgia Power Company Plant Bowen Project), First Series 2013

In December 2018, the Development Authority of Burke County (Georgia) issued approximately \$108 million aggregate principal amount of Pollution Control Revenue Bonds (Georgia Power Company Plant Vogtle Project), First Series 2018 due November 1, 2052 for the benefit of Georgia Power. The proceeds were used to redeem, in January 2019, approximately \$13 million, \$20 million, and \$75 million aggregate principal amount of Development Authority of Burke County (Georgia) Pollution Control Revenue Bonds (Georgia Power Company Plant Vogtle Project), First Series 1992, Eighth Series 1994, and Second Series 1995, respectively.

In July 2018, Mississippi Power purchased and held approximately \$43 million aggregate principal amount of Mississippi Business Finance Corporation Pollution Control Revenue Refunding Bonds, Series 2002. Mississippi Power may reoffer these bonds to the public at a later date.

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Bank Term Loans

Total long-term bank term loans (including amounts due within one year) outstanding at December 31, 2018 and 2017 were as follows:

	Southern Company	Alabama Power	Georgia Power	Mississippi Power	Southern Power
	<i>(in millions)</i>				
December 31, 2018	\$ 145	\$ 45	\$ —	\$ —	\$ —
December 31, 2017	1,465	45	100	900	420

See "Notes Payable" herein for additional information regarding bank term loans.

In January 2018, Georgia Power repaid its outstanding \$100 million floating rate bank loan due October 26, 2018.

In March 2018, Mississippi Power repaid at maturity a \$900 million unsecured term loan.

In May 2018, Southern Power repaid \$420 million aggregate principal amount of long-term floating rate bank loans.

In November 2018, SEGCO, as borrower, and Alabama Power, as guarantor, entered into a \$100 million long-term delayed draw floating rate bank term loan bearing interest based on three-month LIBOR, which SEGCO used to repay at maturity \$100 million aggregate principal amount of Series 2013A Senior Notes. See Note 9 under "Guarantees" for additional information.

DOE Loan Guarantee Borrowings

Pursuant to the loan guarantee program established under Title XVII of the Energy Policy Act of 2005 (Title XVII Loan Guarantee Program), Georgia Power and the DOE entered into the Loan Guarantee Agreement in 2014, under which the DOE agreed to guarantee the obligations of Georgia Power under a note purchase agreement (FFB Note Purchase Agreement) among the DOE, Georgia Power, and the FFB and a related promissory note (FFB Promissory Note). The FFB Note Purchase Agreement and the FFB Promissory Note provide for a multi-advance term loan facility (FFB Credit Facility), under which Georgia Power may make term loan borrowings through the FFB.

In July 2017, Georgia Power entered into an amendment to the Loan Guarantee Agreement (LGA Amendment) in connection with the DOE's consent to Georgia Power's entry into the Vogtle Services Agreement and the related intellectual property licenses (IP Licenses).

Under the terms of the Loan Guarantee Agreement, upon termination of the Vogtle 3 and 4 Agreement, further advances are conditioned upon the DOE's approval of any agreements entered into in replacement of the Vogtle 3 and 4 Agreement. Under the terms of the LGA Amendment, Georgia Power will not request any advances unless and until certain conditions are satisfied, including (i) receipt of the DOE's approval of the Bechtel Agreement (together with the Vogtle Services Agreement and the IP Licenses, the Replacement EPC Arrangements) and (ii) Georgia Power's entry into a further amendment to the Loan Guarantee Agreement with the DOE to reflect the Replacement EPC Arrangements.

Proceeds of advances made under the FFB Credit Facility are used to reimburse Georgia Power for Eligible Project Costs. Aggregate borrowings under the FFB Credit Facility may not exceed the lesser of (i) 70% of Eligible Project Costs or (ii) approximately \$3.46 billion.

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

All borrowings under the FFB Credit Facility are full recourse to Georgia Power, and Georgia Power is obligated to reimburse the DOE for any payments the DOE is required to make to the FFB under the guarantee. Georgia Power's reimbursement obligations to the DOE are full recourse and secured by a first priority lien on (i) Georgia Power's 45.7% undivided ownership interest in Plant Vogtle Units 3 and 4 (primarily the units under construction, the related real property, and any nuclear fuel loaded in the reactor core) and (ii) Georgia Power's rights and obligations under the principal contracts relating to Plant Vogtle Units 3 and 4. There are no restrictions on Georgia Power's ability to grant liens on other property.

In addition to the conditions described above, future advances are subject to satisfaction of customary conditions, as well as certification of compliance with the requirements of the Title XVII Loan Guarantee Program, including accuracy of project-related representations and warranties, delivery of updated project-related information, and evidence of compliance with the

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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 Eligible Project Costs.

Upon satisfaction of all conditions described above, advances may be requested under the FFB Credit Facility on a quarterly basis through 2020. The final maturity date for each advance under the FFB Credit Facility is February 20, 2044. Interest is payable quarterly and principal payments will begin on February 20, 2020. Borrowings under the FFB Credit Facility will bear interest at the applicable U.S. Treasury rate plus a spread equal to 0.375%.

At both December 31, 2018 and 2017, Georgia Power had \$2.6 billion of borrowings outstanding under the FFB Credit Facility.

Under the Loan Guarantee Agreement, Georgia Power is subject to customary borrower affirmative and negative covenants and events of default. In addition, Georgia Power is subject to project-related reporting requirements and other project-specific covenants and events of default.

In the event certain mandatory prepayment events (including any decision not to continue construction of Plant Vogtle Units 3 and 4) occur, the FFB's commitment to make further advances under the FFB Credit Facility will terminate and Georgia Power will be required to prepay the outstanding principal amount of all borrowings under the FFB Credit Facility over a period of five years (with level principal amortization). Among other things, these mandatory prepayment events include (i) the termination of the Vogtle Services Agreement or rejection of the Vogtle Services Agreement in bankruptcy if Georgia Power does not maintain access to intellectual property rights under the IP Licenses; (ii) a decision by Georgia Power not to continue construction of Plant Vogtle Units 3 and 4; (iii) cancellation of Plant Vogtle Units 3 and 4 by the Georgia PSC, or by Georgia Power if authorized by the Georgia PSC; and (iv) cost disallowances by the Georgia PSC that could have a material adverse effect on completion of Plant Vogtle Units 3 and 4 or Georgia Power's ability to repay the outstanding borrowings under the FFB Credit Facility. Under certain circumstances, insurance proceeds and any proceeds from an event of taking must be applied to immediately prepay outstanding borrowings under the FFB Credit Facility. In addition, if Georgia Power discontinues construction of Plant Vogtle Units 3 and 4, Georgia Power would be obligated to immediately repay a portion of the outstanding borrowings under the FFB Credit Facility to the extent such outstanding borrowings exceed 70% of Eligible Project Costs, net of the proceeds received by Georgia Power under the Guarantee Settlement Agreement. Georgia Power also may voluntarily prepay outstanding borrowings under the FFB Credit Facility. Under the FFB Credit Facility, any prepayment (whether mandatory or optional) will be made with a make-whole premium or discount, as applicable.

In connection with any cancellation of Plant Vogtle Units 3 and 4 that results in a mandatory prepayment event, the DOE may elect to continue construction of Plant Vogtle Units 3 and 4. In such an event, the DOE will have the right to assume Georgia Power's rights and obligations under the principal agreements relating to Plant Vogtle Units 3 and 4 and to acquire all or a portion of Georgia Power's ownership interest in Plant Vogtle Units 3 and 4.

Other Long-Term Debt

Alabama Power

Alabama Power has formed a wholly-owned trust subsidiary for the purpose of issuing preferred securities. The proceeds of the related equity investments and preferred security sales were loaned back to Alabama Power through the issuance of junior subordinated notes totaling \$206 million outstanding at December 31, 2018 and 2017, which constitute substantially all of the assets of this trust and are reflected in the balance sheets as long-term debt payable. Alabama Power considers that the mechanisms and obligations relating to the preferred securities issued for its benefit, taken together, constitute a full and unconditional guarantee by it of the trust's payment obligations with respect to these securities. At December 31, 2018 and 2017, trust preferred securities of \$200 million were outstanding. See Note 1 under "Variable Interest Entities" for additional information on the accounting treatment for this trust and the related securities.

Mississippi Power

At December 31, 2018 and 2017, Mississippi Power had \$270 million aggregate principal amount outstanding of Mississippi Business Finance Corporation Taxable Revenue Bonds, 7.13% Series 1999A due October 20, 2021. Mississippi Power assumed the obligations in 2011 in connection with its election under its operating lease of Plant Daniel Units 3 and 4 to purchase the assets. The bonds were recorded at fair value at the date of assumption, or \$346 million, reflecting a premium of \$76 million. See "Secured Debt" herein for additional information.

At December 31, 2018 and 2017, Mississippi Power had \$50 million of tax-exempt revenue bond obligations outstanding representing loans to Mississippi Power from a public authority of funds derived from the sale by such authority of revenue bonds issued to finance a portion of the costs of constructing the Kemper County energy facility.

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Southern Company Gas

At December 31, 2018 and 2017, Nicor Gas had \$1.3 billion and \$1.0 billion, respectively, of first mortgage bonds outstanding. These bonds have been issued with maturities ranging from 2019 to 2058. See "Secured Debt" herein for additional information.

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

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

At both December 31, 2018 and 2017, Atlanta Gas Light had \$159 million of medium-term notes outstanding.

Capital Leases

Assets acquired under capital leases are recorded in the balance sheets as property, plant, and equipment and the related obligations are classified as long-term debt. See Note 5 under "Capital Leases" for additional information.

Southern Company

At December 31, 2018 and 2017, SCS had capital lease obligations of approximately \$178 million and \$177 million, respectively, for an office building and certain computer equipment including desktops, laptops, servers, printers, and storage devices with annual interest rates that range from 1.6% to 4.7%.

Georgia Power

At December 31, 2018 and 2017, Georgia Power had a capital lease obligation for its corporate headquarters building of \$15 million and \$22 million, respectively, with an annual interest rate of 7.9%. For ratemaking purposes, the Georgia PSC has allowed the lease payments in cost of service with no return on the capital lease asset. The difference between the depreciation and the lease payments allowed for ratemaking purposes is recovered as operating expenses as ordered by the Georgia PSC. The annual operating expense incurred for this capital lease was not material for any year presented.

At December 31, 2018 and 2017, Georgia Power had capital lease obligations related to two affiliate PPAs with Southern Power of \$128 million and \$132 million, respectively. The annual interest rates range from 11% to 12% for these two capital lease PPAs. For ratemaking purposes, the Georgia PSC has included the capital lease asset amortization in cost of service and the interest in Georgia Power's cost of debt. See Note 1 under "Affiliate Transactions" and Note 9 under "Fuel and Power Purchase Agreements – Affiliate" for additional information.

Secured Debt

Each of Southern Company's subsidiaries is organized as a legal entity, separate and apart from Southern Company and its other subsidiaries. There are no agreements or other arrangements among the Southern Company system companies under which the assets of one company have been pledged or otherwise made available to satisfy obligations of Southern Company or any of its other subsidiaries.

Outstanding secured debt at December 31, 2018 and 2017 for the applicable registrants was as follows:

	Georgia Power^(a)	Mississippi Power^(b)	Southern Company Gas^(c)
	<i>(in millions)</i>		
December 31, 2018	\$ 2,767	\$ 270	\$ 1,325
December 31, 2017	2,779	270	1,025

(a) Includes Georgia Power's FFB loans that are secured by a first priority lien on (i) Georgia Power's 45.7% undivided ownership interest in Plant Vogtle Units 3 and 4 (primarily the units under construction, the related real property, and any nuclear fuel loaded in the reactor core) and (ii) Georgia Power's rights and obligations under the principal contracts relating to Plant Vogtle Units 3 and 4. These borrowings totaled \$2.6 billion at both December 31, 2018 and 2017. See "Long-term Debt – DOE Loan Guarantee Borrowings" herein for additional information. Also includes capital lease obligations of \$142 million and \$154 million at December 31, 2018 and 2017, respectively. See "Long-term Debt – Capital Leases – Georgia Power" herein for additional information.

(b) The revenue bonds assumed in conjunction with Mississippi Power's purchase of Plant Daniel Units 3 and 4 are secured by Plant Daniel Units 3 and 4 and certain related personal property. See "Long-term Debt – Other Long-Term Debt" herein for additional information.

(c) Nicor Gas' first mortgage bonds are secured by substantially all of Nicor Gas' properties. See "Long-term Debt – Other Long-Term Debt – Southern Company Gas" herein for additional information.

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operating companies outstanding requiring liquidity support at December 31, 2018 was approximately \$1.6 billion (comprised of approximately \$854 million at Alabama Power, \$659 million at Georgia Power, \$82 million at Gulf Power, and \$40 million at Mississippi Power). In addition, at December 31, 2018, the traditional electric operating companies had approximately \$403 million (comprised of approximately \$345 million at Georgia Power and \$58 million at Gulf Power) of revenue bonds outstanding that are required to be remarketed within the next 12 months. See Note 15 under "Southern Company's Sale of Gulf Power" for information regarding the sale of Gulf Power on January 1, 2019. Subsequent to December 31, 2018, Georgia Power redeemed approximately \$108 million of obligations related to outstanding variable rate pollution control revenue bonds.

In addition to its credit arrangement described above, Southern Power also has a \$120 million continuing letter of credit facility expiring in 2021 for standby letters of credit. At December 31, 2018, \$103 million has been used for letters of credit, primarily as credit support for PPA requirements, and \$17 million was unused. At December 31, 2017, the total amount available under this facility was \$19 million. Southern Power's subsidiaries are not parties to this letter of credit facility. Also, at December 31, 2018 and 2017, Southern Power had \$103 million and \$113 million, respectively, of cash collateral posted related to PPA requirements, which is included in other deferred charges and assets in Southern Power's consolidated balance sheets.

Notes Payable

Southern Company, Alabama Power, Georgia Power, Southern Power, Southern Company Gas, Nicor Gas, and SEGCO make short-term borrowings primarily through commercial paper programs that have the liquidity support of the committed bank credit arrangements described above under "Bank Credit Arrangements." Southern Power's subsidiaries are not parties to its commercial paper program. Southern Company Gas maintains commercial paper programs at Southern Company Gas Capital and at Nicor Gas. Nicor Gas' commercial paper program supports working capital needs at Nicor Gas as Nicor Gas is not permitted to make money pool loans to affiliates. All of Southern Company Gas' other subsidiaries benefit from Southern Company Gas Capital's commercial paper program. See "Structural Considerations" herein for additional information.

In addition, Southern Company and certain of its subsidiaries have entered into various bank term loan agreements. Unless otherwise stated, the proceeds of these loans were used to repay existing indebtedness and for general corporate purposes, including working capital and, for the subsidiaries, their continuous construction programs.

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Commercial paper and short-term bank term loans are included in notes payable in the balance sheets. Details of short-term borrowings were as follows:

	Notes Payable at December 31, 2018		Notes Payable at December 31, 2017	
	Amount Outstanding	Weighted Average Interest Rate	Amount Outstanding	Weighted Average Interest Rate
	<i>(in millions)</i>		<i>(in millions)</i>	
Southern Company				
Commercial paper	\$ 1,064	3.0%	\$ 1,832	1.8%
Short-term bank debt	1,851	3.1%	607	2.3%
Total	\$ 2,915	3.1%	\$ 2,439	1.9%
Alabama Power				
Short-term bank debt	\$ —	—%	\$ 3	3.7%
Georgia Power				
Commercial paper	\$ 294	3.1%	\$ —	—%
Short-term bank debt	—	—%	150	2.2%
Total	\$ 294	3.1%	\$ 150	2.2%
Mississippi Power				
Short-term bank debt	\$ —	—%	\$ 4	3.8%
Southern Power				
Commercial paper	\$ —	—%	\$ 105	2.0%
Short-term bank debt	100	3.1%	—	—%
Total	\$ 100	3.1%	\$ 105	2.0%
Southern Company Gas				
Commercial paper:				
Southern Company Gas Capital	\$ 403	3.1%	\$ 1,243	1.7%
Nicor Gas	247	3.0%	275	1.8%
Total	\$ 650	3.0%	\$ 1,518	1.8%

The outstanding bank term loans at December 31, 2018 have covenants that limit debt levels to a percentage of total capitalization. The percentage is 70% for Southern Company and 65% for Alabama Power and Southern Power, as defined in the agreements. For purposes of these definitions, debt excludes any long-term debt payable to affiliated trusts and other hybrid securities. Additionally, for Southern Company and Southern Power, for purposes of these definitions, debt excludes any project debt incurred by certain subsidiaries of Southern Power to the extent such debt is non-recourse to Southern Power and capitalization excludes the capital stock or other equity attributable to such subsidiary. At December 31, 2018, each of Southern Company, Alabama Power, and Southern Power was in compliance with its debt limits.

Except as otherwise described herein, Southern Company and its subsidiaries used the proceeds of bank loans for long-term debt redemptions and maturities, to repay short-term indebtedness, and for general corporate purposes, including working capital.

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

In April 2018, Southern Company borrowed \$250 million pursuant to a short-term uncommitted bank credit arrangement, bearing interest at a rate agreed upon by Southern Company and the bank from time to time and payable on no less than 30 days' demand by the bank. Subsequent to December 31, 2018, Southern Company repaid this loan.

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

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In August 2018, Southern Company entered into a \$1.5 billion short-term floating rate bank loan bearing interest based on one-month LIBOR, and repaid \$250 million borrowed in August 2017 pursuant to a short-term uncommitted bank credit arrangement. Subsequent to December 31, 2018, Southern Company repaid this loan.

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

In March 2018, Mississippi Power entered into a \$300 million short-term floating rate bank loan bearing interest based on one-month LIBOR, of which \$200 million was repaid in the second quarter 2018 and \$100 million was repaid in the third quarter 2018.

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

In January 2018, Southern Company Gas issued a floating rate promissory note to Southern Company in an aggregate principal amount of \$100 million bearing interest based on one-month LIBOR. In March 2018, Southern Company Gas repaid this promissory note.

In April 2018, Pivotal Utility Holdings, as borrower, and Southern Company Gas, as guarantor, entered into a \$181 million short-term delayed draw floating rate bank term loan bearing interest based on one-month LIBOR. In July 2018, Pivotal Utility Holdings repaid this short-term loan.

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

Outstanding Classes of Capital Stock

Southern Company

Common Stock

Stock Issued

During 2018, Southern Company issued approximately 11.6 million shares of common stock primarily through employee equity compensation plans and received proceeds of approximately \$442 million.

In addition, during the third and fourth quarters 2018, Southern Company issued a total of approximately 12.1 million and 2.5 million shares, respectively, of common stock through at-the-market issuances pursuant to sales agency agreements related to Southern Company's continuous equity offering program and received cash proceeds of approximately \$540 million and \$108 million, respectively, net of \$5 million and \$1 million in commissions, respectively.

Shares Reserved

At December 31, 2018, a total of 92 million shares were reserved for issuance pursuant to the Southern Investment Plan, employee savings plans, the Outside Directors Stock Plan, the Omnibus Incentive Compensation Plan (which includes stock options and performance share units as discussed in Note 12), and an at-the-market program. Of the total 92 million shares reserved, there were 10 million shares of common stock remaining available for awards under the Omnibus Incentive Compensation Plan at December 31, 2018.

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Diluted Earnings Per Share

For Southern Company, the only difference in computing basic and diluted earnings per share (EPS) is attributable to awards outstanding under the stock option and performance share plans. The effect of both stock options and performance share award units was determined using the treasury stock method. Shares used to compute diluted EPS were as follows:

	Average Common Stock Shares		
	2018	2017	2016
	<i>(in millions)</i>		
As reported shares	1,020	1,000	951
Effect of options and performance share award units	5	8	7
Diluted shares	1,025	1,008	958

Stock options and performance share award units that were not included in the diluted EPS calculation because they were anti-dilutive were immaterial in all years presented.

Redeemable Preferred Stock of Subsidiaries

Prior to 2017, each of the traditional electric operating companies had outstanding preferred and/or preference stock. During 2017, Alabama Power and Gulf Power redeemed all of their outstanding preference stock and Georgia Power redeemed all of its outstanding preferred and preference stock. During 2018, Mississippi Power redeemed all of its outstanding preferred stock. The remaining preferred stock of Alabama Power contains a feature that allows the holders to elect a majority of such subsidiary's board of directors if preferred dividends are not paid for four consecutive quarters. Because such a potential redemption-triggering event is not solely within the control of Alabama Power, this preferred stock is presented as "Redeemable Preferred Stock of Subsidiaries" on Southern Company's balance sheets and statements of capitalization in a manner consistent with temporary equity under applicable accounting standards.

The following table presents changes during the year in redeemable preferred stock of subsidiaries for Southern Company:

	Redeemable Preferred Stock of Subsidiaries	
	<i>(in millions)</i>	
Balance at December 31, 2015 and 2016:	\$	118
Issued ^(a)		250
Redeemed ^(a)		(38)
Issuance costs ^(a)		(6)
Balance at December 31, 2017:		324
Redeemed ^(b)		(33)
Balance at December 31, 2018:	\$	291

(a) See "Alabama Power" herein for additional information.

(b) See "Mississippi Power" herein for additional information.

Alabama Power

Alabama Power has preferred stock, Class A preferred stock, and common stock outstanding. Alabama Power also has authorized preference stock, none of which is outstanding. Alabama Power's preferred stock and Class A preferred stock, without preference between classes, rank senior to Alabama Power's common stock with respect to payment of dividends and voluntary and involuntary dissolution. The preferred stock and Class A preferred stock of Alabama Power contain a feature that allows the holders to elect a majority of Alabama Power's board of directors if preferred dividends are not paid for four consecutive quarters. Because such a potential redemption-triggering event is not solely within the control of Alabama Power, the preferred stock and Class A preferred stock is presented as "Redeemable Preferred Stock" on Alabama Power's balance sheets and statements of capitalization in a manner consistent with temporary equity under applicable accounting standards.

Alabama Power's preferred stock is subject to redemption at a price equal to the par value plus a premium. Alabama Power's Class A preferred stock is subject to redemption at a price equal to the stated capital. All series of Alabama Power's preferred stock currently are subject to redemption at the option of Alabama Power. The Class A preferred stock is subject to redemption on or

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after October 1, 2022, or following the occurrence of a rating agency event. Information for each outstanding series is in the table below:

Preferred Stock	Par Value/Stated Capital Per Share	Shares Outstanding	Redemption Price Per Share
4.92% Preferred Stock	\$100	80,000	\$103.23
4.72% Preferred Stock	\$100	50,000	\$102.18
4.64% Preferred Stock	\$100	60,000	\$103.14
4.60% Preferred Stock	\$100	100,000	\$104.20
4.52% Preferred Stock	\$100	50,000	\$102.93
4.20% Preferred Stock	\$100	135,115	\$105.00
5.00% Class A Preferred Stock	\$25	10,000,000	Stated Capital ^(*)

(*) Prior to October 1, 2022: \$25.50; on or after October 1, 2022: Stated Capital

In September 2017, Alabama Power issued 10 million shares (\$250 million aggregate stated capital) of 5.00% Class A Preferred Stock, Cumulative, Par Value \$1 Per Share (Stated Capital \$25 Per Share). The proceeds were used in October 2017 to redeem all 2 million shares (\$50 million aggregate stated capital) of 6.50% Series Preference Stock, 6 million shares (\$150 million aggregate stated capital) of 6.45% Series Preference Stock, and 1.52 million shares (\$38 million aggregate stated capital) of 5.83% Class A Preferred Stock and for other general corporate purposes, including Alabama Power's continuous construction program.

There were no changes for the year ended December 31, 2018 in redeemable preferred stock of Alabama Power.

Georgia Power

Georgia Power has preferred stock, Class A preferred stock, preference stock, and common stock authorized, but only common stock outstanding as of December 31, 2018 and 2017. In October 2017, Georgia Power redeemed all 1.8 million shares (\$45 million aggregate liquidation amount) of its 6.125% Series Class A Preferred Stock and 2.25 million shares (\$225 million aggregate liquidation amount) of its 6.50% Series 2007A Preference Stock.

Mississippi Power

Mississippi Power has preferred stock and common stock authorized, but only common stock outstanding as of December 31, 2018. Mississippi Power previously had preferred stock that contained a feature allowing the holders to elect a majority of Mississippi Power's board of directors if preferred dividends were not paid for four consecutive quarters. Because such a potential redemption-triggering event was not solely within the control of Mississippi Power, this preferred stock was presented as "Cumulative Redeemable Preferred Stock" on Mississippi Power's balance sheets and statements of capitalization in a manner consistent with temporary equity under applicable accounting standards.

On October 23, 2018, Mississippi Power completed the redemption of all 8,867 outstanding shares (\$886,700 aggregate par value) of its 4.40% Series Preferred Stock, all 8,643 outstanding shares (\$864,300 aggregate par value) of its 4.60% Series Preferred Stock, all 16,700 outstanding shares (\$1.67 million aggregate par value) of its 4.72% Series Preferred Stock, and all 1,200,000 outstanding depository shares (\$30 million aggregate stated value), each representing a 1/4th interest in a share of its 5.25% Series Preferred Stock.

Dividend Restrictions

The income of Southern Company is derived primarily from equity in earnings of its subsidiaries. At December 31, 2018, consolidated retained earnings included \$4.9 billion of undistributed retained earnings of the subsidiaries.

The traditional electric operating companies and Southern Power can only pay dividends to Southern Company out of retained earnings or paid-in-capital.

See Note 7 under "Southern Power" for information regarding the distribution requirements for certain Southern Power subsidiaries.

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 and is not permitted to make money pool loans to affiliates. At December 31, 2018, the amount of Southern Company Gas' subsidiary retained earnings restricted for dividend payment totaled \$814 million.

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Structural Considerations

Since Southern Company and Southern Company Gas are holding companies, the right of Southern Company and Southern Company Gas and, hence, the right of creditors of Southern Company or Southern Company Gas to participate in any distribution of the assets of any respective subsidiary of Southern Company or Southern Company Gas, whether upon liquidation, reorganization or otherwise, is subject to prior claims of creditors and preferred stockholders of such subsidiary.

Southern Company Gas' 100%-owned subsidiary, Southern Company Gas Capital, was established to provide for certain of Southern Company Gas' ongoing financing needs through a commercial paper program, the issuance of various debt, hybrid securities, and other financing arrangements. Southern Company Gas fully and unconditionally guarantees all debt issued by Southern Company Gas Capital. Nicor Gas is not permitted by regulation to make loans to affiliates or utilize Southern Company Gas Capital for its financing needs.

Southern Power Company's senior notes, bank term loans, commercial paper, and bank credit arrangement are unsecured senior indebtedness, which rank equally with all other unsecured and unsubordinated debt of Southern Power Company. Southern Power's subsidiaries are not issuers, borrowers, or obligors, as applicable, under the senior notes, borrowings from financial institutions, commercial paper, or the bank credit arrangement. The senior notes, borrowings from financial institutions, commercial paper, and the bank credit arrangement are effectively subordinated to any future secured debt of Southern Power Company and any potential claims of creditors of Southern Power's subsidiaries.

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9. COMMITMENTS

Fuel and Power Purchase Agreements

Non-Affiliate

To supply a portion of the fuel requirements of the Southern Company system's electric generating plants, the Southern Company system has entered into various long-term commitments not recognized on the balance sheets for the procurement and delivery of fossil fuel and, for Alabama Power and Georgia Power, nuclear fuel. Fuel expense in 2018, 2017, and 2016 for the Southern Company system is shown below, the majority of which was purchased under long-term commitments.

	Southern Company	Alabama Power	Georgia Power	Mississippi Power	Southern Power
	<i>(in millions)</i>				
2018	\$ 4,637	\$ 1,301	\$ 1,698	\$ 405	\$ 699
2017	4,400	1,225	1,671	395	621
2016	4,361	1,297	1,807	343	456

Each registrant expects that a substantial amount of its future fuel needs will continue to be purchased under long-term commitments.

The traditional electric operating companies have entered into various non-affiliate long-term PPAs, some of which are accounted for as leases. For Alabama Power and Georgia Power, most long-term PPAs include capacity and energy components. Mississippi Power's long-term PPAs are associated with solar facilities and only include an energy component. For the traditional electric operating companies, the energy-related costs associated with PPAs are recoverable through fuel cost recovery provisions.

Total capacity expense under these non-affiliate PPAs accounted for as operating leases in 2018, 2017, and 2016 was as follows:

	Southern Company	Alabama Power	Georgia Power
	<i>(in millions)</i>		
2018	\$ 231	\$ 44	\$ 113
2017	235	41	118
2016	232	42	113

In addition, Georgia Power's non-affiliate energy-only solar PPAs accounted for as leases contained contingent rent expense of \$43 million, \$44 million, and \$18 million for 2018, 2017, and 2016, respectively. Mississippi Power's energy-only solar PPAs accounted for as operating leases contained contingent rent expense of \$10 million, \$5 million, and an immaterial amount for 2018, 2017, and 2016, respectively. Contingent rents are recognized as services are performed.

Estimated total obligations under non-affiliate PPAs accounted for as operating leases at December 31, 2018 were as follows:

	Southern Company	Alabama Power	Georgia Power
	<i>(in millions)</i>		
2019	\$ 161	\$ 41	\$ 120
2020	164	42	122
2021	168	44	124
2022	171	46	125
2023	127	—	127
2024 and thereafter	642	—	642
Total	\$ 1,433	\$ 173	\$ 1,260

In addition, Georgia Power has commitments regarding a portion of a 5% interest in the original cost of Plant Vogtle Units 1 and 2 owned by MEAG Power that are in effect until the latter of the 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 or not any capacity is

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available. The energy cost is a function of each unit's variable operating costs. Portions of the capacity payments relate to costs in excess of MEAG Power's Plant Vogtle Units 1 and 2 allowed investment for ratemaking purposes. The present value of these portions at the time of the disallowance was written off. Generally, the cost of such capacity and energy is included in purchased power in Southern Company's statements of income and in purchased power, non-affiliates in Georgia Power's statements of income. Georgia Power's capacity payments related to this commitment totaled \$8 million, \$9 million, and \$11 million in 2018, 2017, and 2016, respectively. At December 31, 2018, Georgia Power's estimated long-term obligations related to this commitment totaled \$59 million, consisting of \$6 million for 2019, \$5 million for 2020, \$5 million for 2021, \$4 million for 2022, \$3 million for 2023, and \$36 million for 2024 and thereafter.

SCS may enter into various types of wholesale energy and natural gas contracts acting as an agent for the traditional electric operating companies and Southern Power. Under these agreements, each of the traditional electric operating companies and Southern Power may be jointly and severally liable. Accordingly, Southern Company has entered into keep-well agreements with each of the traditional electric operating companies to ensure they will not subsidize or be responsible for any costs, losses, liabilities, or damages resulting from the inclusion of Southern Power as a contracting party under these agreements.

Affiliate

Georgia Power has also entered into affiliate long-term PPAs with Southern Power, some of which Georgia Power accounts for as leases. Georgia Power's total capacity expense under these affiliate PPAs accounted for as leases was \$93 million, \$107 million, and \$133 million in 2018, 2017, and 2016, respectively. In addition, Georgia Power's energy-only solar PPAs with Southern Power accounted for as leases contained contingent rent expense of \$29 million, \$29 million, and \$21 million for 2018, 2017, and 2016, respectively.

Georgia Power's estimated total obligations under affiliate PPAs accounted for as leases at December 31, 2018 were as follows:

	Georgia Power	
	Affiliate Capital Lease PPAs	Affiliate Operating Lease PPAs
	<i>(in millions)</i>	
2019	\$ 23	\$ 64
2020	23	65
2021	24	66
2022	24	68
2023	25	69
2024 and thereafter	158	349
Total	\$ 277	\$ 681
Less: amounts representing executory costs ^(a)	42	
Net minimum lease payments	235	
Less: amounts representing interest ^(b)	105	
Present value of net minimum lease payments	\$ 130	

(a) Executory costs such as taxes, maintenance, and insurance (including the estimated profit thereon) are estimated and included in total minimum lease payments.

(b) Calculated using an adjusted incremental borrowing rate to reduce the present value of the net minimum lease payments to fair value.

See Note 8 under "Long-term Debt – Capital Leases – Georgia Power" for additional information.

Pipeline Charges, Storage Capacity, and Gas Supply

Southern Company Gas has commitments for pipeline charges, storage capacity, and gas supply, which include charges recoverable through natural gas cost recovery mechanisms, or alternatively, billed to marketers selling retail natural gas, as well as demand charges associated with Southern Company Gas' wholesale gas services. Gas supply commitments include amounts for gas commodity purchases associated with Southern Company Gas' gas marketing services of 47 million mmBtu at floating gas prices calculated using forward natural gas prices at December 31, 2018 and valued at \$150 million. Southern Company Gas provides guarantees to certain gas suppliers for certain of its subsidiaries in support of payment obligations.

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Southern Company Gas' expected future contractual obligations for pipeline charges, storage capacity, and gas supply that are not recognized on the balance sheets at December 31, 2018 were as follows:

	Pipeline Charges, Storage Capacity, and Gas Supply	
	<i>(in millions)</i>	
2019	\$	781
2020		584
2021		520
2022		489
2023		412
2024 and thereafter		1,871
Total	\$	4,657

Operating Leases

In addition to the operating lease PPAs discussed previously, the Southern Company system has operating lease agreements with various terms and expiration dates. The traditional electric operating companies' operating leases primarily relate to facilities, coal railcars, vehicles, cellular tower space, and other equipment. Southern Power's operating leases primarily relate to land for solar and wind facilities and are recognized on a straight-line basis over the minimum lease term, plus any renewal periods necessary to cover the expected life of the respective facility. Southern Company Gas' operating leases primarily relate to facilities and vehicles.

Total rent expense for 2018, 2017, and 2016 was as follows:

	Southern Company^(*)	Alabama Power	Georgia Power	Mississippi Power	Southern Power^(*)
	<i>(in millions)</i>				
2018	\$ 192	\$ 23	\$ 34	\$ 4	\$ 31
2017	176	25	31	3	29
2016	169	18	28	3	22

(*) Includes contingent rent expense related to Southern Power's land leases based on wind production and escalation in the Consumer Price Index for All Urban Consumers.

	Southern Company Gas	
	<i>(in millions)</i>	
2018	\$	15
2017		15
Successor – July 1, 2016 through December 31, 2016		8
Predecessor – January 1, 2016 through June 30, 2016		6

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The registrants exclude contingent rent but include any step rents, fixed escalations, lease concessions, and lease extensions to cover the expected life of the facility in the computation of minimum lease payments. At December 31, 2018, estimated minimum lease payments under operating leases were as follows:

	Southern Company	Alabama Power	Georgia Power	Mississippi Power	Southern Power	Southern Company Gas
	<i>(in millions)</i>					
2019	\$ 156	\$ 12	\$ 23	\$ 3	\$ 23	\$ 18
2020	134	10	18	2	24	16
2021	110	7	9	1	24	15
2022	98	6	6	1	24	13
2023	79	3	5	1	26	10
2024 and thereafter	1,040	1	13	2	874	34
Total	\$ 1,617	\$ 39	\$ 74	\$ 10	\$ 995	\$ 106

For the traditional electric operating companies, a majority of the railcar and barge lease expenses are recoverable through fuel cost recovery provisions.

In addition to the above rental commitments, Alabama Power and Georgia Power have potential obligations upon expiration of certain railcar leases with respect to the residual value of the leased property. These leases have terms expiring in 2023 for Alabama Power and in 2024 for Georgia Power with maximum obligations under these leases of \$12 million for Alabama Power and \$9 million for Georgia Power. At the termination of the leases, Alabama Power and Georgia Power may renew the leases, exercise their purchase options, or the property can be sold to a third party. Alabama Power and Georgia Power expect that the fair market value of the leased property would substantially reduce or, for Alabama Power, potentially eliminate the loss under the residual value obligations.

Guarantees

Alabama Power has guaranteed unconditionally the obligation of SEGCO under an installment sale agreement for the purchase of certain pollution control facilities at SEGCO's generating units, pursuant to which \$25 million principal amount of pollution control revenue bonds are outstanding and mature in June 2019. Alabama Power also guaranteed a \$100 million principal amount long-term bank loan entered into by SEGCO on November 28, 2018. Georgia Power has agreed to reimburse Alabama Power for the portion of such obligations corresponding to Georgia Power's proportionate ownership of SEGCO's stock if Alabama Power is called upon to make such payment under its guarantee. At December 31, 2018, the capitalization of SEGCO consisted of \$90 million of equity and \$125 million of long-term debt, on which the annual interest requirement is \$4 million. In addition, SEGCO had short-term debt outstanding of \$5 million. See Note 7 under "SEGCO" for additional information.

In 2013, Georgia Power entered into an agreement that requires Georgia Power to guarantee certain payments of a gas supplier for Plant McIntosh for a period up to 15 years. The agreement was subsequently amended on May 31, 2018. The guarantee is expected to be terminated if certain events occur by October 2019. In the event the gas supplier defaults on payments, the maximum potential exposure under the guarantee and amendment is approximately \$30 million.

In October 2017, Atlantic Coast Pipeline executed a \$3.4 billion revolving credit facility with a stated maturity date of October 2021. Southern Company Gas entered into a guarantee agreement to support its share of the revolving credit facility. Southern Company Gas' maximum exposure to loss under the terms of the guarantee is limited to 5% of the outstanding borrowings under the credit facility, and totaled \$72 million as of December 31, 2018. See Note 2 under "FERC Matters – Southern Company Gas" for additional information regarding the Atlantic Coast Pipeline.

As discussed above under "Operating Leases," Alabama Power and Georgia Power have entered into certain residual value guarantees related to railcar leases.

10. INCOME TAXES

Southern Company files a consolidated federal income tax return and the registrants file various state income tax returns, some of which are combined or unitary. Under a joint consolidated income tax allocation agreement, each Southern Company subsidiary's current and deferred tax expense is computed on a stand-alone basis and no subsidiary is allocated more current expense than would be paid if it filed a separate income tax return. PowerSecure and Southern Company Gas became participants in the income

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tax allocation agreement as of May 9, 2016 and July 1, 2016, respectively. See Note 15 for additional information on these acquisitions, as well as disposition activity during 2018. In accordance with IRS regulations, each company is jointly and severally liable for the federal tax liability. Prior to the Merger, Southern Company Gas filed a U.S. federal consolidated income tax return and various state income tax returns.

Federal Tax Reform Legislation

Following the enactment of the Tax Reform Legislation, the SEC staff issued Staff Accounting Bulletin 118 – "Income Tax Accounting Implications of the Tax Cuts and Jobs Act" (SAB 118), which provided for a measurement period of up to one year from the enactment date to complete accounting under GAAP for the tax effects of the legislation. Due to the complex and comprehensive nature of the enacted tax law changes and their application under GAAP, the registrants considered all amounts recorded in the financial statements as a result of the Tax Reform Legislation "provisional" as discussed in SAB 118 and subject to revision prior to filing the 2017 tax return in the fourth quarter 2018. As of December 31, 2018, each of the registrants considered the measurement of impacts from the Tax Reform Legislation on deferred income tax assets and liabilities, primarily due to the impact of the reduction of the corporate income tax rate, to be complete.

However, the IRS continues to issue regulations that provide further interpretation and guidance on the law and each respective state's adoption of the provisions contained in the Tax Reform Legislation remains uncertain. In addition, the regulatory treatment of certain impacts of the Tax Reform Legislation is subject to the discretion of the FERC and each state regulatory commission. The ultimate impact of these matters cannot be determined at this time. See Note 2 for additional information.

Current and Deferred Income Taxes

Details of income tax provisions are as follows:

	2018				
	Southern Company	Alabama Power	Georgia Power	Mississippi Power	Southern Power
	<i>(in millions)</i>				
Federal —					
Current	\$ 167	\$ 91	\$ 393	\$ (567)	\$ 85
Deferred	231	123	(249)	575	(154)
	398	214	144	8	(69)
State —					
Current	188	26	81	(10)	(9)
Deferred	(137)	51	(11)	(100)	(86)
	51	77	70	(110)	(95)
Total	\$ 449	\$ 291	\$ 214	\$ (102)	\$ (164)

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	2017				
	Southern Company	Alabama Power	Georgia Power	Mississippi Power	Southern Power
	<i>(in millions)</i>				
Federal —					
Current	\$ (62)	\$ 136	\$ 256	\$ 194	\$ (566)
Deferred	(6)	336	504	(753)	(312)
	(68)	472	760	(559)	(878)
State —					
Current	37	23	116	—	(110)
Deferred	173	73	(46)	27	49
	210	96	70	27	(61)
Total	\$ 142	\$ 568	\$ 830	\$ (532)	\$ (939)

	2016				
	Southern Company	Alabama Power	Georgia Power	Mississippi Power	Southern Power
	<i>(in millions)</i>				
Federal —					
Current	\$ 1,184	\$ 103	\$ 391	\$ (31)	\$ 928
Deferred	(342)	339	319	(60)	(1,098)
	842	442	710	(91)	(170)
State —					
Current	(108)	20	6	(6)	(60)
Deferred	217	69	64	(7)	35
	109	89	70	(13)	(25)
Total	\$ 951	\$ 531	\$ 780	\$ (104)	\$ (195)

	Southern Company Gas			Predecessor January 1, 2016 through June 30, 2016 <i>(in millions)</i>
	Year Ended December 31, 2018	Successor Year Ended December 31, 2017	July 1, 2016 through December 31, 2016 <i>(in millions)</i>	
Federal —				
Current	\$ 334	\$ 103	\$ —	\$ 67
Deferred	33	170	65	8
	367	273	65	75
State —				
Current	131	27	(16)	12
Deferred	(34)	67	27	—
	97	94	11	12
Total	\$ 464	\$ 367	\$ 76	\$ 87

Southern Company's and Southern Power's ITCs and PTCs generated in the current tax year and carried forward from prior tax years that cannot be utilized in the current tax year are reclassified from current to deferred taxes in federal income tax expense in the tables above. Southern Power's ITCs and PTCs reclassified in this manner include \$128 million for 2018, \$316 million for

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2017, and \$1.13 billion for 2016. These ITCs and PTCs for Southern Company and Southern Power are included in "Deferred Tax Assets and Liabilities" herein.

In accordance with regulatory requirements, federal ITCs for the traditional electric operating companies and the natural gas distribution utilities, as well as certain state ITCs for Nicor Gas, are deferred, and, upon utilization, amortized over the average life of the related property with such amortization normally applied as a credit to reduce depreciation in the statements of income. Southern Power's deferred federal ITCs are amortized to income tax expense over the life of the respective asset. ITCs amortized in 2018, 2017, and 2016 were immaterial for Alabama Power, Georgia Power, Mississippi Power, and Southern Company Gas and were as follows for Southern Company and Southern Power:

	Southern Company	Southern Power
	<i>(in millions)</i>	
2018	\$	87 \$
2017		79
2016		59

Southern Power received \$5 million of cash related to federal ITCs under renewable energy initiatives in 2018. No cash was received in 2017 or 2016. Southern Power recognized tax credits and reduced the tax basis of the asset by 50% of the ITCs received, resulting in a net deferred tax asset. Southern Power has elected to recognize the tax benefit of this basis difference as a reduction to income tax expense in the year in which the plant reaches commercial operation. The tax benefit of the related basis differences reduced income tax expense by \$1 million in 2018, \$18 million in 2017, and \$173 million in 2016. See "Unrecognized Tax Benefits" herein for further information.

State ITCs and other state credits, which are recognized in the period in which the credits are generated, reduced Georgia Power's income tax expense by \$21 million in 2018, \$37 million in 2017, and \$31 million in 2016 and reduced Southern Power's income tax expense by \$32 million in 2017 and \$7 million in 2016.

Southern Power's federal and state PTCs, which are recognized in the period in which the credits are generated, reduced Southern Power's income tax expense by \$141 million in 2018, \$139 million in 2017, and \$50 million in 2016.

Legal Entity Reorganizations

In April 2018, Southern Power completed the final stage of a legal entity reorganization of various direct and indirect subsidiaries that own and operate substantially all of its solar facilities, including certain subsidiaries owned in partnership with various third parties. In September 2018, Southern Power also completed a legal entity reorganization of eight operating wind facilities under a new holding company, SP Wind. The reorganizations resulted in net state tax benefits related to certain changes in apportionment rates totaling approximately \$65 million, which were recorded in 2018.

Effective Tax Rate

Southern Company's effective tax rate is typically lower than the statutory rate due to employee stock plans' dividend deduction, non-taxable AFUDC equity at the traditional electric operating companies, flowback of excess deferred income taxes at the regulated utilities, and federal income tax benefits from ITCs and PTCs primarily at Southern Power. Each registrant's effective tax rate for 2018 varied significantly as compared to 2017 due to the 14% lower 2018 federal tax rate resulting from the Tax Reform Legislation.

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A reconciliation of the federal statutory income tax rate to the effective income tax rate is as follows:

	2018				
	Southern Company	Alabama Power	Georgia Power	Mississippi Power	Southern Power
Federal statutory rate	21.0%	21.0%	21.0%	21.0 %	21.0 %
State income tax, net of federal deduction	1.8	5.0	5.5	(65.1)	(90.8)
Employee stock plans' dividend deduction	(1.0)	—	—	—	—
Non-deductible book depreciation	0.8	0.6	1.2	0.7	—
Flowback of excess deferred income taxes	(4.0)	(1.8)	—	(4.1)	—
AFUDC-Equity	(1.0)	(1.0)	(1.4)	—	—
ITC basis difference	(0.6)	—	—	—	(0.2)
Federal PTCs	(4.7)	—	—	—	(156.6)
Amortization of ITC	(2.0)	(0.1)	(0.2)	(0.2)	(55.4)
Tax impact from sale of subsidiaries	8.6	—	—	—	—
Tax Reform Legislation	(1.4)	—	(4.9)	(26.3)	96.1
Noncontrolling interests	(0.4)	—	—	—	(14.9)
Other	(0.8)	(0.1)	0.1	(1.4)	2.0
Effective income tax (benefit) rate	16.3%	23.6%	21.3%	(75.4)%	(198.8)%

	2017				
	Southern Company	Alabama Power	Georgia Power	Mississippi Power^(*)	Southern Power
Federal statutory rate	35.0%	35.0%	35.0%	(35.0)%	35.0 %
State income tax, net of federal deduction	12.5	4.5	2.0	0.6	(22.2)
Employee stock plans' dividend deduction	(4.0)	—	—	—	—
Non-deductible book depreciation	3.1	0.9	0.7	0.1	—
Flowback of excess deferred income taxes	(0.3)	—	(0.1)	—	—
AFUDC-Equity	(2.6)	(1.0)	(0.6)	—	—
AFUDC-Equity portion of Kemper IGCC charge	15.7	—	—	5.3	—
ITC basis difference	(1.7)	—	—	—	(10.0)
Federal PTCs	(12.1)	—	—	—	(72.5)
Amortization of ITC	(4.2)	(0.2)	(0.1)	—	(20.6)
Tax Reform Legislation	(25.6)	0.3	(0.4)	11.9	(416.1)
Noncontrolling interests	(1.4)	—	—	—	(8.6)
Other	(1.1)	0.1	0.2	—	(10.7)
Effective income tax (benefit) rate	13.3%	39.6%	36.7%	(17.1)%	(525.7)%

(*) Represents effective income tax benefit rate for Mississippi Power due to a loss before income taxes in 2017.

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	2016				
	Southern Company	Alabama Power	Georgia Power	Mississippi Power^(*)	Southern Power
Federal statutory rate	35.0%	35.0%	35.0%	(35.0)%	35.0 %
State income tax, net of federal deduction	2.0	4.2	2.1	(5.7)	(9.1)
Employee stock plans' dividend deduction	(1.2)	—	—	—	—
Non-deductible book depreciation	0.9	1.0	0.8	0.7	—
Flowback of excess deferred income taxes	(0.1)	—	(0.1)	(0.3)	—
AFUDC-Equity	(2.0)	(0.7)	(0.8)	(28.5)	—
ITC basis difference	(5.0)	—	—	—	(96.3)
Federal PTCs	(1.2)	—	—	—	(23.3)
Amortization of ITC	(0.9)	(0.2)	(0.2)	(0.1)	(13.4)
Noncontrolling interests	(0.3)	—	—	—	(6.2)
Other	0.1	(0.5)	(0.1)	0.4	4.7
Effective income tax (benefit) rate	27.3%	38.8%	36.7%	(68.5)%	(108.6)%

(*) Represents effective income tax benefit rate for Mississippi Power due to a loss before income taxes in 2016.

	Southern Company Gas			Predecessor
	Successor			
	Year Ended December 31, 2018	Year Ended December 31, 2017	July 1, 2016 through December 31, 2016	January 1, 2016 through June 30, 2016
Federal statutory rate	21.0%	35.0%	35.0%	35.0%
State income tax, net of federal deduction	9.2	10.0	3.6	3.5
Flowback of excess deferred income taxes	(3.0)	(0.2)	—	—
Amortization of ITC	(0.1)	(0.2)	(0.4)	—
Tax impact on sale of subsidiaries	28.5	—	—	—
Tax Reform Legislation	(0.4)	15.0	—	—
Other	0.3	0.6	1.8	(0.9)
Effective income tax rate	55.5%	60.2%	40.0%	37.6%

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Deferred Tax Assets and Liabilities

The tax effects of temporary differences between the carrying amounts of assets and liabilities in the financial statements of the registrants and their respective tax bases, which give rise to deferred tax assets and liabilities, are as follows:

	December 31, 2018					
	Southern Company	Alabama Power	Georgia Power	Mississippi Power	Southern Power	Southern Company Gas
	<i>(in millions)</i>					
Deferred tax liabilities —						
Accelerated depreciation	\$ 8,461	\$ 2,236	\$ 3,005	\$ 335	\$ 1,483	\$ 1,176
Property basis differences	1,807	865	633	162	—	134
Federal effect of net state deferred tax assets	—	—	—	36	—	—
Leveraged lease basis differences	253	—	—	—	—	—
Employee benefit obligations	477	149	290	25	6	6
Premium on reacquired debt	88	14	74	—	—	—
Regulatory assets —						
Storm damage reserves	111	—	111	—	—	—
Employee benefit obligations	975	260	344	45	—	45
AROs	1,232	276	925	31	—	—
AROs	1,210	607	575	—	—	—
Other	593	177	141	68	34	132
Total deferred income tax liabilities	15,207	4,584	6,098	702	1,523	1,493
Deferred tax assets —						
Federal effect of net state deferred tax liabilities	260	155	71	—	22	46
Employee benefit obligations	1,273	286	444	62	7	150
Other property basis differences	251	—	61	—	172	—
ITC and PTC carryforward	2,730	11	430	—	2,128	—
Alternative minimum tax carryforward	62	—	—	32	21	—
Other partnership basis difference	162	—	—	—	162	—
Other comprehensive losses	82	10	3	—	—	—
AROs	2,442	883	1,500	31	—	—
Estimated loss on plants under construction	346	—	283	63	—	—
Other deferred state tax attributes	415	—	19	251	72	—
Regulatory liability associated with the Tax Reform Legislation (not subject to normalization)	294	130	127	29	—	8
Other	731	147	140	47	47	285
Total deferred income tax assets	9,048	1,622	3,078	515	2,631	489
Valuation allowance	(123)	—	(42)	(41)	(27)	(12)
Net deferred income tax assets	8,925	1,622	3,036	474	2,604	477
Net deferred income taxes (assets)/liabilities	\$ 6,282	\$ 2,962	\$ 3,062	\$ 228	\$ (1,081)	\$ 1,016
Recognized in the balance sheets:						
Accumulated deferred income taxes – assets	\$ (276)	\$ —	\$ —	\$ (150)	\$ (1,186)	\$ —
Accumulated deferred income taxes – liabilities	\$ 6,558	\$ 2,962	\$ 3,062	\$ 378	\$ 105	\$ 1,016

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	December 31, 2017					
	Southern Company	Alabama Power	Georgia Power	Mississippi Power	Southern Power	Southern Company Gas
	<i>(in millions)</i>					
Deferred tax liabilities —						
Accelerated depreciation	\$ 9,059	\$ 2,135	\$ 2,889	\$ 303	\$ 1,922	\$ 1,150
Property basis differences	1,853	725	606	207	2	204
Federal effect of net state deferred tax assets	—	—	—	9	—	—
Leveraged lease basis differences	251	—	—	—	—	—
Employee benefit obligations	527	162	287	28	7	4
Premium on reacquired debt	54	16	34	—	—	—
Regulatory assets –						
Storm damage reserves	89	—	89	—	—	—
Employee benefit obligations	1,044	260	349	46	—	75
AROs	821	249	501	33	—	—
AROs	370	220	130	—	—	—
Other	689	147	140	73	30	208
Total deferred income tax liabilities	14,757	3,914	5,025	699	1,961	1,641
Deferred tax assets —						
Federal effect of net state deferred tax liabilities	330	143	85	—	42	54
Employee benefit obligations	1,339	286	448	62	8	185
Other property basis differences	343	—	59	—	184	—
ITC and PTC carryforward	2,414	9	403	—	2,002	—
Federal NOL carryforward	518	—	—	40	333	92
Alternative minimum tax carryforward	69	—	—	32	21	—
Other partnership basis difference	23	—	—	—	23	—
Other comprehensive losses	84	10	4	—	1	—
AROs	1,191	469	631	33	—	—
Estimated loss on plants under construction	722	—	—	722	—	—
Other deferred state tax attributes	330	—	6	133	77	—
Regulatory liability associated with the Tax Reform Legislation (not subject to normalization)	304	126	123	27	—	9
Other	538	111	91	54	9	223
Total deferred income tax assets	8,205	1,154	1,850	1,103	2,700	563
Valuation allowance	(184)	—	—	(157)	(13)	(11)
Net deferred income tax assets	8,021	1,154	1,850	946	2,687	552
Net deferred income taxes (assets)/liabilities	\$ 6,736	\$ 2,760	\$ 3,175	\$ (247)	\$ (726)	\$ 1,089
Recognized in the balance sheets:						
Accumulated deferred income taxes – assets	\$ (106)	\$ —	\$ —	\$ (247)	\$ (925)	\$ —
Accumulated deferred income taxes – liabilities	\$ 6,842	\$ 2,760	\$ 3,175	\$ —	\$ 199	\$ 1,089

The implementation of the Tax Reform Legislation significantly reduced accumulated deferred income taxes in 2017, partially offset by bonus depreciation provisions in the PATH Act.

The traditional electric operating companies and natural gas distribution utilities have tax-related regulatory assets (deferred income tax charges) and regulatory liabilities (deferred income tax credits). The regulatory assets are primarily attributable to tax benefits flowed through to customers in prior years, deferred taxes previously recognized at rates lower than the current enacted

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tax law, and taxes applicable to capitalized interest. The regulatory liabilities are primarily attributable to deferred taxes previously recognized at rates higher than the current enacted tax law and to unamortized ITCs. See Note 2 for each registrant's related balances at December 31, 2018 and 2017.

Tax Credit Carryforwards

Federal ITC/PTC carryforwards at December 31, 2018 were as follows:

	Southern Company	Alabama Power	Georgia Power	Southern Power
			<i>(in millions)</i>	
Federal ITC/PTC carryforwards	\$ 2,410	\$ 11	\$ 108	\$ 2,128
Year in which federal ITC/PTC carryforwards begin expiring	2032	2033	2032	2034
Year by which federal ITC/PTC carryforwards are expected to be utilized	2022	2021	2021	2022

The estimated tax credit utilization reflects the 2018 abandonment loss related to certain Kemper County energy facility expenditures as well as the projected taxable gains on the various sale transactions described in Note 15 and "Legal Entity Reorganizations" herein. The expected utilization of tax credit carryforwards could be further delayed by numerous factors, including the acquisition of additional renewable projects, the purchase of rights to additional PTCs of Plant Vogtle Units 3 and 4 pursuant to the MEAG Funding Agreement or the Global Amendments, and changes in taxable income projections. See Note 2 under "Georgia Power – Nuclear Construction" for additional information on Plant Vogtle Units 3 and 4.

At December 31, 2018, Georgia Power also had approximately \$341 million in state investment and other state tax credit carryforwards for the State of Georgia that will expire between 2020 and 2028 and are not expected to be fully utilized. Georgia Power has a net state valuation allowance of \$33 million associated with these carryforwards.

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

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Net Operating Loss Carryforwards

In the 2018 tax year, Southern Company expects to fully utilize the carryforward from federal NOLs generated in 2016 and 2017. At December 31, 2018, the state and local NOL carryforwards for Southern Company's subsidiaries were as follows:

Company/Jurisdiction	Approximate NOL Carryforwards	Approximate Net State Income Tax Benefit	Tax Year NOL Begins Expiring
<i>(in millions)</i>			
Mississippi Power			
Mississippi	\$ 5,062	\$ 200	2031
Southern Power			
Oklahoma	846	40	2035
Florida	264	11	2033
South Carolina	62	2	2034
Other states	42	3	2029
Southern Power Total	\$ 1,214	\$ 56	
Other^(*)			
Georgia	358	16	2019
New York	223	11	2036
New York City	208	15	2036
Other states	278	14	Various
Southern Company Total	\$ 7,343	\$ 312	

(*) Represents other Southern Company subsidiaries. Alabama Power, Georgia Power, and Southern Company Gas did not have state NOL carryforwards at December 31, 2018.

State NOLs for Mississippi, Oklahoma, and Florida are not expected to be fully utilized prior to expiration. At December 31, 2018, Mississippi Power had a net state valuation allowance of \$32 million for the Mississippi NOL and Southern Power had a net state valuation allowance of \$9 million for the Oklahoma NOL and \$11 million for the Florida NOL.

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

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Unrecognized Tax Benefits

Unrecognized tax benefits changes in 2018, 2017, and 2016 for Southern Company, Mississippi Power, and Southern Power are provided below. The remaining registrants did not have any material unrecognized tax benefits for the periods presented.

	Southern Company	Mississippi Power	Southern Power
	<i>(in millions)</i>		
Unrecognized tax benefits at December 31, 2015	\$ 433	\$ 421	\$ 8
Tax positions changes –			
Increase from current periods	45	26	17
Increase from prior periods	21	18	—
Decrease from prior periods	(15)	—	(8)
Unrecognized tax benefits at December 31, 2016	484	465	17
Tax positions changes –			
Increase from current periods	10	—	—
Increase from prior periods	10	2	—
Decrease from prior periods	(196)	(177)	(17)
Reductions due to settlements	(290)	(290)	—
Unrecognized tax benefits at December 31, 2017	18	—	—
Tax positions changes –			
Decrease from prior periods	(18)	—	—
Unrecognized tax benefits at December 31, 2018	\$ —	\$ —	\$ —

Mississippi Power's tax positions increase from current and prior periods for 2017 and 2016 relate to state tax benefits, deductions for R&E expenditures, and charitable contribution carryforwards that were impacted as a result of the settlement of R&E expenditures associated with the Kemper County energy facility, as well as federal income tax benefits from deferred ITCs. Mississippi Power's tax positions decrease from prior periods and the reductions due to settlements for 2017 relate primarily to the settlement of R&E expenditures associated with the Kemper County energy facility. See Note 2 under "Mississippi Power – Kemper County Energy Facility" and "Section 174 Research and Experimental Deduction" herein for more information.

Southern Power's increase in unrecognized tax benefits from current periods for 2016, and the decrease from prior periods for 2017 and 2016, primarily relate to federal income tax benefits from deferred ITCs.

There were no unrecognized tax benefits at December 31, 2018. The impact on the effective tax rate of Southern Company, Mississippi Power, and Southern Power, if recognized, was as follows for 2017 and 2016:

	Southern Company	Mississippi Power	Southern Power
	<i>(in millions)</i>		
2017			
Tax positions impacting the effective tax rate	\$ 18	\$ —	\$ —
Tax positions not impacting the effective tax rate	—	—	—
Balance of unrecognized tax benefits	\$ 18	\$ —	\$ —
2016			
Tax positions impacting the effective tax rate	\$ 20	\$ 1	\$ 17
Tax positions not impacting the effective tax rate	464	464	—
Balance of unrecognized tax benefits	\$ 484	\$ 465	\$ 17

Mississippi Power's tax positions not impacting the effective tax rate for 2016 relate to deductions for R&E expenditures associated with the Kemper County energy facility. See "Section 174 Research and Experimental Deduction" herein for more information. These amounts are presented on a gross basis without considering the related federal or state income tax impact.

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Southern Power's impact on the effective tax rate was determined based on the amount of ITCs, which were uncertain.

All of the registrants classify interest on tax uncertainties as interest expense. Accrued interest for all tax positions other than the Section 174 R&E deductions was immaterial for all years presented. None of the registrants accrued any penalties on uncertain tax positions.

It is reasonably possible that the amount of the unrecognized tax benefits could change within 12 months. New audit findings or settlements associated with ongoing audits could result in significant unrecognized tax benefits. At this time, a range of reasonably possible outcomes cannot be determined.

The IRS has finalized its audits of Southern Company's consolidated federal income tax returns through 2017, as well as the pre-Merger Southern Company Gas tax returns. Southern Company is a participant in the Compliance Assurance Process of the IRS. The audits for the registrants' state income tax returns have either been concluded, or the statute of limitations has expired, for years prior to 2012.

Section 174 Research and Experimental Deduction

Southern Company, on behalf of Mississippi Power, has reflected deductions for R&E expenditures related to the Kemper County energy facility in its federal income tax calculations since 2013 and filed amended federal income tax returns for 2008 through 2013 to also include such deductions. In September 2017, the U.S. Congress Joint Committee on Taxation approved a settlement between Southern Company and the IRS, resolving a methodology for these deductions. As a result of this approval, Mississippi Power recognized \$176 million in 2017 of previously unrecognized tax benefits and reversed \$36 million of associated accrued interest.

11. RETIREMENT BENEFITS

The Southern Company system has a qualified defined benefit, trustee, pension plan covering substantially all employees, with the exception of employees at PowerSecure. The qualified defined benefit pension plan is funded in accordance with requirements of the Employee Retirement Income Security Act of 1974, as amended (ERISA). No contributions to the qualified pension plan were made for the year ended December 31, 2018 and no mandatory contributions to the qualified pension plan are anticipated for the year ending December 31, 2019. The Southern Company system also provides certain non-qualified defined benefits for a select group of management and highly compensated employees, which are funded on a cash basis. In addition, the Southern Company system provides certain medical care and life insurance benefits for retired employees through other postretirement benefit plans. The traditional electric operating companies fund other postretirement trusts to the extent required by their respective regulatory commissions. Southern Company Gas has a separate unfunded supplemental retirement health care plan that provides medical care and life insurance benefits to employees of discontinued businesses. For the year ending December 31, 2019, no other postretirement trust contributions are expected.

On January 1, 2018, the qualified defined benefit pension plan of Southern Company Gas was merged into the Southern Company system's qualified defined benefit pension plan and the pension plan was reopened to all non-union employees of Southern Company Gas. Prior to January 1, 2018, Southern Company Gas had a separate qualified defined benefit, trustee, pension plan covering certain eligible employees, which was closed in 2012 to new employees. Also on January 1, 2018, Southern Company Gas' non-qualified retirement plans were merged into the Southern Company system's non-qualified retirement plan (defined benefit and defined contribution).

Effective in December 2017, 538 employees transferred from SCS to Southern Power. Accordingly, Southern Power assumed various compensation and benefit plans including participation in the Southern Company system's qualified defined benefit, trustee, pension plan covering substantially all employees. With the transfer of employees, Southern Power assumed the related benefit obligations from SCS of \$139 million for the qualified pension plan (along with trust assets of \$138 million) and \$11 million for other postretirement benefit plans, together with \$36 million in prior service costs and net gains/losses in OCI. In 2018, Southern Power also began providing certain defined benefits under the non-qualified pension plan for a select group of management and highly compensated employees. No obligation related to these benefits was assumed in the employee transfer; however, obligations for services rendered by employees following the transfer are being recognized by Southern Power and are funded on a cash basis. In addition, Southern Power provides certain medical care and life insurance benefits for retired employees through other postretirement benefit plans that are funded on a cash basis. Prior to the transfer of employees in December 2017, substantially all expenses charged by SCS, including pension and other postretirement benefit costs, were recorded in Southern Power's other operations and maintenance expense. The disclosures included herein exclude Southern Power for periods prior to the transfer of employees in December 2017.

On January 1, 2019, Southern Company completed the sale of Gulf Power to NextEra Energy. See Note 15 under "Southern Company's Sale of Gulf Power" for additional information. The portion of the Southern Company system's pension and other

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postretirement benefit plans attributable to Gulf Power that is reflected in Southern Company's consolidated balance sheet as held for sale at December 31, 2018 consists of:

	Pension Plans	Other Postretirement Benefit Plans	
		<i>(in millions)</i>	
Projected benefit obligation	\$	526	\$ 69
Plan assets		492	17
Accrued liability	\$	(34)	\$ (52)

All amounts presented in the remainder of this note reflect the benefit plan obligations and related plan assets for the Southern Company system's pension and other postretirement benefit plans, including the amounts attributable to Gulf Power.

Actuarial Assumptions

The weighted average rates assumed in the actuarial calculations used to determine both the net periodic costs for the pension and other postretirement benefit plans for the following year and the benefit obligations as of the measurement date are presented below.

Assumptions used to determine net periodic costs:	2018				
	Southern Company	Alabama Power	Georgia Power	Mississippi Power	Southern Power
Pension plans					
Discount rate – benefit obligations	3.80%	3.81%	3.79%	3.80%	3.94%
Discount rate – interest costs	3.45	3.45	3.42	3.46	3.69
Discount rate – service costs	3.98	4.00	3.99	3.99	4.01
Expected long-term return on plan assets	7.95	7.95	7.95	7.95	7.95
Annual salary increase	4.34	4.46	4.46	4.46	4.46
Other postretirement benefit plans					
Discount rate – benefit obligations	3.68%	3.71%	3.68%	3.68%	3.81%
Discount rate – interest costs	3.29	3.31	3.29	3.29	3.47
Discount rate – service costs	3.91	3.93	3.91	3.91	3.93
Expected long-term return on plan assets	6.83	6.83	6.80	6.99	—
Annual salary increase	4.34	4.46	4.46	4.46	4.46

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Assumptions used to determine net periodic costs:	2017			
	Southern Company	Alabama Power	Georgia Power	Mississippi Power
Pension plans				
Discount rate – benefit obligations	4.40%	4.44%	4.40%	4.44%
Discount rate – interest costs	3.77	3.76	3.72	3.81
Discount rate – service costs	4.81	4.85	4.83	4.83
Expected long-term return on plan assets	7.92	7.95	7.95	7.95
Annual salary increase	4.37	4.46	4.46	4.46
Other postretirement benefit plans				
Discount rate – benefit obligations	4.23%	4.27%	4.23%	4.22%
Discount rate – interest costs	3.54	3.58	3.55	3.55
Discount rate – service costs	4.64	4.70	4.63	4.65
Expected long-term return on plan assets	6.84	6.83	6.79	6.88
Annual salary increase	4.37	4.46	4.46	4.46
2016				
Assumptions used to determine net periodic costs:	Southern Company	Alabama Power	Georgia Power	Mississippi Power
Pension plans				
Discount rate – benefit obligations	4.58%	4.67%	4.65%	4.69%
Discount rate – interest costs	3.88	3.90	3.86	3.97
Discount rate – service costs	4.98	5.07	5.03	5.04
Expected long-term return on plan assets	8.16	8.20	8.20	8.20
Annual salary increase	4.37	4.46	4.46	4.46
Other postretirement benefit plans				
Discount rate – benefit obligations	4.38%	4.51%	4.49%	4.47%
Discount rate – interest costs	3.66	3.69	3.67	3.66
Discount rate – service costs	4.85	4.96	4.88	4.88
Expected long-term return on plan assets	6.66	6.83	6.27	7.07
Annual salary increase	4.37	4.46	4.46	4.46

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Assumptions used to determine net periodic costs:	Southern Company Gas			
	Successor			Predecessor
	Year Ended December 31, 2018	Year Ended December 31, 2017	July 1, 2016 through December 31, 2016	January 1, 2016 through June 30, 2016
Pension plans				
Discount rate – benefit obligations	3.74%	4.39%	3.85%	4.60%
Discount rate – interest costs	3.41	3.76	3.21	4.00
Discount rate – service costs	3.84	4.64	4.07	4.80
Expected long-term return on plan assets	7.95	7.60	7.75	7.80
Annual salary increase	3.07	3.50	3.50	3.70
Pension band increase ^(*)	N/A	N/A	2.00	2.00
Other postretirement benefit plans				
Discount rate - benefit obligations	3.62%	4.15%	3.61%	4.40%
Discount rate – interest costs	3.21	3.40	2.84	3.60
Discount rate – service costs	3.82	4.55	3.96	4.70
Expected long-term return on plan assets	5.89	6.03	5.93	6.60
Annual salary increase	3.07	3.50	3.50	3.70

(*) Only applicable to Nicor Gas union employees. The pension bands for the former Nicor Gas plan reflect the negotiated rates in accordance with the union agreements.

Assumptions used to determine benefit obligations:	2018					
	Southern Company	Alabama Power	Georgia Power	Mississippi Power	Southern Power	Southern Company Gas
Pension plans						
Discount rate	4.49%	4.51%	4.48%	4.49%	4.65%	4.47%
Annual salary increase	4.34	4.46	4.46	4.46	4.46	3.07
Other postretirement benefit plans						
Discount rate	4.37%	4.40%	4.36%	4.35%	4.50%	4.32%
Annual salary increase	4.34	4.46	4.46	4.46	4.46	3.07

Assumptions used to determine benefit obligations:	2017					
	Southern Company	Alabama Power	Georgia Power	Mississippi Power	Southern Power	Southern Company Gas
Pension plans						
Discount rate	3.80%	3.81%	3.79%	3.80%	3.94%	3.74%
Annual salary increase	4.32	4.46	4.46	4.46	4.46	2.88
Other postretirement benefit plans						
Discount rate	3.68%	3.71%	3.68%	3.68%	3.81%	3.62%
Annual salary increase	4.32	4.46	4.46	4.46	4.46	2.56

The registrants estimate the expected rate of return on pension plan and other postretirement benefit plan assets using a financial model to project the expected return on each current investment portfolio. The analysis projects an expected rate of return on each of the different asset classes in order to arrive at the expected return on the entire portfolio relying on each trust's target asset allocation and reasonable capital market assumptions. The financial model is based on four key inputs: anticipated returns by asset class (based in part on historical returns), each trust's target asset allocation, an anticipated inflation rate, and the projected impact of a periodic rebalancing of each trust's portfolio.

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An additional assumption used in measuring the accumulated other postretirement benefit obligations (APBO) was a weighted average medical care cost trend rate. The weighted average medical care cost trend rates used in measuring the APBO for the registrants at December 31, 2018 were as follows:

	Initial Cost Trend Rate	Ultimate Cost Trend Rate	Year That Ultimate Rate is Reached
Pre-65	6.50%	4.50%	2028
Post-65 medical	5.00	4.50	2028
Post-65 prescription	8.00	4.50	2028

Pension Plans

The total accumulated benefit obligation for the pension plans at December 31, 2018 and 2017 was as follows:

	Southern Company	Alabama Power	Georgia Power	Mississippi Power	Southern Power	Southern Company Gas
	<i>(in millions)</i>					
December 31, 2018	\$ 11,683	\$ 2,550	\$ 3,613	\$ 513	\$ 101	\$ 842
December 31, 2017	12,577	2,696	3,847	541	111	1,139

The actuarial gain of \$1.1 billion recorded in the remeasurement of the Southern Company system pension plans at December 31, 2018 was primarily due to a 69 basis point increase in the overall discount rate used to calculate the benefit obligation as a result of higher market interest rates. The actuarial loss of \$1.3 billion recorded in the remeasurement of the Southern Company system pension plans at December 31, 2017 was primarily due to a 60 basis point decrease in the overall discount rate used to calculate the benefit obligation as a result of lower market interest rates.

Changes in the projected benefit obligations and the fair value of plan assets during the plan years ended December 31, 2018 and 2017 were as follows:

	2018					
	Southern Company	Alabama Power	Georgia Power	Mississippi Power	Southern Power	Southern Company Gas
	<i>(in millions)</i>					
Change in benefit obligation						
Benefit obligation at beginning of year	\$ 13,808	\$ 2,998	\$ 4,188	\$ 602	\$ 139	\$ 1,184
Dispositions	(107)	—	—	—	(3)	(104)
Service cost	359	78	87	17	9	34
Interest cost	464	101	139	20	5	39
Benefits paid	(618)	(124)	(191)	(24)	(3)	(98)
Actuarial (gain) loss	(1,143)	(237)	(318)	(58)	(24)	(148)
Balance at end of year	12,763	2,816	3,905	557	123	907
Change in plan assets						
Fair value of plan assets at beginning of year	12,992	2,836	4,058	563	138	1,068
Dispositions	(107)	—	—	—	(3)	(104)
Actual return (loss) on plan assets	(711)	(150)	(218)	(37)	(9)	(70)
Employer contributions	55	13	14	3	—	2
Benefits paid	(618)	(124)	(191)	(24)	(3)	(98)
Fair value of plan assets at end of year	11,611	2,575	3,663	505	123	798
Accrued liability	\$ (1,152)	\$ (241)	\$ (242)	\$ (52)	\$ —	\$ (109)

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2017

	Southern Company	Alabama Power	Georgia Power	Mississippi Power	Southern Power	Southern Company Gas
	<i>(in millions)</i>					
Change in benefit obligation						
Benefit obligation at beginning of year	\$ 12,385	\$ 2,663	\$ 3,800	\$ 534	\$ —	\$ 1,133
Service cost	293	63	74	15	—	23
Interest cost	455	98	138	20	—	42
Benefits paid	(596)	(120)	(187)	(22)	—	(91)
Plan amendments	(26)	—	—	—	—	(26)
Actuarial (gain) loss	1,297	294	363	55	—	103
Obligations assumed from employee transfer	—	—	—	—	139	—
Balance at end of year	13,808	2,998	4,188	602	139	1,184
Change in plan assets						
Fair value of plan assets at beginning of year	11,583	2,517	3,621	499	—	983
Actual return (loss) on plan assets	1,953	427	610	84	—	175
Employer contributions	52	12	14	2	—	1
Benefits paid	(596)	(120)	(187)	(22)	—	(91)
Assets assumed from employee transfer	—	—	—	—	138	—
Fair value of plan assets at end of year	12,992	2,836	4,058	563	138	1,068
Accrued liability	\$ (816)	\$ (162)	\$ (130)	\$ (39)	\$ (1)	\$ (116)

The projected benefit obligations for the qualified and non-qualified pension plans at December 31, 2018 are shown in the following table. All pension plan assets are related to the qualified pension plan.

	Southern Company	Alabama Power	Georgia Power	Mississippi Power	Southern Power	Southern Company Gas
	<i>(in millions)</i>					
Projected benefit obligations:						
Qualified pension plan	\$ 12,135	\$ 2,692	\$ 3,757	\$ 527	\$ 122	\$ 866
Non-qualified pension plan	629	124	148	30	1	41

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Amounts recognized in the balance sheets at December 31, 2018 and 2017 related to the registrants' pension plans consist of the following:

	Southern Company ^(*)	Alabama Power	Georgia Power	Mississippi Power	Southern Power	Southern Company Gas
<i>(in millions)</i>						
December 31, 2018:						
Prepaid pension costs	\$ —	\$ —	\$ —	\$ —	\$ 1	\$ —
Other regulatory assets, deferred	3,566	955	1,230	167	—	160
Other deferred charges and assets	—	—	—	—	—	74
Other current liabilities	(55)	(12)	(15)	(3)	—	(3)
Employee benefit obligations	(1,097)	(229)	(227)	(49)	(1)	(179)
Other regulatory liabilities, deferred	(108)	—	—	—	—	—
AOCI	97	—	—	—	26	(44)
December 31, 2017:						
Prepaid pension costs	\$ —	\$ —	\$ 23	\$ —	\$ —	\$ —
Other regulatory assets, deferred	3,273	890	1,105	158	—	217
Other deferred charges and assets	—	—	—	—	—	85
Other current liabilities	(53)	(12)	(15)	(3)	—	(3)
Employee benefit obligations	(763)	(150)	(138)	(36)	(1)	(198)
Other regulatory liabilities, deferred	(118)	—	—	—	—	—
AOCI	107	—	—	—	33	(42)

(*) Amounts for Southern Company exclude regulatory assets of \$268 million associated with unamortized amounts in Southern Company Gas' pension plans prior to its acquisition by Southern Company on July 1, 2016.

Presented below are the amounts included in regulatory assets at December 31, 2018 and 2017 related to the portion of the defined benefit pension plan attributable to Southern Company, the traditional electric operating companies, and Southern Company Gas that had not yet been recognized in net periodic pension cost.

	Southern Company ^(*)	Alabama Power	Georgia Power	Mississippi Power	Southern Company Gas
<i>(in millions)</i>					
Balance at December 31, 2018					
Regulatory assets:					
Prior service cost	\$ 17	\$ 6	\$ 12	\$ 2	\$ (17)
Net (gain) loss	3,441	949	1,218	165	83
Regulatory amortization ^(*)	—	—	—	—	94
Total regulatory assets (liabilities)	\$ 3,458	\$ 955	\$ 1,230	\$ 167	\$ 160
Balance at December 31, 2017					
Regulatory assets:					
Prior service cost	\$ 14	\$ 8	\$ 14	\$ 3	\$ (20)
Net (gain) loss	3,140	882	1,091	155	197
Regulatory amortization ^(*)	—	—	—	—	40
Total regulatory assets	\$ 3,154	\$ 890	\$ 1,105	\$ 158	\$ 217

(*) Amounts for Southern Company exclude regulatory assets of \$268 million associated with unamortized amounts in Southern Company Gas' pension plans prior to its acquisition by Southern Company on July 1, 2016.

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The changes in the balance of regulatory assets related to the portion of the defined benefit pension plan attributable to Southern Company, the traditional electric operating companies, and Southern Company Gas for the years ended December 31, 2018 and 2017 are presented in the following table:

	Southern Company ^(*)	Alabama Power	Georgia Power	Mississippi Power	Southern Company Gas
	<i>(in millions)</i>				
Regulatory assets (liabilities):					
Balance at December 31, 2016	\$ 3,120	\$ 870	\$ 1,129	\$ 154	\$ 267
Net (gain) loss	227	64	36	12	(31)
Change in prior service costs	(26)	—	—	—	—
Reclassification adjustments:					
Amortization of prior service costs	(11)	(2)	(3)	(1)	—
Amortization of net gain (loss)	(155)	(42)	(57)	(7)	(18)
Amortization of regulatory assets ^(*)	—	—	—	—	(1)
Total reclassification adjustments	(166)	(44)	(60)	(8)	(19)
Total change	35	20	(24)	4	(50)
Balance at December 31, 2017	\$ 3,155	\$ 890	\$ 1,105	\$ 158	\$ 217
Net (gain) loss	498	120	196	19	20
Change in prior service costs	1	—	—	—	(18)
Dispositions	12	—	—	—	(34)
Reclassification adjustments:					
Amortization of prior service costs	(4)	(1)	(2)	—	2
Amortization of net gain (loss)	(204)	(54)	(69)	(10)	(12)
Amortization of regulatory assets	—	—	—	—	(15)
Total reclassification adjustments	(208)	(55)	(71)	(10)	(25)
Total change	303	65	125	9	(57)
Balance at December 31, 2018	\$ 3,458	\$ 955	\$ 1,230	\$ 167	\$ 160

(*) Amounts for Southern Company exclude regulatory assets of \$268 million associated with unamortized amounts in Southern Company Gas' pension plans prior to its acquisition by Southern Company on July 1, 2016.

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Presented below are the amounts included in AOCI at December 31, 2018 and 2017 related to the portion of the defined benefit pension plan attributable to Southern Company, Southern Power, and Southern Company Gas that had not yet been recognized in net periodic pension cost.

	Southern Company	Southern Power	Southern Company Gas
	<i>(in millions)</i>		
Balance at December 31, 2018			
AOCI:			
Prior service cost	\$ (3)	\$ —	\$ (6)
Net (gain) loss	100	26	(38)
Total AOCI	\$ 97	\$ 26	\$ (44)
Balance at December 31, 2017			
AOCI:			
Prior service cost	\$ 3	\$ 1	\$ —
Net (gain) loss	104	32	(42)
Total AOCI	\$ 107	\$ 33	\$ (42)

The components of OCI related to the portion of the defined benefit pension plan attributable to Southern Company, Southern Power, and Southern Company Gas for the years ended December 31, 2018 and 2017 are presented in the following table:

	Southern Company	Southern Power	Southern Company Gas
	<i>(in millions)</i>		
AOCI:			
Balance at December 31, 2016	\$ 100	\$ —	\$ (43)
Net (gain) loss	15	—	1
Change from employee transfer	—	33	—
Reclassification adjustments:			
Amortization of prior service costs	(1)	—	—
Amortization of net gain (loss)	(7)	—	—
Total reclassification adjustments	(8)	—	—
Total change	7	33	1
Balance at December 31, 2017	\$ 107	\$ 33	\$ (42)
Net (gain) loss	7	(5)	6
Dispositions	(8)	—	(8)
Reclassification adjustments:			
Amortization of net gain (loss)	(9)	(2)	—
Total reclassification adjustments	(9)	(2)	—
Total change	(10)	(7)	(2)
Balance at December 31, 2018	\$ 97	\$ 26	\$ (44)

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Components of net periodic pension cost for Southern Company, the traditional electric operating companies, and Southern Power were as follows:

	Southern Company	Alabama Power	Georgia Power	Mississippi Power	Southern Power
<i>(in millions)</i>					
2018:					
Service cost	\$ 359	\$ 78	\$ 87	\$ 17	\$ 9
Interest cost	464	101	139	20	5
Expected return on plan assets	(943)	(207)	(296)	(41)	(10)
Recognized net (gain) loss	213	54	69	10	1
Net amortization	4	1	2	—	—
Net periodic pension cost	\$ 97	\$ 27	\$ 1	\$ 6	\$ 5
2017:					
Service cost	\$ 293	\$ 63	\$ 74	\$ 15	\$ 15
Interest cost	455	98	138	20	20
Expected return on plan assets	(897)	(196)	(283)	(40)	(40)
Recognized net (gain) loss	162	42	57	7	7
Net amortization	12	2	3	1	1
Net periodic pension cost	\$ 25	\$ 9	\$ (11)	\$ 3	\$ 3
2016:					
Service cost	\$ 262	\$ 57	\$ 70	\$ 13	\$ 13
Interest cost	422	95	136	19	19
Expected return on plan assets	(782)	(184)	(258)	(35)	(35)
Recognized net (gain) loss	150	40	55	7	7
Net amortization	14	3	5	1	1
Net periodic pension cost	\$ 66	\$ 11	\$ 8	\$ 5	\$ 5

Components of net periodic pension cost for Southern Company Gas were as follows:

	Southern Company Gas				
	Successor				
	Year Ended December 31, 2018	Year Ended December 31, 2017	July 1, 2016 through December 31, 2016	January 1, 2016 through June 30, 2016	
<i>(in millions)</i>					
Service cost	\$ 34	\$ 23	\$ 15	\$	13
Interest cost	39	42	20	20	21
Expected return on plan assets	(75)	(70)	(35)	(35)	(33)
Recognized net (gain) loss	12	18	14	14	13
Net amortization of regulatory asset	15	1	—	—	—
Prior service cost	(2)	—	(1)	(1)	(1)
Net periodic pension cost	\$ 23	\$ 14	\$ 13	\$	13

Net periodic pension cost is the sum of service cost, interest cost, and other costs netted against the expected return on plan assets. The expected return on plan assets is determined by multiplying the expected rate of return on plan assets and the market-related value of plan assets. In determining the market-related value of plan assets, the registrants have elected to amortize changes in the

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market value of all plan assets over five years rather than recognize the changes immediately. As a result, the accounting value of plan assets that is used to calculate the expected return on plan assets differs from the current fair value of the plan assets.

Future benefit payments reflect expected future service and are estimated based on assumptions used to measure the projected benefit obligation for the pension plans. At December 31, 2018, estimated benefit payments were as follows:

	Southern Company	Alabama Power	Georgia Power	Mississippi Power	Southern Power	Southern Company Gas
	<i>(in millions)</i>					
Benefit Payments:						
2019	\$ 623	\$ 132	\$ 201	\$ 28	\$ 3	\$ 59
2020	645	136	206	28	3	61
2021	664	141	209	29	4	62
2022	687	147	215	29	4	62
2023	711	152	221	30	5	62
2024 to 2028	3,869	832	1,183	166	27	313

Other Postretirement Benefits

Changes in the APBO and the fair value of the registrants' plan assets during the plan years ended December 31, 2018 and 2017 were as follows:

	2018					
	Southern Company	Alabama Power	Georgia Power	Mississippi Power	Southern Power	Southern Company Gas
	<i>(in millions)</i>					
Change in benefit obligation						
Benefit obligation at beginning of year	\$ 2,339	\$ 517	\$ 863	\$ 97	\$ 11	\$ 310
Dispositions	(18)	—	—	—	—	(18)
Service cost	24	6	6	1	1	2
Interest cost	75	17	28	3	—	10
Benefits paid	(129)	(28)	(47)	(5)	(1)	(17)
Actuarial (gain) loss	(432)	(111)	(178)	(15)	(2)	(43)
Retiree drug subsidy	6	2	3	—	—	—
Balance at end of year	1,865	403	675	81	9	244
Change in plan assets						
Fair value of plan assets at beginning of year	1,053	406	386	25	—	125
Dispositions	(18)	—	—	—	—	(18)
Actual return (loss) on plan assets	(57)	(25)	(20)	(1)	—	(5)
Employer contributions	73	5	22	4	1	13
Benefits paid	(123)	(26)	(44)	(5)	(1)	(17)
Fair value of plan assets at end of year	928	360	344	23	—	98
Accrued liability	\$ (937)	\$ (43)	\$ (331)	\$ (58)	\$ (9)	\$ (146)

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2017

	Southern Company	Alabama Power	Georgia Power	Mississippi Power	Southern Power	Southern Company Gas
<i>(in millions)</i>						
Change in benefit obligation						
Benefit obligation at beginning of year	\$ 2,297	\$ 501	\$ 847	\$ 97	\$ —	\$ 308
Service cost	24	6	7	1	—	2
Interest cost	79	17	29	3	—	10
Benefits paid	(136)	(29)	(51)	(6)	—	(19)
Actuarial (gain) loss	65	20	28	1	—	3
Plan amendments	3	—	—	—	—	3
Retiree drug subsidy	7	2	3	1	—	—
Obligations assumed from employee transfer	—	—	—	—	11	—
Employee contributions	—	—	—	—	—	3
Balance at end of year	2,339	517	863	97	11	310
Change in plan assets						
Fair value of plan assets at beginning of year	944	367	354	23	—	105
Actual return (loss) on plan assets	154	60	54	3	—	20
Employer contributions	84	6	26	4	—	17
Employee contributions	—	—	—	—	—	3
Benefits paid	(129)	(27)	(48)	(5)	—	(20)
Fair value of plan assets at end of year	1,053	406	386	25	—	125
Accrued liability	\$ (1,286)	\$ (111)	\$ (477)	\$ (72)	\$ (11)	\$ (185)

Amounts recognized in the balance sheets at December 31, 2018 and 2017 related to the registrants' other postretirement benefit plans consist of the following:

	Southern Company ^(a)	Alabama Power	Georgia Power	Mississippi Power	Southern Power	Southern Company Gas
<i>(in millions)</i>						
December 31, 2018:						
Other regulatory assets, deferred ^(a)	\$ 99	\$ —	\$ 60	\$ 6	\$ —	\$ (4)
Other current liabilities	(6)	—	—	—	—	—
Employee benefit obligations ^(b)	(931)	(43)	(331)	(58)	(9)	146
Other regulatory liabilities, deferred	(77)	(8)	—	(2)	—	—
AOCI	(4)	—	—	—	1	(4)
December 31, 2017:						
Other regulatory assets, deferred ^(a)	\$ 382	\$ 63	\$ 202	\$ 18	\$ —	\$ 46
Other current liabilities	(5)	—	—	—	—	—
Employee benefit obligations ^(b)	(1,281)	(111)	(477)	(72)	(11)	(185)
Other regulatory liabilities, deferred	(41)	(7)	—	(1)	—	—
AOCI	4	—	—	—	3	(3)

(a) Amounts for Southern Company exclude regulatory assets of \$57 million associated with unamortized amounts in Southern Company Gas' other postretirement benefit plans prior to its acquisition by Southern Company on July 1, 2016.

(b) Included in other deferred credits and liabilities on Southern Power's consolidated balance sheets.

NOTES TO FINANCIAL STATEMENTS (continued)
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Presented below are the amounts included in net regulatory assets (liabilities) at December 31, 2018 and 2017 related to the other postretirement benefit plans of Southern Company, the traditional electric operating companies, and Southern Company Gas that had not yet been recognized in net periodic other postretirement benefit cost.

	Southern Company^(*)	Alabama Power	Georgia Power	Mississippi Power	Southern Company Gas
	<i>(in millions)</i>				
Balance at December 31, 2018					
Regulatory assets:					
Prior service cost	\$ 14	\$ 8	\$ 4	\$ —	\$ 2
Net (gain) loss	8	(16)	56	4	(43)
Regulatory amortization ^(*)	—	—	—	—	37
Total regulatory assets (liabilities)	\$ 22	\$ (8)	\$ 60	\$ 4	\$ (4)
Balance at December 31, 2017					
Regulatory assets:					
Prior service cost	\$ 21	\$ 11	\$ 5	\$ —	\$ (7)
Net (gain) loss	320	45	197	17	47
Regulatory amortization ^(*)	—	—	—	—	6
Total regulatory assets	\$ 341	\$ 56	\$ 202	\$ 17	\$ 46

(*) Amounts for Southern Company exclude regulatory assets of \$57 million associated with unamortized amounts in Southern Company Gas' other postretirement benefit plans prior to its acquisition by Southern Company on July 1, 2016.

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The changes in the balance of net regulatory assets (liabilities) related to the other postretirement benefit plans for the plan years ended December 31, 2018 and 2017 are presented in the following table:

	Southern Company ^(*)	Alabama Power	Georgia Power	Mississippi Power	Southern Company Gas
<i>(in millions)</i>					
Net regulatory assets (liabilities):					
Balance at December 31, 2016	\$ 378	\$ 76	\$ 213	\$ 19	\$ 52
Net (gain) loss	(21)	(15)	(2)	(1)	(5)
Change in prior service costs	3	—	—	—	—
Reclassification adjustments:					
Amortization of prior service costs	(6)	(4)	(1)	—	3
Amortization of net gain (loss)	(13)	(1)	(8)	(1)	(4)
Total reclassification adjustments	(19)	(5)	(9)	(1)	(1)
Total change	(37)	(20)	(11)	(2)	(6)
Balance at December 31, 2017	\$ 341	\$ 56	\$ 202	\$ 17	\$ 46
Net (gain) loss	(298)	(60)	(132)	(12)	(42)
Change in prior service costs	—	—	—	—	(2)
Reclassification adjustments:					
Amortization of prior service costs	(7)	(4)	(1)	—	—
Amortization of net gain (loss)	(14)	(1)	(9)	(1)	—
Amortization of regulatory assets	—	—	—	—	(6)
Total reclassification adjustments	(21)	(5)	(10)	(1)	(6)
Total change	(319)	(65)	(142)	(13)	(50)
Balance at December 31, 2018	\$ 22	\$ (9)	\$ 60	\$ 4	\$ (4)

(*) Amounts for Southern Company exclude regulatory assets of \$57 million associated with unamortized amounts in Southern Company Gas' other postretirement benefit plans prior to its acquisition by Southern Company on July 1, 2016.

Presented below are the amounts included in AOCI at December 31, 2018 and 2017 related to the other postretirement benefit plans of Southern Company, Southern Power, and Southern Company Gas that had not yet been recognized in net periodic other postretirement benefit cost.

	Southern Company	Southern Power	Southern Company Gas
<i>(in millions)</i>			
Balance at December 31, 2018			
AOCI:			
Prior service cost	\$ 1	\$ —	\$ 1
Net (gain) loss	(5)	1	(5)
Total AOCI	\$ (4)	\$ 1	\$ (4)
Balance at December 31, 2017			
AOCI:			
Prior service cost	\$ —	\$ —	\$ —
Net (gain) loss	4	3	(3)
Total AOCI	\$ 4	\$ 3	\$ (3)

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The components of OCI related to the other postretirement benefit plans for the plan years ended December 31, 2018 and 2017 are presented in the following table:

	Southern Company	Southern Power	Southern Company Gas
	<i>(in millions)</i>		
AOCI:			
Balance at December 31, 2016	\$ 7	\$ —	\$ (3)
Net (gain) loss	(3)	—	(1)
Change from employee transfer	—	3	1
Total change	(3)	3	—
Balance at December 31, 2017	\$ 4	\$ 3	\$ (3)
Net (gain) loss	(8)	(2)	(2)
Amortization of prior service costs	—	—	1
Total change	(8)	(2)	(1)
Balance at December 31, 2018	\$ (4)	\$ 1	\$ (4)

Components of the other postretirement benefit plans' net periodic cost for Southern Company, the traditional electric operating companies, and Southern Power were as follows:

	Southern Company	Alabama Power	Georgia Power	Mississippi Power	Southern Power
	<i>(in millions)</i>				
2018:					
Service cost	\$ 24	\$ 6	\$ 6	\$ 1	\$ 1
Interest cost	75	17	28	3	—
Expected return on plan assets	(69)	(26)	(25)	(2)	—
Net amortization	21	5	10	1	—
Net periodic postretirement benefit cost	\$ 51	\$ 2	\$ 19	\$ 3	\$ 1
2017:					
Service cost	\$ 24	\$ 6	\$ 7	\$ 1	\$ 1
Interest cost	79	17	29	3	—
Expected return on plan assets	(66)	(25)	(25)	(1)	—
Net amortization	20	5	9	1	—
Net periodic postretirement benefit cost	\$ 57	\$ 3	\$ 20	\$ 4	\$ 4
2016:					
Service cost	\$ 22	\$ 5	\$ 6	\$ 1	\$ 1
Interest cost	76	18	30	3	—
Expected return on plan assets	(60)	(25)	(22)	(1)	—
Net amortization	21	6	10	1	—
Net periodic postretirement benefit cost	\$ 59	\$ 4	\$ 24	\$ 4	\$ 4

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Components of the other postretirement benefit plans' net periodic cost for Southern Company Gas were as follows:

	Successor			Predecessor
	Year Ended December 31, 2018	Year Ended December 31, 2017	July 1, 2016 through December 31, 2016	January 1, 2016 through June 30, 2016
	<i>(in millions)</i>			<i>(in millions)</i>
Service cost	\$ 2	\$ 2	\$ 1	\$ 1
Interest cost	10	10	5	5
Expected return on plan assets	(7)	(7)	(3)	(3)
Amortization:				
Regulatory assets	6	—	2	—
Prior service costs	—	(3)	—	(1)
Net (gain)/loss	—	4	—	2
Net periodic postretirement benefit cost	\$ 11	\$ 6	\$ 5	\$ 4

The registrants' future benefit payments, including prescription drug benefits, reflect expected future service and are estimated based on assumptions used to measure the APBO for the other postretirement benefit plans. The registrants' estimated benefit payments are reduced by drug subsidy receipts expected as a result of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 as follows:

	Southern Company	Alabama Power	Georgia Power	Mississippi Power	Southern Power	Southern Company Gas
	<i>(in millions)</i>					
Benefit payments:						
2019	\$ 136	\$ 28	\$ 51	\$ 6	\$ —	\$ 18
2020	136	28	50	6	—	18
2021	136	29	50	6	—	19
2022	137	29	50	6	1	19
2023	137	29	49	7	1	19
2024 to 2028	669	146	243	30	3	90
Subsidy receipts:						
2019	\$ (7)	\$ (2)	\$ (3)	\$ —	\$ —	\$ —
2020	(7)	(2)	(3)	—	—	—
2021	(8)	(2)	(3)	—	—	—
2022	(8)	(2)	(3)	(1)	—	—
2023	(8)	(3)	(4)	(1)	—	—
2024 to 2028	(41)	(13)	(18)	(2)	—	—
Total:						
2019	\$ 129	\$ 26	\$ 48	\$ 6	\$ —	\$ 18
2020	129	26	47	6	—	18
2021	128	27	47	6	—	19
2022	129	27	47	5	1	19
2023	129	26	45	6	1	19
2024 to 2028	628	133	225	28	3	90

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Benefit Plan Assets

Pension plan and other postretirement benefit plan assets are managed and invested in accordance with all applicable requirements, including ERISA and the Internal Revenue Code. The registrants' investment policies for both the pension plans and the other postretirement benefit plans cover a diversified mix of assets as described below. Derivative instruments may be used to gain efficient exposure to the various asset classes and as hedging tools. Additionally, the registrants minimize the risk of large losses primarily through diversification but also monitor and manage other aspects of risk.

The investment strategy for plan assets related to the Southern Company system's qualified pension plan is to be broadly diversified across major asset classes. The asset allocation is established after consideration of various factors that affect the assets and liabilities of the pension plan including, but not limited to, historical and expected returns and interest rates, volatility, correlations of asset classes, the current level of assets and liabilities, and the assumed growth in assets and liabilities. Because a significant portion of the liability of the pension plans is long-term in nature, the assets are invested consistent with long-term investment expectations for return and risk. To manage the actual asset class exposures relative to the target asset allocation, the Southern Company system employs a formal rebalancing program. As additional risk management, external investment managers and service providers are subject to written guidelines to ensure appropriate and prudent investment practices. Management believes the portfolio is well-diversified with no significant concentrations of risk.

Investment Strategies and Benefit Plan Asset Fair Values

A description of the major asset classes that the pension and other postretirement benefit plans are comprised of, along with the valuation methods used for fair value measurement, is provided below:

Description	Valuation Methodology
<p>Domestic equity: A mix of large and small capitalization stocks with generally an equal distribution of value and growth attributes, managed both actively and through passive index approaches.</p> <p>International equity: A mix of growth stocks and value stocks with both developed and emerging market exposure, managed both actively and through passive index approaches.</p>	<p>Domestic and international equities such as common stocks, American depositary receipts, and real estate investment trusts that trade on public exchanges are classified as Level 1 investments and are valued at the closing price in the active market. Equity funds with unpublished prices are valued as Level 2 when the underlying holdings are comprised of Level 1 or Level 2 equity securities.</p>
<p>Fixed income: A mix of domestic and international bonds.</p>	<p>Investments in fixed income securities are generally classified as Level 2 investments and are valued based on prices reported in the market place. Additionally, the value of fixed income securities takes into consideration certain items such as broker quotes, spreads, yield curves, interest rates, and discount rates that apply to the term of a specific instrument.</p>
<p>Trust-owned life insurance (TOLI): Investments of taxable trusts aimed at minimizing the impact of taxes on the portfolio.</p>	<p>Investments in TOLI policies are classified as Level 2 investments and are valued based on the underlying investments held in the policy's separate accounts. The underlying assets are equity and fixed income pooled funds that are comprised of Level 1 and Level 2 securities.</p>
<p>Special situations: Investments in opportunistic strategies with the objective of diversifying and enhancing returns and exploiting short-term inefficiencies, as well as investments in promising new strategies of a longer-term nature.</p> <p>Real estate: Investments in traditional private market, equity-oriented investments in real properties (indirectly through pooled funds or partnerships) and in publicly traded real estate securities.</p> <p>Private equity: Investments in private partnerships that invest in private or public securities typically through privately-negotiated and/or structured transactions, including leveraged buyouts, venture capital, and distressed debt.</p>	<p>Investments in real estate, private equity, and special situations are generally classified as Net Asset Value as a Practical Expedient, since the underlying assets typically do not have publicly available observable inputs. The fund manager values the assets using various inputs and techniques depending on the nature of the underlying investments. Techniques may include purchase multiples for comparable transactions, comparable public company trading multiples, discounted cash flow analysis, prevailing market capitalization rates, recent sales of comparable investments, and independent third-party appraisals. The fair value of partnerships is determined by aggregating the value of the underlying assets less liabilities.</p>

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The fair values, and actual allocations relative to the target allocations, of the Southern Company system's pension plans at December 31, 2018 and 2017 are presented below. The fair values presented are prepared in accordance with GAAP. For purposes of determining the fair value of the pension plan and other postretirement benefit plan assets and the appropriate level designation, management relies on information provided by the plan's trustee. This information is reviewed and evaluated by management with changes made to the trustee information as appropriate. The registrants did not have any investments classified as Level 3 at December 31, 2018 or 2017.

These fair values exclude cash, receivables related to investment income and pending investment sales, and payables related to pending investment purchases.

At December 31, 2018:	Fair Value Measurements Using			Total	Target Allocation	Actual Allocation
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Net Asset Value as a Practical Expedient (NAV)			
<i>(in millions)</i>						
Southern Company						
Assets:						
Domestic equity ^(*)	\$ 2,102	\$ 1,030	\$ —	\$ 3,132	26%	28%
International equity ^(*)	1,344	1,325	—	2,669	25	25
Fixed income:					23	24
U.S. Treasury, government, and agency bonds	—	930	—	930		
Mortgage- and asset-backed securities	—	7	—	7		
Corporate bonds	—	1,195	—	1,195		
Pooled funds	—	654	—	654		
Cash equivalents and other	270	2	—	272		
Real estate investments	419	—	1,361	1,780	14	15
Special situations	—	—	171	171	3	1
Private equity	—	—	821	821	9	7
Total	\$ 4,135	\$ 5,143	\$ 2,353	\$ 11,631	100%	100%
Alabama Power						
Assets:						
Domestic equity ^(*)	\$ 466	\$ 228	\$ —	\$ 694	26%	28%
International equity ^(*)	298	293	—	591	25	25
Fixed income:					23	24
U.S. Treasury, government, and agency bonds	—	206	—	206		
Mortgage- and asset-backed securities	—	2	—	2		
Corporate bonds	—	265	—	265		
Pooled funds	—	145	—	145		
Cash equivalents and other	60	1	—	61		
Real estate investments	93	—	302	395	14	15
Special situations	—	—	38	38	3	1
Private equity	—	—	182	182	9	7
Total	\$ 917	\$ 1,140	\$ 522	\$ 2,579	100%	100%

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At December 31, 2018:	Fair Value Measurements Using			Total	Target Allocation	Actual Allocation
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Net Asset Value as a Practical Expedient (NAV)			
<i>(in millions)</i>						
Georgia Power						
Assets:						
Domestic equity ^(*)	\$ 663	\$ 325	\$ —	\$ 988	26%	28%
International equity ^(*)	424	418	—	842	25	25
Fixed income:					23	24
U.S. Treasury, government, and agency bonds	—	294	—	294		
Mortgage- and asset-backed securities	—	2	—	2		
Corporate bonds	—	377	—	377		
Pooled funds	—	206	—	206		
Cash equivalents and other	85	1	—	86		
Real estate investments	132	—	429	561	14	15
Special situations	—	—	54	54	3	1
Private equity	—	—	259	259	9	7
Total	\$ 1,304	\$ 1,623	\$ 742	\$ 3,669	100%	100%
Mississippi Power						
Assets:						
Domestic equity ^(*)	\$ 91	\$ 45	\$ —	\$ 136	26%	28%
International equity ^(*)	59	59	—	118	25	25
Fixed income:					23	24
U.S. Treasury, government, and agency bonds	—	40	—	40		
Corporate bonds	—	52	—	52		
Pooled funds	—	28	—	28		
Cash equivalents and other	12	—	—	12		
Real estate investments	18	—	59	77	14	15
Special situations	—	—	7	7	3	1
Private equity	—	—	36	36	9	7
Total	\$ 180	\$ 224	\$ 102	\$ 506	100%	100%

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At December 31, 2018:	Fair Value Measurements Using			Total	Target Allocation	Actual Allocation
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Net Asset Value as a Practical Expedient (NAV)			
<i>(in millions)</i>						
Southern Power						
Assets:						
Domestic equity ^(*)	\$ 22	\$ 11	\$ —	\$ 33	26%	28%
International equity ^(*)	14	14	—	28	25	25
Fixed income:					23	24
U.S. Treasury, government, and agency bonds	—	10	—	10		
Corporate bonds	—	13	—	13		
Pooled funds	—	7	—	7		
Cash equivalents and other	3	—	—	3		
Real estate investments	4	—	15	19	14	15
Special situations	—	—	2	2	3	1
Private equity	—	—	9	9	9	7
Total	\$ 43	\$ 55	\$ 26	\$ 124	100%	100%
Southern Company Gas						
Assets:						
Domestic equity ^(*)	\$ 145	\$ 71	\$ —	\$ 216	26%	28%
International equity ^(*)	92	91	—	183	25	25
Fixed income:					23	24
U.S. Treasury, government, and agency bonds	—	64	—	64		
Corporate bonds	—	82	—	82		
Pooled funds	—	45	—	45		
Cash equivalents and other	19	—	—	19		
Real estate investments	29	—	94	123	14	15
Special situations	—	—	12	12	3	1
Private equity	—	—	56	56	9	7
Total	\$ 285	\$ 353	\$ 162	\$ 800	100%	100%

(*) Level 1 securities consist of actively traded stocks while Level 2 securities consist of pooled funds.

NOTES TO FINANCIAL STATEMENTS (continued)
Alabama Power Company 2018 Annual Report

At December 31, 2017:	Fair Value Measurements Using			Total	Target Allocation	Actual Allocation
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Net Asset Value as a Practical Expedient (NAV)			
<i>(in millions)</i>						
Southern Company^(a)						
Assets:						
Domestic equity ^(b)	\$ 2,559	\$ 1,482	\$ —	\$ 4,041	26%	31%
International equity ^(b)	1,555	1,569	—	3,124	25	25
Fixed income:					23	24
U.S. Treasury, government, and agency bonds	—	926	—	926		
Mortgage- and asset-backed securities	—	8	—	8		
Corporate bonds	—	1,241	—	1,241		
Pooled funds	—	650	—	650		
Cash equivalents and other	301	36	48	385		
Real estate investments	472	—	1,204	1,676	14	13
Special situations	—	—	180	180	3	1
Private equity	—	—	670	670	9	6
Total	\$ 4,887	\$ 5,912	\$ 2,102	\$ 12,901	100%	100%
Alabama Power						
Assets:						
Domestic equity ^(b)	\$ 572	\$ 276	\$ —	\$ 848	26%	31%
International equity ^(b)	370	333	—	703	25	25
Fixed income:					23	24
U.S. Treasury, government, and agency bonds	—	200	—	200		
Mortgage- and asset-backed securities	—	2	—	2		
Corporate bonds	—	286	—	286		
Pooled funds	—	155	—	155		
Cash equivalents and other	51	3	—	54		
Real estate investments	111	—	283	394	14	13
Special situations	—	—	43	43	3	1
Private equity	—	—	159	159	9	6
Total	\$ 1,104	\$ 1,255	\$ 485	\$ 2,844	100%	100%

NOTES TO FINANCIAL STATEMENTS (continued)
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At December 31, 2017:	Fair Value Measurements Using			Total	Target Allocation	Actual Allocation
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Net Asset Value as a Practical Expedient (NAV)			
<i>(in millions)</i>						
Georgia Power						
Assets:						
Domestic equity ^(b)	\$ 819	\$ 394	\$ —	\$ 1,213	26%	31%
International equity ^(b)	529	477	—	1,006	25	25
Fixed income:					23	24
U.S. Treasury, government, and agency bonds	—	286	—	286		
Mortgage- and asset-backed securities	—	3	—	3		
Corporate bonds	—	409	—	409		
Pooled funds	—	221	—	221		
Cash equivalents and other	74	4	—	78		
Real estate investments	160	—	404	564	14	13
Special situations	—	—	61	61	3	1
Private equity	—	—	228	228	9	6
Total	\$ 1,582	\$ 1,794	\$ 693	\$ 4,069	100%	100%
Mississippi Power						
Assets:						
Domestic equity ^(b)	\$ 113	\$ 55	\$ —	\$ 168	26%	31%
International equity ^(b)	73	66	—	139	25	25
Fixed income:					23	24
U.S. Treasury, government, and agency bonds	—	40	—	40		
Corporate bonds	—	56	—	56		
Pooled funds	—	31	—	31		
Cash equivalents and other	10	1	—	11		
Real estate investments	22	—	56	78	14	13
Special situations	—	—	9	9	3	1
Private equity	—	—	32	32	9	6
Total	\$ 218	\$ 249	\$ 97	\$ 564	100%	100%

NOTES TO FINANCIAL STATEMENTS (continued)
Alabama Power Company 2018 Annual Report

At December 31, 2017:	Fair Value Measurements Using			Total	Target Allocation	Actual Allocation
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Net Asset Value as a Practical Expedient (NAV)			
<i>(in millions)</i>						
Southern Power						
Assets:						
Domestic equity ^(b)	\$ 28	\$ 13	\$ —	\$ 41	26%	31%
International equity ^(b)	18	16	—	34	25	25
Fixed income:					23	24
U.S. Treasury, government, and agency bonds	—	10	—	10		
Corporate bonds	—	14	—	14		
Pooled funds	—	8	—	8		
Cash equivalents and other	2	—	—	2		
Real estate investments	5	—	14	19	14	13
Special situations	—	—	2	2	3	1
Private equity	—	—	8	8	9	6
Total	\$ 53	\$ 61	\$ 24	\$ 138	100%	100%

(a) Target and actual allocations reflect the asset allocations for only the Southern Company system pension plan prior to its merger with the Southern Company Gas pension plan on January 1, 2018.

(b) Level 1 securities consist of actively traded stocks while Level 2 securities consist of pooled funds.

NOTES TO FINANCIAL STATEMENTS (continued)
Alabama Power Company 2018 Annual Report

The fair values of Southern Company Gas' pension plan assets for the period ended December 31, 2017 are presented below. The fair value measurements exclude cash, receivables related to investment income, pending investment sales, and payables related to pending investment purchases. Special situations (absolute return and hedge funds) investment assets are presented in the tables below based on the nature of the investment.

At December 31, 2017:	Fair Value Measurements Using			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Net Asset Value as a Practical Expedient (NAV)	
	<i>(in millions)</i>			
Southern Company Gas				
Assets:				
Domestic equity ^(*)	\$ 155	\$ 323	\$ —	\$ 478
International equity ^(*)	—	166	—	166
Fixed income:				
U.S. Treasury, government, and agency bonds	—	85	—	85
Corporate bonds	—	39	—	39
Cash equivalents and other	84	25	48	157
Real estate investments	3	—	16	19
Private equity	—	—	1	1
Total	\$ 242	\$ 638	\$ 65	\$ 945

(*) Level 1 securities consist of actively traded stocks while Level 2 securities consist of pooled funds.

The composition of Southern Company Gas' pension plan assets at December 31, 2017, along with the targets, is presented below:

	Target	2017
Pension plan assets:		
Equity	53%	65%
Fixed Income	15	19
Cash	2	6
Other	30	10
Balance at end of period	100%	100%

NOTES TO FINANCIAL STATEMENTS (continued)
Alabama Power Company 2018 Annual Report

The fair values of the applicable registrants' other postretirement benefit plan assets at December 31, 2018 and 2017 are presented below. The registrants did not have any investments classified as Level 3 at December 31, 2018 or 2017. These fair value measurements exclude cash, receivables related to investment income, pending investment sales, and payables related to pending investment purchases.

At December 31, 2018:	Fair Value Measurements Using			Total	Target Allocation	Actual Allocation
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Net Asset Value as a Practical Expedient (NAV)			
<i>(in millions)</i>						
Southern Company						
Assets:						
Domestic equity ^(*)	\$ 100	\$ 76	\$ —	\$ 176	39%	40%
International equity ^(*)	45	75	—	120	23	22
Fixed income:					29	30
U.S. Treasury, government, and agency bonds	—	34	—	34		
Corporate bonds	—	35	—	35		
Pooled funds	—	81	—	81		
Cash equivalents and other	13	—	—	13		
Trust-owned life insurance	—	386	—	386		
Real estate investments	13	—	40	53	5	5
Special situations	—	—	4	4	1	—
Private equity	—	—	24	24	3	3
Total	\$ 171	\$ 687	\$ 68	\$ 926	100%	100%
Alabama Power						
Assets:						
Domestic equity ^(*)	\$ 35	\$ 10	\$ —	\$ 45	43%	45%
International equity ^(*)	12	12	—	24	21	21
Fixed income:					28	28
U.S. Treasury, government, and agency bonds	—	10	—	10		
Corporate bonds	—	11	—	11		
Pooled funds	—	6	—	6		
Cash equivalents and other	3	—	—	3		
Trust-owned life insurance	—	233	—	233		
Real estate investments	4	—	13	17	4	4
Special situations	—	—	2	2	1	—
Private equity	—	—	8	8	3	2
Total	\$ 54	\$ 282	\$ 23	\$ 359	100%	100%

NOTES TO FINANCIAL STATEMENTS (continued)
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At December 31, 2018:	Fair Value Measurements Using			Total	Target Allocation	Actual Allocation
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Net Asset Value as a Practical Expedient (NAV)			
<i>(in millions)</i>						
Georgia Power						
Assets:						
Domestic equity ^(*)	\$ 41	\$ 9	\$ —	\$ 50	36%	35%
International equity ^(*)	17	32	—	49	24	24
Fixed income:					33	35
U.S. Treasury, government, and agency bonds	—	7	—	7		
Corporate bonds	—	10	—	10		
Pooled funds	—	44	—	44		
Cash equivalents and other	5	—	—	5		
Trust-owned life insurance	—	153	—	153		
Real estate investments	4	—	11	15	4	4
Special situations	—	—	2	2	1	—
Private equity	—	—	7	7	2	2
Total	\$ 67	\$ 255	\$ 20	\$ 342	100%	100%
Mississippi Power						
Assets:						
Domestic equity ^(*)	\$ 3	\$ 2	\$ —	\$ 5	21%	22%
International equity ^(*)	2	2	—	4	20	20
Fixed income:					38	39
U.S. Treasury, government, and agency bonds	—	6	—	6		
Corporate bonds	—	2	—	2		
Pooled funds	—	1	—	1		
Cash equivalents and other	1	—	—	1		
Real estate investments	1	—	2	3	11	12
Special situations	—	—	—	—	3	1
Private equity	—	—	1	1	7	6
Total	\$ 7	\$ 13	\$ 3	\$ 23	100%	100%

NOTES TO FINANCIAL STATEMENTS (continued)
Alabama Power Company 2018 Annual Report

At December 31, 2018:	Fair Value Measurements Using			Total	Target Allocation	Actual Allocation
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Net Asset Value as a Practical Expedient (NAV)			
<i>(in millions)</i>						
Southern Company Gas						
Assets:						
Domestic equity ^(*)	\$ 2	\$ 47	\$ —	\$ 49	51%	51%
International equity ^(*)	1	17	—	18	20	18
Fixed income:					25	28
U.S. Treasury, government, and agency bonds	—	1	—	1		
Corporate bonds	—	1	—	1		
Pooled funds	—	24	—	24		
Cash equivalents and other	1	—	—	1		
Real estate investments	—	—	1	1	2	2
Special situations	—	—	—	—	1	—
Private equity	—	—	1	1	1	1
Total	\$ 4	\$ 90	\$ 2	\$ 96	100%	100%

(*) Level 1 securities consist of actively traded stocks while Level 2 securities consist of pooled funds.

NOTES TO FINANCIAL STATEMENTS (continued)
Alabama Power Company 2018 Annual Report

At December 31, 2017:	Fair Value Measurements Using			Total	Target Allocation	Actual Allocation
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Net Asset Value as a Practical Expedient (NAV)			
<i>(in millions)</i>						
Southern Company^(a)						
Assets:						
Domestic equity ^(b)	\$ 135	\$ 104	\$ —	\$ 239	37%	40%
International equity ^(b)	47	98	—	145	23	23
Fixed income:					30	29
U.S. Treasury, government, and agency bonds	—	32	—	32		
Corporate bonds	—	37	—	37		
Pooled funds	—	79	—	79		
Cash equivalents and other	12	—	1	13		
Trust-owned life insurance	—	426	—	426		
Real estate investments	16	—	36	52	5	5
Special situations	—	—	5	5	1	1
Private equity	—	—	20	20	4	2
Total	\$ 210	\$ 776	\$ 62	\$ 1,048	100%	100%
Alabama Power						
Assets:						
Domestic equity ^(b)	\$ 52	\$ 12	\$ —	\$ 64	42%	44%
International equity ^(b)	16	14	—	30	22	22
Fixed income:					28	28
U.S. Treasury, government, and agency bonds	—	11	—	11		
Corporate bonds	—	12	—	12		
Pooled funds	—	7	—	7		
Cash equivalents and other	2	—	—	2		
Trust-owned life insurance	—	253	—	253		
Real estate investments	5	—	12	17	4	4
Special situations	—	—	2	2	1	—
Private equity	—	—	7	7	3	2
Total	\$ 75	\$ 309	\$ 21	\$ 405	100%	100%

NOTES TO FINANCIAL STATEMENTS (continued)
Alabama Power Company 2018 Annual Report

At December 31, 2017:	Fair Value Measurements Using			Total	Target Allocation	Actual Allocation
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Net Asset Value as a Practical Expedient (NAV)			
<i>(in millions)</i>						
Georgia Power						
Assets:						
Domestic equity ^(b)	\$ 53	\$ 11	\$ —	\$ 64	36%	38%
International equity ^(b)	14	46	—	60	24	24
Fixed income:					33	31
U.S. Treasury, government, and agency bonds	—	6	—	6		
Corporate bonds	—	11	—	11		
Pooled funds	—	41	—	41		
Cash equivalents and other	4	—	—	4		
Trust-owned life insurance	—	173	—	173		
Real estate investments	6	—	11	17	4	4
Special situations	—	—	2	2	1	1
Private equity	—	—	6	6	2	2
Total	\$ 77	\$ 288	\$ 19	\$ 384	100%	100%
Mississippi Power						
Assets:						
Domestic equity ^(b)	\$ 4	\$ 2	\$ —	\$ 6	21%	25%
International equity ^(b)	3	2	—	5	21	20
Fixed income:					37	38
U.S. Treasury, government, and agency bonds	—	5	—	5		
Corporate bonds	—	2	—	2		
Pooled funds	—	1	—	1		
Cash equivalents and other	1	—	—	1		
Real estate investments	1	—	2	3	12	11
Special situations	—	—	—	—	2	1
Private equity	—	—	1	1	7	5
Total	\$ 9	\$ 12	\$ 3	\$ 24	100%	100%

(a) Target and actual allocations reflect the asset allocations for only the Southern Company other postretirement benefit plans prior to the merger of the plans with the Southern Company Gas other postretirement benefit plans on January 1, 2018.

(b) Level 1 securities consist of actively traded stocks while Level 2 securities consist of pooled funds.

NOTES TO FINANCIAL STATEMENTS (continued)
Alabama Power Company 2018 Annual Report

The fair values of Southern Company Gas' other postretirement benefit plan assets for the period ended December 31, 2017 are presented below. These fair value measurements exclude cash, receivables related to investment income, pending investment sales, and payables related to pending investment purchases. Special situations (absolute return and hedge funds) investment assets are presented in the tables below based on the nature of the investment.

At December 31, 2017:	Fair Value Measurements Using			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Net Asset Value as a Practical Expedient (NAV)	
	<i>(in millions)</i>			
Southern Company Gas				
Assets:				
Domestic equity ^(*)	\$ 3	\$ 69	\$ —	\$ 72
International equity ^(*)	—	22	—	22
Fixed income:				
Pooled funds	—	24	—	24
Cash equivalents and other	2	—	1	3
Total	\$ 5	\$ 115	\$ 1	\$ 121

(*) Level 1 securities consist of actively traded stocks while Level 2 securities consist of pooled funds.

The composition of Southern Company Gas' other postretirement benefit plan assets at December 31, 2017, along with the targets, is presented below:

	Target	2017
Other postretirement benefit plan assets:		
Equity	72%	76%
Fixed Income	24	20
Cash	1	2
Other	3	2
Total	100%	100%

Employee Savings Plan

Southern Company and its subsidiaries also sponsor 401(k) defined contribution plans covering substantially all employees and provide matching contributions up to specified percentages of an employee's eligible pay. Total matching contributions made to the plans for 2018, 2017, and 2016 were as follows:

	Southern Company	Alabama Power	Georgia Power	Mississippi Power	Southern Power
	<i>(in millions)</i>				
2018	\$ 119	\$ 24	\$ 26	\$ 5	\$ 3
2017	118	23	26	5	N/A
2016	105	23	27	5	N/A

NOTES TO FINANCIAL STATEMENTS (continued)
Alabama Power Company 2018 Annual Report

	Southern Company Gas	
	<i>(in millions)</i>	
Successor – 2018	\$	18
Successor – 2017		19
Successor – July 1, 2016 through December 31, 2016		8
Predecessor – January 1, 2016 through June 30, 2016		12

12. STOCK COMPENSATION

Stock-Based Compensation

Stock-based compensation primarily in the form of Southern Company performance share units (PSU) and restricted stock units (RSU) may be granted through the Omnibus Incentive Compensation Plan to a large segment of Southern Company system employees ranging from line management to executives. Southern Company Gas and Southern Power had no employee participants in the stock-based compensation plans until 2017 and 2018, respectively. In conjunction with the Merger, stock-based compensation in the form of Southern Company RSUs and PSUs was granted to certain executives of Southern Company Gas through the Southern Company Omnibus Incentive Compensation Plan.

At December 31, 2018, the number of current and former employees participating in stock-based compensation programs for the registrants was as follows:

	Southern Company	Alabama Power	Georgia Power	Mississippi Power	Southern Power	Southern Company Gas
Number of employees	4,716	745	822	164	95	285

Employees become immediately vested in PSUs and RSUs upon retirement. As a result, compensation expense for employees that are retirement eligible at the grant date is recognized immediately, while compensation expense for employees that become retirement eligible during the vesting period is recognized over the period from grant date to the date of retirement eligibility. In addition, the registrants recognize forfeitures as they occur.

All unvested PSUs and RSUs vest immediately upon a change in control where Southern Company is not the surviving corporation.

Performance Share Units

PSUs granted to employees vest at the end of a three-year performance period. Shares of Southern Company common stock are delivered to employees at the end of the performance period with the number of shares issued ranging from 0% to 200% of the target number of PSUs granted, based on achievement of the performance goals established by the Compensation Committee of the Southern Company Board of Directors.

Southern Company has issued three types of PSUs, each with a unique performance goal. These types of PSUs include total shareholder return (TSR) awards based on the TSR for Southern Company common stock during the three-year performance period as compared to a group of industry peers; ROE awards based on Southern Company's equity-weighted return over the performance period; and EPS awards based on Southern Company's cumulative EPS over the performance period. EPS awards were not granted in 2018.

NOTES TO FINANCIAL STATEMENTS (continued)
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The fair value of TSR awards is determined as of the grant date using a Monte Carlo simulation model to estimate the TSR of Southern Company's common stock among industry peers over the performance period. In determining the fair value of the TSR awards issued to employees, the expected volatility is based on the historical volatility of Southern Company's stock over a period equal to the performance period. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant that covers the performance period of the awards. The following table shows the assumptions used in the pricing model and the weighted average grant-date fair value of TSR awards granted:

Year Ended December 31	2018	2017	2016
Expected volatility	14.9%	15.6%	15.0%
Expected term (<i>in years</i>)	3	3	3
Interest rate	2.4%	1.4%	0.8%
Weighted average grant-date fair value	\$43.75	\$49.08	\$45.06

The registrants recognize TSR award compensation expense on a straight-line basis over the three-year performance period without remeasurement.

The fair values of EPS awards and ROE awards are based on the closing stock price of Southern Company common stock on the date of the grant. The weighted average grant-date fair value of the awards granted during 2018, 2017, and 2016 was \$43.49, \$49.21, and \$48.87, respectively. Compensation expense for EPS and ROE awards is generally recognized ratably over the three-year performance period adjusted for expected changes in EPS and ROE performance. Total compensation cost recognized for vested EPS awards and ROE awards reflects final performance metrics.

Southern Company's total unvested PSUs outstanding at December 31, 2017 was 2.9 million. In February 2018, 1.5 million PSUs vested for the three-year performance period ended December 31, 2017 were converted into 1.9 million shares outstanding at a share price of \$44.68.

During 2018, Southern Company granted 1.3 million PSUs and 1.9 million PSUs were vested or forfeited, resulting in 2.5 million unvested PSUs outstanding at December 31, 2018. In February 2019, the PSUs that vested for the three-year performance period ended December 31, 2018 were converted into 1.7 million shares outstanding at a share price of \$49.24.

NOTES TO FINANCIAL STATEMENTS (continued)
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Total PSU compensation cost, and the related tax benefit recognized in income, for the years ended December 31, 2018, 2017, and 2016 are as follows:

	2018	2017	2016
	<i>(in millions)</i>		
Southern Company			
Compensation cost recognized in income	\$ 91	\$ 74	\$ 96
Tax benefit of compensation cost recognized in income	24	29	37
Alabama Power			
Compensation cost recognized in income	\$ 11	\$ 9	\$ 15
Tax benefit of compensation cost recognized in income	3	4	6
Georgia Power			
Compensation cost recognized in income	\$ 11	\$ 10	\$ 15
Tax benefit of compensation cost recognized in income	3	4	6
Mississippi Power			
Compensation cost recognized in income	\$ 3	\$ 2	\$ 4
Tax benefit of compensation cost recognized in income	1	1	1
Southern Power			
Compensation cost recognized in income	\$ 4	N/A	N/A
Tax benefit of compensation cost recognized in income	1	N/A	N/A
Southern Company Gas			
Compensation cost recognized in income	\$ 11	\$ 8	N/A
Tax benefit of compensation cost recognized in income	3	3	N/A

The compensation cost related to the grant of Southern Company PSUs to the employees of the traditional electric operating companies, Southern Power, and Southern Company Gas is recognized in each respective registrant's financial statements with a corresponding credit to equity representing a capital contribution from Southern Company.

At December 31, 2018, Southern Company's total unrecognized compensation cost related to PSUs was \$30 million and is expected to be recognized over a weighted-average period of approximately 16 months. The total unrecognized compensation cost related to PSUs as of December 31, 2018 was immaterial for all other registrants.

Restricted Stock Units

Beginning in 2017, employees are granted RSUs in addition to PSUs. One-third of the RSUs granted to employees vest each year throughout a three-year service period. Shares of Southern Company common stock are delivered to employees at the end of each vesting period.

The fair value of RSUs is based on the closing stock price of Southern Company common stock on the date of the grant. The weighted average grant-date fair values of RSUs granted during 2018 and 2017 were \$43.81 and \$49.25, respectively. Since one-third of the RSUs vest each year throughout a three-year service period, compensation cost for RSUs is generally recognized over the corresponding one-, two-, or three-year vesting period.

Southern Company had 0.7 million RSUs outstanding at December 31, 2017. During 2018, Southern Company granted 0.7 million RSUs and 0.3 million RSUs were vested or forfeited, resulting in 1.1 million unvested RSUs outstanding at December 31, 2018, including RSUs related to employee retention agreements.

For the years ended December 31, 2018 and 2017, Southern Company's total compensation cost for RSUs recognized in income was \$27 million and \$25 million, respectively. The related tax benefit also recognized in income was \$7 million and \$10 million for the years ended December 31, 2018 and 2017, respectively. Total unrecognized compensation cost related to RSUs as of December 31, 2018 for Southern Company of \$13 million will be recognized over a weighted-average period of approximately 16 months.

NOTES TO FINANCIAL STATEMENTS (continued)
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Total RSUs outstanding and total compensation cost and related tax benefit for the RSUs recognized in income for the years ended December 31, 2018 and 2017, as well as the total unrecognized compensation cost as of December 31, 2018, were immaterial for all other registrants.

Stock Options

In 2015, Southern Company discontinued granting stock options. Stock options expire no later than 10 years after the grant date and the latest possible exercise will occur no later than November 2024. As of December 31, 2018, the weighted average remaining contractual term for the options outstanding and exercisable was approximately 4 years.

As of December 31, 2017, all stock option awards are vested and compensation cost fully recognized. Total compensation cost for stock option awards and the related tax benefits recognized in income for the years ended December 31, 2017 and 2016 were immaterial for Southern Company, Alabama Power, Georgia Power, and Mississippi Power.

Southern Company's activity in the stock option program for 2018 is summarized below:

	Shares Subject to Option	Weighted Average Exercise Price	
	<i>(in millions)</i>		
Outstanding at December 31, 2017	18.6	\$	41.68
Exercised	1.1		37.82
Outstanding and Exercisable at December 31, 2018	17.5	\$	41.92

Southern Company's cash receipts from issuances related to stock options exercised under the share-based payment arrangements for the years ended December 31, 2018, 2017, and 2016 were \$41 million, \$239 million, and \$448 million, respectively.

At December 31, 2018, the aggregate intrinsic value for the options outstanding and exercisable was as follows:

	Southern Company	Alabama Power	Georgia Power	Mississippi Power
	<i>(in millions)</i>			
Total intrinsic value for outstanding and exercisable options	\$ 39	\$ 5	\$ 13	\$ 1

Total intrinsic value of options exercised, and the related tax benefit, for the years ended December 31, 2018, 2017, and 2016 are presented below:

Year Ended December 31	2018		2017		2016	
	<i>(in millions)</i>					
Southern Company						
Intrinsic value of options exercised	\$	9	\$	64	\$	120
Tax benefit of options exercised		2		25		46
Alabama Power						
Intrinsic value of options exercised	\$	2	\$	12	\$	21
Tax benefit of options exercised		—		5		8
Georgia Power						
Intrinsic value of options exercised	\$	2	\$	13	\$	18
Tax benefit of options exercised		—		5		7
Mississippi Power						
Intrinsic value of options exercised	\$	1	\$	2	\$	4
Tax benefit of options exercised		—		1		2

NOTES TO FINANCIAL STATEMENTS (continued)
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Merger Stock Compensation

At the effective time of the Merger, each share of Southern Company Gas common stock, other than certain excluded shares, was converted into the right to receive \$66 in cash, without interest. Also, at the effective time of the Merger:

- Southern Company Gas' outstanding RSUs, restricted stock awards, and non-employee director stock awards were deemed fully vested and were canceled and converted into the right to receive an amount in cash equal to the product of (i) the total number of shares of Southern Company Gas' common stock subject to such award and (ii) the Merger consideration of \$66 per share;
- Southern Company Gas' outstanding stock options, all of which were fully vested, were canceled and converted into the right to receive an amount in cash equal to the product of (i) the total number of shares of Southern Company Gas' common stock subject to such options and (ii) the excess of the Merger consideration of \$66 per share over the applicable exercise price per share of such options; and
- each outstanding award of a Southern Company Gas PSU was converted into an award of Southern Company RSUs. The conversion ratio was the product of (i) the greater of (a) 125% of the number of units underlying such award based on target level achievement of all relevant performance goals and (b) the number of units underlying such award based on the actual level of achievement of all relevant performance goals against target and (ii) an exchange ratio based on the Merger consideration of \$66 per share as compared to the volume-weighted average price per share of Southern Company common stock.

Southern Company Restricted Stock Awards

At the effective time of the Merger, each outstanding award of existing Southern Company Gas PSUs was converted into an award of Southern Company RSUs. Under the terms of the restricted stock awards, the employees received Southern Company stock when they satisfy the requisite service period by being continuously employed through the original three-year vesting schedule of the award being replaced. Southern Company issued 0.7 million RSUs with a grant-date fair value of \$53.83, based on the closing stock price of Southern Company common stock on the date of the grant. As a portion of the fair value of the award related to pre-combination service, the grant date fair value was allocated to pre- or post-combination service and accounted for as Merger consideration or compensation cost, respectively. Approximately \$13 million of the grant date fair value was allocated to Merger consideration. Southern Company Gas recognized the remaining fair value as compensation expense on a straight-line basis over the remaining vesting period. As of December 31, 2018, all RSUs are vested and compensation cost is fully recognized.

For the years ended December 31, 2018, 2017, and 2016, total compensation cost for RSUs recognized in income was \$2 million, \$8 million, and \$13 million, respectively, with the related tax benefit of \$1 million, \$4 million, and \$4 million, respectively, also recognized in income. The compensation cost related to the grant of RSUs to Southern Company Gas employees is recognized in Southern Company Gas' financial statements with a corresponding credit to equity, representing a capital contribution from Southern Company.

Southern Company Gas Change in Control Awards

Southern Company awarded PSUs to certain Southern Company Gas employees who continued their employment with the Southern Company in lieu of certain change in control benefits the employee was entitled to receive following the Merger (change in control awards). Shares of Southern Company common stock and/or cash equal to the dollar value of the change in control benefit will vest and be issued one-third each year as long as the employee remains in service with Southern Company or its subsidiaries at each vest date. In addition to the change in control benefit, Southern Company common stock could be issued to the employees at the end of a performance period based on achievement of certain Southern Company common stock price metrics, as well performance goals established by the Compensation Committee of the Southern Company Board of Directors (achievement shares).

The change in control benefits are accounted for as a liability award with the fair value equal to the guaranteed dollar value of the change in control benefit. The compensation cost of the change in control benefit is recognized in Southern Company Gas' financial statements with a corresponding credit to a liability. The grant-date fair value of the achievement portion of the award was determined using a Monte Carlo simulation model to estimate the number of achievement shares expected to vest based on the Southern Company common stock price. The compensation cost of the achievement shares is recognized in Southern Company Gas' financial statements with a corresponding credit to equity, representing a capital contribution from Southern Company. The expected payout is reevaluated annually with expense recognized to date increased or decreased proportionately based on the expected performance. The compensation cost ultimately recognized for the achievement shares will be based on the actual performance.

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For the years ended December 31, 2018, 2017, and 2016, total compensation cost for the change in control awards recognized in income was \$5 million, \$12 million, and \$4 million, respectively, with the related tax benefit of \$2 million, \$6 million, and less than \$1 million, respectively, also recognized in income. As of December 31, 2018, \$2 million of total unrecognized compensation cost related to change in control awards will be recognized over a weighted-average period of approximately six months.

Predecessor

For the predecessor period of January 1, 2016 through June 30, 2016, the employees of Southern Company Gas and subsidiaries participated in the AGL Resources Inc. Omnibus Performance Incentive Plan, as amended and restated.

The AGL Resources Inc. Omnibus Performance Incentive Plan, as amended and restated, and the Long-Term Incentive Plan (1999) provided for the grant of incentive and nonqualified stock options, stock appreciation rights, shares of restricted stock, RSUs, performance cash awards, and other stock-based awards to officers and key employees. Effective July 1, 2016, all Southern Company Gas shares of stock were canceled and/or converted as a result of the Merger. No further grants will be made from the Long-Term Incentive Plan (1999) or the AGL Resources Inc. Omnibus Performance Incentive Plan, as amended and restated.

For the predecessor period, Southern Company Gas recognized stock-based compensation cost for its stock-based awards over the requisite service period based on the estimated fair value at the date of grant for its stock-based awards using the modified prospective method.

Performance-based stock awards and performance units contained market and performance conditions. Stock options, restricted stock awards, and performance units also contained a service condition. Southern Company Gas estimated forfeitures over the requisite service period when recognizing compensation cost. These estimates were adjusted to the extent that actual forfeitures differ, or were expected to materially differ, from such estimates. The difference between the proceeds from the exercise of Southern Company Gas' stock-based awards and the par value of the stock was recorded within additional paid-in capital.

Southern Company Gas granted stock awards with a grant price that was equal to the fair market value on the date of the grant. Fair market value was defined under the terms of the applicable plans as the closing price per share of Southern Company Gas' common stock on the grant date. For the predecessor period of January 1, 2016 through June 30, 2016, total compensation cost for cash and stock-based awards recognized in income was \$24 million with related tax benefits of an immaterial amount also recognized in income.

13. FAIR VALUE MEASUREMENTS

Fair value measurements are based on inputs of observable and unobservable market data that a market participant would use in pricing the asset or liability. The use of observable inputs is maximized where available and the use of unobservable inputs is minimized for fair value measurement and reflects a three-tier fair value hierarchy that prioritizes inputs to valuation techniques used for fair value measurement.

- Level 1 consists of observable market data in an active market for identical assets or liabilities.
- Level 2 consists of observable market data, other than that included in Level 1, that is either directly or indirectly observable.
- Level 3 consists of unobservable market data. The input may reflect the assumptions of each registrant of what a market participant would use in pricing an asset or liability. If there is little available market data, then each registrant's own assumptions are the best available information.

In the case of multiple inputs being used in a fair value measurement, the lowest level input that is significant to the fair value measurement represents the level in the fair value hierarchy in which the fair value measurement is reported.

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At December 31, 2018, assets and liabilities measured at fair value on a recurring basis during the period, together with their associated level of the fair value hierarchy, were as follows:

At December 31, 2018:	Fair Value Measurements Using				Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value as a Practical Expedient (NAV)	
<i>(in millions)</i>					
Southern Company					
Assets:					
Energy-related derivatives ^{(a)(b)}	\$ 469	\$ 292	\$ —	\$ —	\$ 761
Foreign currency derivatives	—	75	—	—	75
Investments in trusts: ^{(c)(d)}					
Domestic equity	601	107	—	—	708
Foreign equity	53	173	—	—	226
U.S. Treasury and government agency securities	—	261	—	—	261
Municipal bonds	—	83	—	—	83
Pooled funds – fixed income	—	14	—	—	14
Corporate bonds	24	290	—	—	314
Mortgage and asset backed securities	—	68	—	—	68
Private equity	—	—	—	45	45
Cash and cash equivalents	16	—	—	—	16
Other	34	4	—	—	38
Cash equivalents	765	1	—	—	766
Other investments	—	12	—	—	12
Total	\$ 1,962	\$ 1,380	\$ —	\$ 45	\$ 3,387
Liabilities:					
Energy-related derivatives ^{(a)(b)}	\$ 648	\$ 316	\$ —	\$ —	\$ 964
Interest rate derivatives	—	49	—	—	49
Foreign currency derivatives	—	23	—	—	23
Contingent consideration	—	—	21	—	21
Total	\$ 648	\$ 388	\$ 21	\$ —	\$ 1,057

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At December 31, 2018:	Fair Value Measurements Using				Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value as a Practical Expedient (NAV)	
	<i>(in millions)</i>				
Alabama Power					
Assets:					
Energy-related derivatives	\$ —	\$ 6	\$ —	\$ —	\$ 6
Nuclear decommissioning trusts: ^(c)					
Domestic equity	396	95	—	—	491
Foreign equity	53	50	—	—	103
U.S. Treasury and government agency securities	—	18	—	—	18
Municipal bonds	—	1	—	—	1
Corporate bonds	24	135	—	—	159
Mortgage and asset backed securities	—	23	—	—	23
Private equity	—	—	—	45	45
Other	6	—	—	—	6
Cash equivalents	116	1	—	—	117
Other investments	—	12	—	—	12
Total	\$ 595	\$ 341	\$ —	\$ 45	\$ 981
Liabilities:					
Energy-related derivatives	\$ —	\$ 10	\$ —	\$ —	\$ 10
Georgia Power					
Assets:					
Energy-related derivatives	\$ —	\$ 6	\$ —	\$ —	\$ 6
Nuclear decommissioning trusts: ^{(c)(d)}					
Domestic equity	205	1	—	—	206
Foreign equity	—	119	—	—	119
U.S. Treasury and government agency securities	—	243	—	—	243
Municipal bonds	—	82	—	—	82
Corporate bonds	—	155	—	—	155
Mortgage and asset backed securities	—	45	—	—	45
Other	19	4	—	—	23
Total	\$ 224	\$ 655	\$ —	\$ —	\$ 879
Liabilities:					
Energy-related derivatives	\$ —	\$ 21	\$ —	\$ —	\$ 21
Interest rate derivatives	—	2	—	—	2
Total	\$ —	\$ 23	\$ —	\$ —	\$ 23

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At December 31, 2018:	Fair Value Measurements Using				Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value as a Practical Expedient (NAV)	
	<i>(in millions)</i>				
Mississippi Power					
Assets:					
Energy-related derivatives	\$ —	\$ 3	\$ —	\$ —	\$ 3
Cash equivalents	255	—	—	—	255
Total	\$ 255	\$ 3	\$ —	\$ —	\$ 258
Liabilities:					
Energy-related derivatives	\$ —	\$ 9	\$ —	\$ —	\$ 9
Southern Power					
Assets:					
Energy-related derivatives	\$ —	\$ 4	\$ —	\$ —	\$ 4
Foreign currency derivatives	—	75	—	—	75
Cash equivalents	46	—	—	—	46
Total	\$ 46	\$ 79	\$ —	\$ —	\$ 125
Liabilities:					
Energy-related derivatives	\$ —	\$ 8	\$ —	\$ —	\$ 8
Foreign currency derivatives	—	23	—	—	23
Contingent consideration	—	—	21	—	21
Total	\$ —	\$ 31	\$ 21	\$ —	\$ 52
Southern Company Gas					
Assets:					
Energy-related derivatives ^{(a)(b)}	\$ 469	\$ 272	\$ —	\$ —	\$ 741
Non-qualified deferred compensation trusts:					
Domestic equity	—	11	—	—	11
Foreign equity	—	4	—	—	4
Pooled funds - fixed income	—	14	—	—	14
Cash equivalents	4	—	—	—	4
Cash equivalents	40	—	—	—	40
Total	\$ 513	\$ 301	\$ —	\$ —	\$ 814
Liabilities:					
Energy-related derivatives ^{(a)(b)}	\$ 648	\$ 261	\$ —	\$ —	\$ 909

(a) Energy-related derivatives exclude \$8 million associated with premiums and certain weather derivatives accounted for based on intrinsic value rather than fair value.

(b) Energy-related derivatives exclude cash collateral of \$277 million.

(c) Excludes receivables related to investment income, pending investment sales, payables related to pending investment purchases, and currencies. See Note 6 under "Nuclear Decommissioning" for additional information.

(d) Includes investment securities pledged to creditors and collateral received and excludes payables related to the securities lending program. See Note 6 under "Nuclear Decommissioning" for additional information.

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At December 31, 2017, assets and liabilities measured at fair value on a recurring basis during the period, together with their associated level of the fair value hierarchy, were as follows:

	Fair Value Measurements Using				Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value as a Practical Expedient (NAV)	
At December 31, 2017:					
	<i>(in millions)</i>				
Southern Company					
Assets:					
Energy-related derivatives ^{(a)(b)}	\$ 331	\$ 239	\$ —	\$ —	\$ 570
Interest rate derivatives	—	1	—	—	1
Foreign currency derivatives	—	129	—	—	129
Nuclear decommissioning trusts: ^(c)					
Domestic equity	690	82	—	—	772
Foreign equity	62	224	—	—	286
U.S. Treasury and government agency securities	—	251	—	—	251
Municipal bonds	—	68	—	—	68
Corporate bonds	21	315	—	—	336
Mortgage and asset backed securities	—	57	—	—	57
Private equity	—	—	—	29	29
Other	19	12	—	—	31
Cash equivalents	1,455	—	—	—	1,455
Other investments	9	—	1	—	10
Total	\$ 2,587	\$ 1,378	\$ 1	\$ 29	\$ 3,995
Liabilities:					
Energy-related derivatives ^{(a)(b)}	\$ 480	\$ 253	\$ —	\$ —	\$ 733
Interest rate derivatives	—	38	—	—	38
Foreign currency derivatives	—	23	—	—	23
Contingent consideration	—	—	22	—	22
Total	\$ 480	\$ 314	\$ 22	\$ —	\$ 816

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At December 31, 2017:	Fair Value Measurements Using				Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value as a Practical Expedient (NAV)	
	<i>(in millions)</i>				
Alabama Power					
Assets:					
Energy-related derivatives	\$ —	\$ 4	\$ —	\$ —	\$ 4
Nuclear decommissioning trusts: ^(d)					
Domestic equity	442	81	—	—	523
Foreign equity	62	59	—	—	121
U.S. Treasury and government agency securities	—	24	—	—	24
Corporate bonds	21	160	—	—	181
Mortgage and asset backed securities	—	18	—	—	18
Private equity	—	—	—	29	29
Other	6	—	—	—	6
Cash equivalents	349	—	—	—	349
Total	\$ 880	\$ 346	\$ —	\$ 29	\$ 1,255
Liabilities:					
Energy-related derivatives	\$ —	\$ 10	\$ —	\$ —	\$ 10
Georgia Power					
Assets:					
Energy-related derivatives	\$ —	\$ 6	\$ —	\$ —	\$ 6
Nuclear decommissioning trusts: ^{(d)(e)}					
Domestic equity	248	1	—	—	249
Foreign equity	—	166	—	—	166
U.S. Treasury and government agency securities	—	227	—	—	227
Municipal bonds	—	68	—	—	68
Corporate bonds	—	155	—	—	155
Mortgage and asset backed securities	—	40	—	—	40
Other	12	12	—	—	24
Cash equivalents	690	—	—	—	690
Total	\$ 950	\$ 675	\$ —	\$ —	\$ 1,625
Liabilities:					
Energy-related derivatives	\$ —	\$ 19	\$ —	\$ —	\$ 19
Interest rate derivatives	—	5	—	—	5
Total	\$ —	\$ 24	\$ —	\$ —	\$ 24

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At December 31, 2017:	Fair Value Measurements Using				Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value as a Practical Expedient (NAV)	
	<i>(in millions)</i>				
Mississippi Power					
Assets:					
Energy-related derivatives	\$ —	\$ 2	\$ —	\$ —	\$ 2
Interest rate derivatives	—	1	—	—	1
Cash equivalents	224	—	—	—	224
Total	\$ 224	\$ 3	\$ —	\$ —	\$ 227
Liabilities:					
Energy-related derivatives	\$ —	\$ 9	\$ —	\$ —	\$ 9
Southern Power					
Assets:					
Energy-related derivatives	\$ —	\$ 3	\$ —	\$ —	\$ 3
Foreign currency derivatives	—	129	—	—	129
Cash equivalents	21	—	—	—	21
Total	\$ 21	\$ 132	\$ —	\$ —	\$ 153
Liabilities:					
Energy-related derivatives	\$ —	\$ 13	\$ —	\$ —	\$ 13
Foreign currency derivatives	—	23	—	—	23
Contingent consideration	—	—	22	—	22
Total	\$ —	\$ 36	\$ 22	\$ —	\$ 58
Southern Company Gas					
Assets:					
Energy-related derivatives ^{(a)(b)}	\$ 331	\$ 223	\$ —	\$ —	\$ 554
Liabilities:					
Energy-related derivatives ^{(a)(b)}	\$ 479	\$ 181	\$ —	\$ —	\$ 660

(a) Energy-related derivatives exclude \$11 million associated with premiums and certain weather derivatives accounted for based on intrinsic value rather than fair value.

(b) Energy-related derivatives exclude cash collateral of \$193 million.

(c) For additional detail, see the nuclear decommissioning trusts sections for Alabama Power and Georgia Power in this table.

(d) Excludes receivables related to investment income, pending investment sales, payables related to pending investment purchases, and currencies. See Note 6 under "Nuclear Decommissioning" for additional information.

(e) Includes investment securities pledged to creditors and collateral received and excludes payables related to the securities lending program. See Note 6 under "Nuclear Decommissioning" for additional information.

Valuation Methodologies

The energy-related derivatives primarily consist of exchange-traded and over-the-counter financial products for natural gas and physical power products, including, from time to time, basis swaps. These are standard products used within the energy industry and are valued using the market approach. The inputs used are mainly from observable market sources, such as forward natural gas prices, power prices, implied volatility, and overnight index swap interest rates. Interest rate derivatives are also standard over-the-counter products that are valued using observable market data and assumptions commonly used by market participants. The fair value of interest rate derivatives reflects the net present value of expected payments and receipts under the swap

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agreement based on the market's expectation of future interest rates. Additional inputs to the net present value calculation may include the contract terms, counterparty credit risk, and occasionally, implied volatility of interest rate options. The fair value of cross-currency swaps reflects the net present value of expected payments and receipts under the swap agreement based on the market's expectation of future foreign currency exchange rates. Additional inputs to the net present value calculation may include the contract terms, counterparty credit risk, and discount rates. The interest rate derivatives and cross-currency swaps are categorized as Level 2 under Fair Value Measurements as these inputs are based on observable data and valuations of similar instruments. See Note 14 for additional information on how these derivatives are used.

For fair value measurements of the investments within the nuclear decommissioning trusts and the non-qualified deferred compensation trusts, external pricing vendors are designated for each asset class with each security specifically assigned a primary pricing source. For investments held within commingled funds, fair value is determined at the end of each business day through the net asset value, which is established by obtaining the underlying securities' individual prices from the primary pricing source. A market price secured from the primary source vendor is then evaluated by management in its valuation of the assets within the trusts. As a general approach, fixed income market pricing vendors gather market data (including indices and market research reports) and integrate relative credit information, observed market movements, and sector news into proprietary pricing models, pricing systems, and mathematical tools. Dealer quotes and other market information, including live trading levels and pricing analysts' judgments, are also obtained when available.

The NRC requires licensees of commissioned nuclear power reactors to establish a plan for providing reasonable assurance of funds for future decommissioning. See Note 6 under "Nuclear Decommissioning" for additional information.

Southern Power has contingent payment obligations related to certain acquisitions whereby Southern Power is primarily obligated to make generation-based payments to the seller, which commenced at the commercial operation of the respective facility and continue through 2026. The obligation is categorized as Level 3 under Fair Value Measurements as the fair value is determined using significant unobservable inputs for the forecasted facility generation in MW-hours, as well as other inputs such as a fixed dollar amount per MW-hour, and a discount rate. The fair value of contingent consideration reflects the net present value of expected payments and any periodic change arising from forecasted generation is expected to be immaterial.

"Other investments" include investments categorized as Level 3 under Fair Value Measurements that are not traded in the open market. The fair value of these investments has been determined based on market factors including comparable multiples and the expectations regarding cash flows and business plan executions.

The fair value measurements of private equity investments held in Alabama Power's nuclear decommissioning trusts that are calculated at net asset value per share (or its equivalent) as a practical expedient totaled \$45 million and \$29 million at December 31, 2018 and 2017, respectively. Unfunded commitments related to the private equity investments totaled \$50 million and \$21 million at December 31, 2018 and 2017, respectively. Private equity funds include funds-of-funds that invest in high-quality private equity funds across several market sectors, funds that invest in real estate assets, and a fund that acquires companies to create resale value. Private equity funds do not have redemption rights. Distributions from these funds will be received as the underlying investments in the funds are liquidated.

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At December 31, 2018 and 2017, other financial instruments for which the carrying amount did not equal fair value were as follows:

	Southern Company ^{(a)(b)}	Alabama Power	Georgia Power	Mississippi Power	Southern Power	Southern Company Gas ^(b)
<i>(in millions)</i>						
At December 31, 2018:						
Long-term debt, including securities due within one year:						
Carrying amount	\$ 45,023	\$ 8,120	\$ 9,838	\$ 1,579	\$ 5,017	\$ 5,940
Fair value	44,824	8,370	9,800	1,546	4,980	5,965
At December 31, 2017:						
Long-term debt, including securities due within one year:						
Carrying amount	\$ 48,151	\$ 7,625	\$ 11,777	\$ 2,086	\$ 5,841	\$ 6,048
Fair value	51,348	8,305	12,531	2,076	6,079	6,471

(a) Includes long-term debt of Gulf Power, which is classified as liabilities held for sale on Southern Company's balance sheet at December 31, 2018. See Note 15 under "Southern Company's Sale of Gulf Power" and "Assets Held for Sale" for additional information.

(b) The long-term debt of Southern Company Gas is recorded at amortized cost, including the fair value adjustments at the effective date of the Merger. Southern Company Gas amortizes the fair value adjustments over the lives of the respective bonds.

The fair values are determined using Level 2 measurements and are based on quoted market prices for the same or similar issues or on the current rates available to the registrants.

14. DERIVATIVES

Southern Company, the traditional electric operating companies, Southern Power, and Southern Company Gas are exposed to market risks, including commodity price risk, interest rate risk, weather risk, and occasionally foreign currency exchange rate risk. To manage the volatility attributable to these exposures, each company nets its exposures, where possible, to take advantage of natural offsets and enters into various derivative transactions for the remaining exposures pursuant to each company's policies in areas such as counterparty exposure and risk management practices. Southern Company Gas' wholesale gas operations use various contracts in its commercial activities that generally meet the definition of derivatives. For the traditional electric operating companies, Southern Power, and Southern Company Gas' other businesses, each company's policy is that derivatives are to be used primarily for hedging purposes and mandates strict adherence to all applicable risk management policies. Derivative positions are monitored using techniques including, but not limited to, market valuation, value at risk, stress testing, and sensitivity analysis. Derivative instruments are recognized at fair value in the balance sheets as either assets or liabilities and are presented on a net basis. See Note 13 for additional fair value information. In the statements of cash flows, any cash impacts of settled energy-related and interest rate derivatives are recorded as operating activities. Any cash impacts of settled foreign currency derivatives are classified as operating or financing activities to correspond with classification of the hedged interest or principal, respectively. See Note 1 under "Financial Instruments" for additional information.

The registrants adopted ASU 2017-12 as of January 1, 2018. See Note 1 under "Recently Adopted Accounting Standards – Other" for additional information.

Energy-Related Derivatives

The traditional electric operating companies, Southern Power, and Southern Company Gas enter into energy-related derivatives to hedge exposures to electricity, natural gas, and other fuel price changes. However, due to cost-based rate regulations and other various cost recovery mechanisms, the traditional electric operating companies and the natural gas distribution utilities have limited exposure to market volatility in energy-related commodity prices. Each of the traditional electric operating companies and certain of the natural gas distribution utilities of Southern Company Gas manage fuel-hedging programs, implemented per the guidelines of their respective state PSCs or other applicable state regulatory agencies, through the use of financial derivative contracts, which are expected to continue to mitigate price volatility. The traditional electric operating companies (with respect to wholesale generating capacity) and Southern Power have limited exposure to market volatility in energy-related commodity prices because their long-term sales contracts shift substantially all fuel cost responsibility to the purchaser. However, the traditional electric operating companies and Southern Power may be exposed to market volatility in energy-related commodity

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prices to the extent any uncontracted capacity is used to sell electricity. Southern Company Gas retains exposure to price changes that can, in a volatile energy market, be material and can adversely affect its results of operations.

Southern Company Gas also enters into weather derivative contracts as economic hedges of operating margins in the event of warmer-than-normal weather. Exchange-traded options are carried at fair value, with changes reflected in operating revenues. Non-exchange-traded options are accounted for using the intrinsic value method. Changes in the intrinsic value for non-exchange-traded contracts are reflected in operating revenues.

Energy-related derivative contracts are accounted for under one of three methods:

- *Regulatory Hedges* – Energy-related derivative contracts designated as regulatory hedges relate primarily to the traditional electric operating companies' and the natural gas distribution utilities' fuel-hedging programs, where gains and losses are initially recorded as regulatory liabilities and assets, respectively, and then are included in fuel expense as the underlying fuel is used in operations and ultimately recovered through the respective fuel cost recovery clauses.
- *Cash Flow Hedges* – Gains and losses on energy-related derivatives designated as cash flow hedges (which are mainly used to hedge anticipated purchases and sales) are initially deferred in AOCI before being recognized in the statements of income in the same period and in the same income statement line item as the earnings effect of the hedged transactions.
- *Not Designated* – Gains and losses on energy-related derivative contracts that are not designated or fail to qualify as hedges are recognized in the statements of income as incurred.

Some energy-related derivative contracts require physical delivery as opposed to financial settlement, and this type of derivative is both common and prevalent within the electric and natural gas industries. When an energy-related derivative contract is settled physically, any cumulative unrealized gain or loss is reversed and the contract price is recognized in the respective line item representing the actual price of the underlying goods being delivered.

At December 31, 2018, the net volume of energy-related derivative contracts for natural gas positions, together with the longest hedge date over which the respective entity is hedging its exposure to the variability in future cash flows for forecasted transactions and the longest non-hedge date for derivatives not designated as hedges, were as follows:

	Net Purchased mmBtu	Longest Hedge Date	Longest Non-Hedge Date
	<i>(in millions)</i>		
Southern Company ^(*)	431	2022	2029
Alabama Power	74	2022	—
Georgia Power	153	2022	—
Mississippi Power	63	2022	—
Southern Power	15	2020	—
Southern Company Gas ^(*)	120	2021	2029

(*) Southern Company Gas' derivative instruments include both long and short natural gas positions. A long position is a contract to purchase natural gas and a short position is a contract to sell natural gas. Southern Company Gas' volume represents the net of long natural gas positions of 4,159 million mmBtu and short natural gas positions of 4,039 million mmBtu at December 31, 2018, which is also included in Southern Company's total volume.

At December 31, 2018, the net volume of Southern Power's energy-related derivative contracts for power to be sold was 2 million MWHs, all of which expire by 2020.

In addition to the volumes discussed above, the traditional electric operating companies and Southern Power enter into physical natural gas supply contracts that provide the option to sell back excess natural gas due to operational constraints. The maximum expected volume of natural gas subject to such a feature is 23 million mmBtu for Southern Company, which includes 4 million mmBtu for Alabama Power, 7 million mmBtu for Georgia Power, 3 million mmBtu for Mississippi Power, and 7 million mmBtu for Southern Power.

For cash flow hedges of energy-related derivatives, the estimated pre-tax gains (losses) expected to be reclassified from AOCI to earnings for the year ending December 31, 2019 are immaterial for all registrants.

Interest Rate Derivatives

Southern Company and certain subsidiaries may enter into interest rate derivatives to hedge exposure to changes in interest rates. The derivatives employed as hedging instruments are structured to minimize ineffectiveness. Derivatives related to existing

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variable rate securities or forecasted transactions are accounted for as cash flow hedges where the derivatives' fair value gains or losses are recorded in OCI and are reclassified into earnings at the same time and presented on the same income statement line item as the earnings effect of the hedged transactions. Derivatives related to existing fixed rate securities are accounted for as fair value hedges, where the derivatives' fair value gains or losses and hedged items' fair value gains or losses are both recorded directly to earnings on the same income statement line item. Fair value gains or losses on derivatives that are not designated or fail to qualify as hedges are recognized in the statements of income as incurred.

At December 31, 2018, the following interest rate derivatives were outstanding:

	Notional Amount	Interest Rate Received	Weighted Average Interest Rate Paid	Hedge Maturity Date	Fair Value Gain (Loss) December 31, 2018
	<i>(in millions)</i>				<i>(in millions)</i>
Fair Value Hedges of Existing Debt					
Southern Company ^(*)	\$ 300	2.75%	3-month LIBOR + 0.92%	June 2020	\$ (4)
Southern Company ^(*)	1,500	2.35%	1-month LIBOR + 0.87%	July 2021	(43)
Georgia Power	200	4.25%	3-month LIBOR + 2.46%	December 2019	(2)
Southern Company Consolidated	\$ 2,000				\$ (49)

(*) Represents the Southern Company parent entity.

The estimated pre-tax gains (losses) related to interest rate derivatives expected to be reclassified from AOCI to interest expense for the year ending December 31, 2019 are \$(19) million for Southern Company and immaterial for all other registrants. Deferred gains and losses related to interest rate derivatives are expected to be amortized into earnings through 2046 for the Southern Company parent entity, 2035 for Alabama Power, 2037 for Georgia Power, 2028 for Mississippi Power, and 2046 for Southern Company Gas.

Foreign Currency Derivatives

Southern Company and certain subsidiaries, including Southern Power, may enter into foreign currency derivatives to hedge exposure to changes in foreign currency exchange rates, such as that arising from the issuance of debt denominated in a currency other than U.S. dollars. Derivatives related to forecasted transactions are accounted for as cash flow hedges where the derivatives' fair value gains or losses are recorded in OCI and are reclassified into earnings at the same time and on the same income statement line as the earnings effect of the hedged transactions, including foreign currency gains or losses arising from changes in the U.S. currency exchange rates. The derivatives employed as hedging instruments are structured to minimize ineffectiveness.

At December 31, 2018, the following foreign currency derivatives were outstanding:

	Pay Notional	Pay Rate	Receive Notional	Receive Rate	Hedge Maturity Date	Fair Value Gain (Loss) at December 31, 2018
	<i>(in millions)</i>		<i>(in millions)</i>			<i>(in millions)</i>
Cash Flow Hedges of Existing Debt						
Southern Power	\$ 677	2.95%	€ 600	1.00%	June 2022	\$ 25
Southern Power	564	3.78%	500	1.85%	June 2026	27
Total	\$ 1,241		€ 1,100			\$ 52

The estimated pre-tax gains (losses) related to Southern Power's foreign currency derivatives that will be reclassified from AOCI to earnings for the year ending December 31, 2019 are \$(23) million.

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Derivative Financial Statement Presentation and Amounts

Southern Company, the traditional electric operating companies, Southern Power, and Southern Company Gas enter into derivative contracts that may contain certain provisions that permit intra-contract netting of derivative receivables and payables for routine billing and offsets related to events of default and settlements. Southern Company and certain subsidiaries also utilize master netting agreements to mitigate exposure to counterparty credit risk. These agreements may contain provisions that permit netting across product lines and against cash collateral. The fair value amounts of derivative assets and liabilities on the balance sheets are presented net to the extent that there are netting arrangements or similar agreements with the counterparties.

At December 31, 2018 and 2017, the fair value of energy-related derivatives, interest rate derivatives, and foreign currency derivatives was reflected in the balance sheets as follows:

Derivative Category and Balance Sheet Location	2018		2017	
	Assets	Liabilities	Assets	Liabilities
	<i>(in millions)</i>			
Southern Company				
Derivatives designated as hedging instruments for regulatory purposes				
Energy-related derivatives:				
Other current assets/Other current liabilities	\$ 8	\$ 23	\$ 10	\$ 43
Other deferred charges and assets/Other deferred credits and liabilities	9	26	7	24
Assets held for sale, current/Liabilities held for sale, current	—	6	—	—
Total derivatives designated as hedging instruments for regulatory purposes	\$ 17	\$ 55	\$ 17	\$ 67
Derivatives designated as hedging instruments in cash flow and fair value hedges				
Energy-related derivatives:				
Other current assets/Other current liabilities	\$ 3	\$ 7	\$ 3	\$ 14
Other deferred charges and assets/Other deferred credits and liabilities	1	2	—	—
Interest rate derivatives:				
Other current assets/Other current liabilities	—	19	1	4
Other deferred charges and assets/Other deferred credits and liabilities	—	30	—	34
Foreign currency derivatives:				
Other current assets/Other current liabilities	—	23	—	23
Other deferred charges and assets/Other deferred credits and liabilities	75	—	129	—
Total derivatives designated as hedging instruments in cash flow and fair value hedges	\$ 79	\$ 81	\$ 133	\$ 75
Derivatives not designated as hedging instruments				
Energy-related derivatives:				
Other current assets/Other current liabilities	\$ 561	\$ 575	\$ 380	\$ 437
Other deferred charges and assets/Other deferred credits and liabilities	180	325	170	215
Total derivatives not designated as hedging instruments	\$ 741	\$ 900	\$ 550	\$ 652
Gross amounts recognized	\$ 837	\$ 1,036	\$ 700	\$ 794
Gross amounts offset^(a)	\$ (524)	\$ (801)	\$ (405)	\$ (598)
Net amounts recognized in the Balance Sheets^(b)	\$ 313	\$ 235	\$ 295	\$ 196

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Derivative Category and Balance Sheet Location	2018		2017	
	Assets	Liabilities	Assets	Liabilities
	<i>(in millions)</i>			
Alabama Power				
Derivatives designated as hedging instruments for regulatory purposes				
Energy-related derivatives:				
Other current assets/Other current liabilities	\$ 3	\$ 4	\$ 2	\$ 6
Other deferred charges and assets/Other deferred credits and liabilities	3	6	2	4
Total derivatives designated as hedging instruments for regulatory purposes	\$ 6	\$ 10	\$ 4	\$ 10
Gross amounts recognized	\$ 6	\$ 10	\$ 4	\$ 10
Gross amounts offset	\$ (4)	\$ (4)	\$ (4)	\$ (4)
Net amounts recognized in the Balance Sheets	\$ 2	\$ 6	\$ —	\$ 6
Georgia Power				
Derivatives designated as hedging instruments for regulatory purposes				
Energy-related derivatives:				
Other current assets/Other current liabilities	\$ 2	\$ 8	\$ 2	\$ 9
Other deferred charges and assets/Other deferred credits and liabilities	4	13	4	10
Total derivatives designated as hedging instruments for regulatory purposes	\$ 6	\$ 21	\$ 6	\$ 19
Derivatives designated as hedging instruments in cash flow and fair value hedges				
Interest rate derivatives:				
Other current assets/Other current liabilities	\$ —	\$ 2	\$ —	\$ 4
Other deferred charges and assets/Other deferred credits and liabilities	—	—	—	1
Total derivatives designated as hedging instruments in cash flow and fair value hedges	\$ —	\$ 2	\$ —	\$ 5
Gross amounts recognized	\$ 6	\$ 23	\$ 6	\$ 24
Gross amounts offset	\$ (6)	\$ (6)	\$ (6)	\$ (6)
Net amounts recognized in the Balance Sheets	\$ —	\$ 17	\$ —	\$ 18

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Derivative Category and Balance Sheet Location	2018		2017	
	Assets	Liabilities	Assets	Liabilities
	<i>(in millions)</i>			
Mississippi Power				
Derivatives designated as hedging instruments for regulatory purposes				
Energy-related derivatives:				
Other current assets/Other current liabilities	\$ 1	\$ 3	\$ 1	\$ 6
Other deferred charges and assets/Other deferred credits and liabilities	2	6	1	3
Total derivatives designated as hedging instruments for regulatory purposes	\$ 3	\$ 9	\$ 2	\$ 9
Gross amounts recognized	\$ 3	\$ 9	\$ 3	\$ 9
Gross amounts offset	\$ (2)	\$ (2)	\$ (2)	\$ (2)
Net amounts recognized in the Balance Sheets	\$ 1	\$ 7	\$ 1	\$ 7
Southern Power				
Derivatives designated as hedging instruments in cash flow and fair value hedges				
Energy-related derivatives:				
Other current assets/Other current liabilities	\$ 3	\$ 6	\$ 3	\$ 11
Other deferred charges and assets/Other deferred credits and liabilities	1	2	—	—
Foreign currency derivatives:				
Other current assets/Other current liabilities	—	23	—	23
Other deferred charges and assets/Other deferred credits and liabilities	75	—	129	—
Total derivatives designated as hedging instruments in cash flow and fair value hedges	\$ 79	\$ 31	\$ 132	\$ 34
Derivatives not designated as hedging instruments				
Energy-related derivatives:				
Other current assets/Other current liabilities	\$ —	\$ —	\$ —	\$ 2
Total derivatives not designated as hedging instruments	\$ —	\$ —	\$ —	\$ 2
Gross amounts recognized	\$ 79	\$ 31	\$ 132	\$ 36
Gross amounts offset	\$ (3)	\$ (3)	\$ (3)	\$ (3)
Net amounts recognized in the Balance Sheets	\$ 76	\$ 28	\$ 129	\$ 33

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Derivative Category and Balance Sheet Location	2018		2017	
	Assets	Liabilities	Assets	Liabilities
	<i>(in millions)</i>			
Southern Company Gas				
Derivatives designated as hedging instruments for regulatory purposes				
Energy-related derivatives:				
Assets from risk management activities/Liabilities from risk management activities-current	\$ 2	\$ 8	\$ 5	\$ 8
Other deferred charges and assets/Other deferred credits and liabilities	—	1	—	—
Total derivatives designated as hedging instruments for regulatory purposes	\$ 2	\$ 9	\$ 5	\$ 8
Derivatives designated as hedging instruments in cash flow and fair value hedges				
Energy-related derivatives:				
Assets from risk management activities/Liabilities from risk management activities-current	\$ —	\$ 1	\$ —	\$ 3
Total derivatives designated as hedging instruments in cash flow and fair value hedges	\$ —	\$ 1	\$ —	\$ 3
Derivatives not designated as hedging instruments				
Energy-related derivatives:				
Assets from risk management activities/Liabilities from risk management activities-current	\$ 559	\$ 574	\$ 379	\$ 434
Other deferred charges and assets/Other deferred credits and liabilities	180	325	170	215
Total derivatives not designated as hedging instruments	\$ 739	\$ 899	\$ 549	\$ 649
Gross amounts recognized	\$ 741	\$ 909	\$ 554	\$ 660
Gross amounts offset^(a)	\$ (508)	\$ (785)	\$ (390)	\$ (583)
Net amounts recognized in the Balance Sheets^(b)	\$ 233	\$ 124	\$ 164	\$ 77

(a) Gross amounts offset include cash collateral held on deposit in broker margin accounts of \$277 million and \$193 million at December 31, 2018 and 2017, respectively.

(b) Net amounts of derivative instruments outstanding exclude premium and intrinsic value associated with weather derivatives of \$8 million and \$11 million at December 31, 2018 and 2017, respectively.

Energy-related derivatives not designated as hedging instruments were immaterial for Alabama Power, Georgia Power, Mississippi Power, and Southern Power at December 31, 2018 and 2017.

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At December 31, 2018 and 2017, the pre-tax effects of unrealized derivative gains (losses) arising from energy-related derivative instruments designated as regulatory hedging instruments and deferred were as follows:

Regulatory Hedge Unrealized Gain (Loss) Recognized in the Balance Sheet at December 31, 2018

Derivative Category and Balance Sheet Location	Southern Company	Alabama Power	Georgia Power	Mississippi Power	Southern Company Gas
<i>(in millions)</i>					
Energy-related derivatives:					
Other regulatory assets, current	\$ (19)	\$ (3)	\$ (6)	\$ (2)	(8)
Other regulatory assets, deferred	(16)	(3)	(9)	(4)	—
Assets held for sale, current	(6)	—	—	—	—
Other regulatory liabilities, current	1	—	—	—	1
Total energy-related derivative gains (losses)	\$ (40)	\$ (6)	\$ (15)	\$ (6)	(7)

Regulatory Hedge Unrealized Gain (Loss) Recognized in the Balance Sheet at December 31, 2017

Derivative Category and Balance Sheet Location	Southern Company ^(*)	Alabama Power	Georgia Power	Mississippi Power	Southern Company Gas ^(*)
<i>(in millions)</i>					
Energy-related derivatives:					
Other regulatory assets, current	\$ (34)	\$ (4)	\$ (7)	\$ (5)	(4)
Other regulatory assets, deferred	(18)	(3)	(6)	(2)	—
Other regulatory liabilities, current	7	1	—	—	7
Other regulatory liabilities, deferred	1	—	—	—	—
Total energy-related derivative gains (losses)	\$ (44)	\$ (6)	\$ (13)	\$ (7)	3

(*) Fair value gains and losses recorded in regulatory assets and liabilities include cash collateral held on deposit in broker margin accounts of \$6 million at December 31, 2017.

For the years ended December 31, 2018, 2017, and 2016, the pre-tax effects of cash flow hedge accounting on AOCI for the applicable registrants were as follows:

Gain (Loss) Recognized in OCI on Derivative	2018	2017	2016
<i>(in millions)</i>			
Southern Company			
Energy-related derivatives	\$ 17	\$ (47)	18
Interest rate derivatives	(1)	(2)	(180)
Foreign currency derivatives	(78)	140	(58)
Total	\$ (62)	\$ 91	(220)
Southern Power			
Energy-related derivatives	\$ 10	\$ (38)	14
Foreign currency derivatives	(78)	140	(58)
Total	\$ (68)	\$ 102	(44)

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Gain (Loss) Recognized in OCI on Derivative	Successor			Predecessor
	Year Ended December 31, 2018	Year Ended December 31, 2017	July 1, 2016 through December 31, 2016	January 1, 2016 through June 30, 2016
	<i>(in millions)</i>			<i>(in millions)</i>
Southern Company Gas				
Energy-related derivatives	\$ 7	\$ (9)	\$ 2	\$ —
Interest rate derivatives	—	—	(5)	(64)
Total	\$ 7	\$ (9)	\$ (3)	\$ (64)

For all years presented, the pre-tax effects of energy-related derivatives and interest rate derivatives designated as cash flow hedging instruments on AOCI were immaterial for the other registrants. In addition, for the years ended December 31, 2017 and 2016, there was no material ineffectiveness recorded in earnings for any registrant. Upon the adoption of ASU 2017-12, beginning in 2018, ineffectiveness was no longer separately measured and recorded in earnings. See Note 1 for additional information.

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The pre-tax effects of cash flow and fair value hedge accounting on income for the years ended December 31, 2018, 2017, and 2016 were as follows:

Location and Amount of Gain (Loss) Recognized in Income on Cash Flow and Fair Value Hedging Relationships	2018	2017	2016
	<i>(in millions)</i>		
Southern Company			
Total cost of natural gas	\$ 1,539	\$ 1,601	\$ 613
<i>Gain (loss) on energy-related cash flow hedges^(a)</i>	2	(2)	(1)
Total depreciation and amortization	3,131	3,010	2,502
<i>Gain (loss) on energy-related cash flow hedges^(a)</i>	7	(16)	2
Total interest expense, net of amounts capitalized	(1,842)	(1,694)	(1,317)
<i>Gain (loss) on interest rate cash flow hedges^(a)</i>	(21)	(21)	(18)
<i>Gain (loss) on foreign currency cash flow hedges^(a)</i>	(24)	(23)	(13)
<i>Gain (loss) on interest rate fair value hedges^(b)</i>	(12)	(22)	(21)
Total other income (expense), net	114	163	50
<i>Gain (loss) on foreign currency cash flow hedges^{(a)(c)}</i>	(60)	160	(82)
Alabama Power			
Total interest expense, net of amounts capitalized	\$ (323)	\$ (305)	\$ (302)
<i>Gain (loss) on interest rate cash flow hedges^(a)</i>	(6)	(6)	(6)
Georgia Power			
Total interest expense, net of amounts capitalized	\$ (397)	\$ (419)	\$ (388)
<i>Gain (loss) on interest rate cash flow hedges^(a)</i>	(4)	(4)	(4)
<i>Gain (loss) on interest rate fair value hedges^(b)</i>	2	(3)	(1)
Mississippi Power			
Total interest expense, net of amounts capitalized	\$ (76)	\$ (42)	\$ (74)
<i>Gain (loss) on interest rate cash flow hedges^(a)</i>	(2)	(2)	3
Southern Power			
Total depreciation and amortization	\$ 493	\$ 503	\$ 352
<i>Gain (loss) on energy-related cash flow hedges^(a)</i>	7	(17)	2
Total interest expense, net of amounts capitalized	(183)	(191)	(117)
<i>Gain (loss) on foreign currency cash flow hedges^(a)</i>	(24)	(23)	(13)
Total other income (expense), net	23	1	6
<i>Gain (loss) on foreign currency cash flow hedges^{(a)(c)}</i>	(60)	159	(82)

(a) Reclassified from AOCI into earnings.

(b) For fair value hedges, changes in the fair value of the derivative contracts are generally equal to changes in the fair value of the underlying debt and have no material impact on income.

(c) The reclassification from AOCI into other income (expense), net completely offsets currency gains and losses arising from changes in the U.S. currency exchange rates used to record the euro-denominated notes.

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Location and Amount of Gain (Loss) Recognized in Income on Cash Flow and Fair Value Hedging Relationships	Successor			Predecessor
	Year Ended December 31, 2018	Year Ended December 31, 2017	July 1, 2016 through December 31, 2016	January 1, 2016 through June 30, 2016
	<i>(in millions)</i>			<i>(in millions)</i>
Southern Company Gas				
Total cost of natural gas	\$ 1,539	\$ 1,601	\$ 613	\$ 755
Gain (loss) on energy-related cash flow hedges ^(*)	2	(2)	(1)	(1)

(*) Amounts reflect gains or losses on cash flow hedges that were reclassified from AOCI into earnings.

The pre-tax effects of cash flow hedge accounting on income for interest rate derivatives were immaterial for all other registrants for all years presented.

At December 31, 2018 and 2017, the following amounts were recorded on the balance sheets related to cumulative basis adjustments for fair value hedges:

Balance Sheet Location of Hedged Items	Carrying Amount of the Hedged Item		Cumulative Amount of Fair Value Hedging Adjustment included in Carrying Amount of the Hedged Item	
	At December 31, 2018	At December 31, 2017	At December 31, 2018	At December 31, 2017
	<i>(in millions)</i>		<i>(in millions)</i>	
Southern Company				
Securities due within one year	\$ (498)	\$ (746)	\$ 2	\$ 3
Long-term debt	(2,052)	(2,553)	41	35
Georgia Power				
Securities due within one year	\$ (498)	\$ (746)	\$ 2	\$ 3
Long-term debt	—	(498)	—	1

The pre-tax effects of energy-related derivatives not designated as hedging instruments on the statements of income for the years ended December 31, 2018, 2017, and 2016 for the applicable registrants were as follows:

Derivatives in Non-Designated Hedging Relationships	Statements of Income Location	Gain (Loss)		
		2018	2017	2016
		<i>(in millions)</i>		
Southern Company				
Energy-related derivatives	Natural gas revenues ^(*)	\$ (122)	\$ (80)	\$ 33
	Cost of natural gas	(6)	(2)	3
	Wholesale electric revenues	2	(4)	2
Total derivatives in non-designated hedging relationships		\$ (126)	\$ (86)	\$ 38

(*) Excludes the impact of weather derivatives recorded in natural gas revenues of \$5 million, \$23 million, and \$6 million for the years ended December 31, 2018, 2017, and 2016, respectively, as they are accounted for based on intrinsic value rather than fair value.

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Derivatives in Non-Designated Hedging Relationships	Statements of Income Location	Gain (Loss)			Predecessor
		Successor			
		For the Year Ended December 31, 2018	For the Year Ended December 31, 2017	July 1, 2016 through December 31, 2016	
<i>(in millions)</i>					
Southern Company Gas					
Energy-related derivatives	Natural gas revenues ^(*)	\$ (122)	\$ (80)	\$ 33	\$ (1)
	Cost of natural gas	(6)	(2)	3	(62)
Total derivatives in non-designated hedging relationships		\$ (128)	\$ (82)	\$ 36	\$ (63)

(*) Excludes the impact of weather derivatives recorded in natural gas revenues of \$5 million and \$23 million for the successor years ended December 31, 2018 and 2017, respectively, \$6 million for the successor period of July 1, 2016 through December 31, 2016, and \$3 million for the predecessor period of January 1, 2016 through June 30, 2016, as they are accounted for based on intrinsic value rather than fair value.

The pre-tax effects of energy-related derivatives and interest rate derivatives not designated as hedging instruments were immaterial for all other registrants for all years presented.

Contingent Features

Southern Company, the traditional electric operating companies, Southern Power, and Southern Company Gas do not have any credit arrangements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade. There are certain derivatives that could require collateral, but not accelerated payment, in the event of various credit rating changes of certain Southern Company subsidiaries. At December 31, 2018, the registrants had no collateral posted with derivative counterparties to satisfy these arrangements.

For the registrants with interest rate derivatives at December 31, 2018, the fair value of interest rate derivative liabilities with contingent features and the maximum potential collateral requirements arising from the credit-risk-related contingent features, at a rating below BBB- and/or Baa3, was immaterial. At December 31, 2018, the fair value of energy-related derivative liabilities with contingent features and the maximum potential collateral requirements arising from the credit-risk-related contingent features, at a rating below BBB- and/or Baa3, were immaterial for all registrants. The maximum potential collateral requirements arising from the credit-risk-related contingent features for the traditional electric operating companies and Southern Power include certain agreements that could require collateral in the event that one or more Southern Company power pool participants has a credit rating change to below investment grade. Following the sale of Gulf Power to NextEra Energy, Gulf Power is continuing to participate in the Southern Company power pool for a defined transition period that, subject to certain potential adjustments, is scheduled to end on January 1, 2024.

Generally, collateral may be provided by a Southern Company guaranty, letter of credit, or cash. If collateral is required, fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral are not offset against fair value amounts recognized for derivatives executed with the same counterparty.

Alabama Power and Southern Power maintain accounts with certain regional transmission organizations to facilitate financial derivative transactions. Based on the value of the positions in these accounts and the associated margin requirements, Alabama Power and Southern Power may be required to post collateral. At December 31, 2018, cash collateral posted in these accounts was immaterial. Southern Company Gas maintains accounts with brokers or the clearing houses of certain exchanges to facilitate financial derivative transactions. Based on the value of the positions in these accounts and the associated margin requirements, Southern Company Gas may be required to deposit cash into these accounts. At December 31, 2018, cash collateral held on deposit in broker margin accounts was \$277 million.

The registrants are exposed to losses related to financial instruments in the event of counterparties' nonperformance. The registrants only enter into agreements and material transactions with counterparties that have investment grade credit ratings by Moody's and S&P or with counterparties who have posted collateral to cover potential credit exposure. The registrants have also established risk management policies and controls to determine and monitor the creditworthiness of counterparties in order to mitigate their exposure to counterparty credit risk. Prior to entering into a physical transaction, Southern Company Gas assigns physical wholesale counterparties an internal credit rating and credit limit based on the counterparties' Moody's, S&P, and Fitch ratings, commercially available credit reports, and audited financial statements. Southern Company Gas may require counterparties to pledge additional collateral when deemed necessary.

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In addition, Southern Company Gas conducts credit evaluations and obtains appropriate internal approvals for the counterparty's line of credit before any transaction with the counterparty is executed. In most cases, the counterparty must have an investment grade rating, which includes a minimum long-term debt rating of Baa3 from Moody's and BBB- from S&P. Generally, Southern Company Gas requires credit enhancements by way of a guaranty, cash deposit, or letter of credit for transaction counterparties that do not have investment grade ratings.

Southern Company Gas also utilizes master netting agreements whenever possible to mitigate exposure to counterparty credit risk. When Southern Company Gas is engaged in more than one outstanding derivative transaction with the same counterparty and it also has a legally enforceable netting agreement with that counterparty, the "net" mark-to-market exposure represents the netting of the positive and negative exposures with that counterparty and a reasonable measure of Southern Company Gas' credit risk. Southern Company Gas also uses other netting agreements with certain counterparties with whom it conducts significant transactions. Master netting agreements enable Southern Company Gas to net certain assets and liabilities by counterparty. Southern Company Gas also nets across product lines and against cash collateral provided the master netting and cash collateral agreements include such provisions. Southern Company Gas may require counterparties to pledge additional collateral when deemed necessary.

The registrants do not anticipate a material adverse effect on their respective financial statements as a result of counterparty nonperformance.

15. ACQUISITIONS AND DISPOSITIONS

Southern Company 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. At the effective time of the Merger, each share of Southern Company Gas common stock, other than certain excluded shares, was converted into the right to receive \$66 in cash, without interest. Also at the effective time of the Merger, all of the outstanding Southern Company Gas RSUs, restricted stock awards, non-employee director stock awards, stock options, and PSUs were either redeemed or converted into Southern Company RSUs. See Note 12 for additional information.

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, which represents a different basis of accounting from Southern Company Gas' historical basis prior to the Merger. The following table presents the final purchase price allocation:

Southern Company Gas Purchase Price	Southern Company Gas Successor	Southern Company Gas Predecessor	Change in Basis
	New Basis <i>(in millions)</i>	Old Basis <i>(in millions)</i>	
Current assets	\$ 1,557	\$ 1,474	\$ 83
Property, plant, and equipment	10,108	10,148	(40)
Goodwill	5,967	1,813	4,154
Other intangible assets	400	101	299
Regulatory assets	1,118	679	439
Other assets	229	273	(44)
Current liabilities	(2,201)	(2,205)	4
Other liabilities	(4,742)	(4,600)	(142)
Long-term debt	(4,261)	(3,709)	(552)
Contingently redeemable noncontrolling interest	(174)	(41)	(133)
Total purchase price	\$ 8,001	\$ 3,933	\$ 4,068

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Southern Company Gas' Results of Operations and Pro Forma Financial Information

The results of operations for Southern Company Gas have been included in Southern Company's consolidated financial statements from the date of acquisition and consisted of operating revenues of \$1.7 billion and net income of \$114 million in 2016.

The following summarized unaudited pro forma consolidated statement of earnings information assumes that the acquisition of Southern Company Gas was completed on January 1, 2015. The summarized unaudited pro forma consolidated statement of earnings information includes adjustments for (i) intercompany sales, (ii) amortization of intangible assets, (iii) adjustments to interest expense to reflect current interest rates on Southern Company Gas debt and additional interest expense associated with borrowings by Southern Company to fund the Merger, and (iv) the elimination of nonrecurring expenses associated with the Merger.

	2016	
Operating revenues (in millions)	\$	21,791
Net income attributable to Southern Company (in millions)	\$	2,591
Basic EPS	\$	2.70
Diluted EPS	\$	2.68

These unaudited pro forma results are for comparative purposes only and may not be indicative of the results that would have occurred had this acquisition been completed on January 1, 2015 or the results that would be attained in the future.

Southern Company Acquisition of PowerSecure

In May 2016, Southern Company acquired all of the outstanding stock of PowerSecure for \$18.75 per common share in cash, resulting in an aggregate purchase price of \$429 million. As a result, PowerSecure became a wholly-owned subsidiary of Southern Company.

The acquisition of PowerSecure was accounted for using the acquisition method of accounting with the assets acquired and liabilities assumed recognized at fair value as of the acquisition date. The following table presents the final purchase price allocation:

PowerSecure Purchase Price

	<i>(in millions)</i>	
Current assets	\$	172
Property, plant, and equipment		46
Intangible assets		106
Goodwill		284
Other assets		4
Current liabilities		(121)
Long-term debt, including current portion		(48)
Deferred credits and other liabilities		(14)
Total purchase price	\$	429

The results of operations for PowerSecure have been included in Southern Company's consolidated financial statements from the date of acquisition and are immaterial to the consolidated financial results of Southern Company. Pro forma results of operations have not been presented for the acquisition because the effects of the acquisition were immaterial to Southern Company's consolidated financial results for all periods presented.

Southern Company's Sale of Gulf Power

On January 1, 2019, Southern Company completed the sale of all of the capital stock of Gulf Power to 700 Universe, LLC, a wholly-owned subsidiary of NextEra Energy, for an aggregate cash purchase price of approximately \$5.8 billion (less \$1.3 billion of indebtedness assumed), subject to customary working capital adjustments.

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The assets and liabilities of Gulf Power are classified as assets held for sale and liabilities held for sale on Southern Company's balance sheet as of December 31, 2018. See "Assets Held for Sale" herein for additional information.

Southern Power

During 2018 and 2017, Southern Power or one of its wholly-owned subsidiaries acquired or completed construction of the facilities discussed below. Acquisition-related costs were expensed as incurred and were not material for any of the years presented.

Acquisitions During the Year Ended December 31, 2018

During 2018, Southern Power acquired and completed the project below and acquired the Wild Horse Mountain and Reading wind facilities discussed under "Construction Projects Completed and/or in Progress" below.

Project Facility	Resource	Seller, Acquisition Date	Approximate Nameplate Capacity (MW)	Location	Ownership Percentage	Actual COD	PPA Contract Period
Gaskell West 1	Solar	Recurrent Energy Development Holdings, LLC, January 26, 2018	20	Kern County, CA	100% of (*) Class B	March 2018	20 years

(*) Southern Power owns 100% of the class B membership interests under a tax equity partnership.

The Gaskell West 1 facility did not have operating revenues or activities prior to being placed in service during March 2018.

Acquisitions During the Year Ended December 31, 2017

The following table presents Southern Power's acquisition activity for the year ended December 31, 2017.

Project Facility	Resource	Seller, Acquisition Date	Approximate Nameplate Capacity (MW)	Location	Ownership Percentage	Actual COD	PPA Contract Period
Bethel	Wind	Invenergy Wind Global LLC, January 6, 2017	276	Castro County, TX	100%	January 2017	12 years
Cactus Flats ^(*)	Wind	RES America Developments, Inc., July 31, 2017	148	Concho County, TX	100%	July 2018	12 years and 15 years

(*) On July 31, 2017, Southern Power purchased 100% of the Cactus Flats facility. In August 2018, Southern Power closed on a tax equity partnership and owns 100% of the class B membership interests.

Southern Power's aggregate purchase price for acquisitions during the year ended December 31, 2017 was \$539 million. The fair values of the assets acquired and liabilities assumed were finalized in 2017 and recorded as follows:

	2017	
	<i>(in millions)</i>	
Restricted cash	\$	16
CWIP		534
Other assets		5
Accounts payable		(16)
Total purchase price	\$	539

In 2017, total revenues of \$15 million and net income of \$17 million, primarily as a result of PTCs, were recognized in the consolidated statements of income by Southern Power related to the 2017 acquisitions. The Bethel facility did not have operating revenues or activities prior to completion of construction and being placed in service, and the Cactus Flats facility was still under construction. Therefore, supplemental pro forma information as though the acquisitions occurred as of the beginning of 2017 is not meaningful and has been omitted.

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Construction Projects Completed and/or in Progress

During 2018, in accordance with its growth strategy, Southern Power started, continued, or completed construction of the projects set forth in the table below. Total aggregate construction costs, excluding the acquisition costs, are expected to be between \$575 million and \$640 million for the Plant Mankato expansion, Wild Horse Mountain, and Reading facilities. At December 31, 2018, construction costs included in CWIP related to these projects totaled \$289 million, except for the Plant Mankato expansion which is classified as assets held for sale in the financial statements. The ultimate outcome of these matters cannot be determined at this time.

Project Facility	Resource	Approximate Nameplate Capacity (MW)	Location	Actual/Expected COD	PPA Counterparties	PPA Contract Period
Construction Projects Completed During the Year Ended December 31, 2018						
Cactus Flats ^(a)	Wind	148	Concho County, TX	July 2018	General Motors, LLC and General Mills Operations, LLC	12 years and 15 years
Projects Under Construction at December 31, 2018						
Mankato expansion ^(b)	Natural Gas	385	Mankato, MN	Second quarter 2019	Northern States Power Company	20 years
Wild Horse Mountain ^(c)	Wind	100	Pushmataha County, OK	Fourth quarter 2019	Arkansas Electric Cooperative	20 years
Reading ^(d)	Wind	200	Osage and Lyon Counties, KS	Second quarter 2020	Royal Caribbean Cruises LTD	12 years

- (a) In July 2017, Southern Power purchased 100% of the Cactus Flats facility. In August 2018, Southern Power closed on a tax equity partnership and now owns 100% of the class B membership interests.
- (b) In November 2018, Southern Power entered into an agreement to sell all of its equity interests in Plant Mankato, including this expansion currently under construction. See "Sales of Natural Gas Plants" below.
- (c) In May 2018, Southern Power purchased 100% of the Wild Horse Mountain facility. Southern Power may enter into a tax equity partnership, in which case it would then own 100% of the class B membership interests. The ultimate outcome of this matter cannot be determined at this time.
- (d) In August 2018, Southern Power purchased 100% of the membership interests of the Reading facility from the joint development arrangement with Renewable Energy Systems Americas, Inc. described below. Southern Power may enter into a tax equity partnership, in which case it would then own 100% of the class B membership interests. The ultimate outcome of this matter cannot be determined at this time.

Development Projects

During 2017, Southern Power purchased wind turbine equipment to be used for various development and construction projects. Any wind projects using this equipment and reaching commercial operation by the end of 2021 are expected to qualify for 80% PTCs.

During 2016, Southern Power entered into a joint development agreement with Renewable Energy Systems Americas, Inc. (RES) to develop and construct wind projects. Concurrent with the agreement, Southern Power purchased wind turbine equipment from Siemens Wind Power, Inc. and Vestas-American Wind Technology, Inc. to be used for construction of these projects. Several wind projects using this equipment, as well as other purchased equipment, have successfully originated, directly or indirectly, from the partnership with RES and are expected to reach commercial operation before the end of 2020, thus qualifying for 100% PTCs.

Southern Power continues to evaluate and refine the deployment of the wind turbine equipment to potential joint development and construction projects as well as the amount of MW capacity to be constructed. During the third quarter 2018, as a result of a review of various options for probable dispositions of wind turbine equipment not deployed to development or construction projects, Southern Power recorded a \$36 million asset impairment charge on the equipment.

Subsequent to December 31, 2018 and as part of management's continuous review of disposition options, approximately \$53 million of this equipment is being marketed for sale and will be classified as held for sale.

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

Sales of Renewable Facility Interests

On May 22, 2018, Southern Power completed the sale of a noncontrolling 33% equity interest in SP Solar, a limited partnership indirectly owning substantially all of Southern Power's solar facilities, to Global Atlantic for approximately \$1.2 billion. Since Southern Power retains control of the limited partnership through its wholly-owned general partner, the sale was recorded as an

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equity transaction and Southern Power will continue to consolidate SP Solar in its financial statements. On the date of the transaction, the noncontrolling interest was increased by \$511 million to reflect 33% of the carrying value of the partnership. This difference, partially offset by the tax impact and other related transaction charges, also resulted in a \$410 million decrease to Southern Power's common stockholder's equity.

On December 11, 2018, Southern Power completed the sale of a noncontrolling tax equity interest in SP Wind, which owns a portfolio of eight operating wind facilities, to three financial investors for approximately \$1.2 billion. Since Southern Power retains control of SP Wind, it will continue to consolidate SP Wind in its financial statements. The tax equity investors together will generally receive 40% of the cash distributions from available cash and will receive a 99% allocation of tax attributes, including future PTCs.

Sales of Natural Gas Plants

On December 4, 2018, Southern Power completed the sale of all of its equity interests in the Florida Plants to NextEra Energy for \$203 million. In contemplation of this sale transaction, Southern Power recorded an asset impairment charge of approximately \$119 million (\$89 million after tax) in May 2018.

On November 5, 2018, Southern Power entered into an agreement with Northern States Power to sell all of its equity interests in Plant Mankato (including the 385-MW expansion currently under construction) for an aggregate purchase price of approximately \$650 million. The completion of the disposition is subject to the expansion unit reaching commercial operation as well as various other customary conditions to closing, including working capital and timing adjustments. The ultimate purchase price will decrease \$66,667 per day for each day after June 1, 2019 that the expansion has not achieved commercial operation, not to exceed \$15 million. This transaction is subject to FERC and state commission approvals and is expected to close in mid-2019. The assets and liabilities of Plant Mankato are classified as assets held for sale and liabilities held for sale on Southern Company's and Southern Power's balance sheet as of December 31, 2018. See "Assets Held for Sale" herein for additional information. The ultimate outcome of this matter cannot be determined at this time.

Southern Company Gas

See "Southern Company Merger with Southern Company Gas" herein for information regarding the Merger.

Investment in SNG

In 2016, Southern Company Gas, through a wholly-owned, indirect subsidiary, acquired a 50% equity interest in SNG from Kinder Morgan, Inc. for \$1.4 billion. SNG owns a 7,000-mile pipeline system connecting natural gas supply basins in Texas, Louisiana, Mississippi, and Alabama to markets in Louisiana, Mississippi, Alabama, Florida, Georgia, South Carolina, and Tennessee. The purchase price exceeded the underlying ownership interest in the net assets of SNG by approximately \$700 million. This basis difference was attributable to goodwill and deferred tax assets. While the deferred tax assets will be amortized through deferred tax expense, the goodwill will not be amortized and is not required to be tested for impairment on an annual basis.

In March 2017, Southern Company Gas made an additional \$50 million contribution to maintain its 50% equity interest in SNG. See Note 7 under "Southern Company Gas" for additional information on this investment.

Southern Company Gas' investment in SNG decreased by \$104 million at December 31, 2017 related to the impact of the Tax Reform Legislation and new income tax apportionment factors in several states resulting from Southern Company Gas' inclusion in the consolidated Southern Company state tax filings.

Sale of Pivotal Home Solutions

On June 4, 2018, Southern Company Gas completed the stock sale of Pivotal Home Solutions to American Water Enterprises LLC for a total cash purchase price of \$365 million, which includes the final working capital adjustment. This disposition resulted in a net loss of \$67 million, which includes \$34 million of income tax expense. In contemplation of the transaction, a goodwill impairment charge of \$42 million was recorded during the first quarter 2018. The income tax expense included tax on goodwill not deductible for tax purposes and for which a deferred tax liability had not been recorded previously. Southern Company Gas and American Water Enterprises LLC entered into a transition services agreement whereby Southern Company Gas provided certain administrative and operational services through November 4, 2018.

Sale of Elizabethtown Gas and Elkton Gas

On July 1, 2018, a Southern Company Gas subsidiary, Pivotal Utility Holdings, completed the sales of the assets of two of its natural gas distribution utilities, Elizabethtown Gas and Elkton Gas, to South Jersey Industries, Inc. for a total cash purchase price

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of \$1.7 billion, which includes the final working capital and other adjustments. This disposition resulted in a pre-tax gain that was entirely offset by \$205 million of income tax expense, resulting in no material net income impact. The income tax expense included tax on goodwill not deductible for tax purposes and for which a deferred tax liability had not been recorded previously. Southern Company Gas and South Jersey Industries, Inc. entered into transition services agreements whereby Southern Company Gas will provide certain administrative and operational services through no later than July 31, 2020.

Sale of Florida City Gas

On July 29, 2018, Southern Company Gas and its wholly-owned direct subsidiary, NUI Corporation, completed the stock sale of Pivotal Utility Holdings, which primarily consisted of Florida City Gas, to NextEra Energy for a total cash purchase price of \$587 million, which includes the final working capital adjustment. This disposition resulted in a net gain of \$16 million, which includes \$103 million of income tax expense. The income tax expense included tax on goodwill not deductible for tax purposes and for which a deferred tax liability had not been recorded previously. Southern Company Gas and NextEra Energy entered into a transition services agreement whereby Southern Company Gas will provide certain administrative and operational services through no later than July 29, 2020.

Assets Held for Sale

As discussed previously, Southern Company and Southern Power each have assets and liabilities held for sale on their balance sheets at December 31, 2018. Assets and liabilities held for sale have been classified separately on each company's balance sheet at the lower of carrying value or fair value less costs to sell at the time the criteria for held-for-sale classification were met. For assets and liabilities held for sale recorded at fair value on a nonrecurring basis, the fair value of assets held for sale is based primarily on unobservable inputs (Level 3), which includes the agreed upon sales prices in executed sales agreements.

Upon classification as held for sale in May 2018 for the Florida Plants and November 2018 for Plant Mankato, Southern Power ceased recognizing depreciation on the property, plant, and equipment to be sold. The Florida Plants sale was completed on December 4, 2018. Since the depreciation of the assets sold in the Gulf Power transaction continued to be reflected in customer rates through the closing date and was reflected in the carryover basis of the assets when sold, Southern Company continued to record depreciation on those assets through the date the transaction closed. Likewise, since the depreciation of the assets sold in the Elizabethtown Gas, Elkton Gas, and Florida City Gas transactions continued to be reflected in customer rates and was reflected in the carryover basis of the assets when sold, Southern Company Gas continued to record depreciation on those assets through the respective date that each transaction closed.

The following table provides Southern Company's and Southern Power's major classes of assets and liabilities classified as held for sale at December 31, 2018:

	Southern Company	Southern Power
	<i>(in millions)</i>	
Assets Held for Sale:		
Current assets	\$ 393	\$ 8
Total property, plant, and equipment	4,623	576
Other non-current assets	727	—
Total Assets Held for Sale	\$ 5,743	\$ 584
Liabilities Held for Sale:		
Current liabilities	\$ 425	\$ 15
Long-term debt	1,286	—
Accumulated deferred income taxes	618	—
Other non-current liabilities	932	—
Total Liabilities Held for Sale	\$ 3,261	\$ 15

Southern Company, Southern Power, and Southern Company Gas each concluded that the asset sales, both individually and combined, did not represent a strategic shift in operations that has, or is expected to have, a major effect on its operations and financial results; therefore, none of the assets related to the sales have been classified as discontinued operations for any of the periods presented.

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Gulf Power and the Florida Plants represent individually significant components of Southern Company and Southern Power, respectively; therefore, pre-tax income for these components for the years ended December 31, 2018, 2017, and 2016 are presented below:

	2018		2017		2016
		<i>(in millions)</i>			
Earnings (loss) before income taxes:					
Gulf Power	\$	140	\$	229	\$ 231
Southern Power's Florida Plants ^(*)	\$	49	\$	37	\$ 37

(*) Earnings before income taxes for the Florida Plants in 2018 represents the period from January 1, 2018 to December 4, 2018 (the divestiture date).

16. SEGMENT AND RELATED INFORMATION

Southern Company

The primary businesses of the Southern Company system are electricity sales by the traditional electric operating companies and Southern Power and the distribution of natural gas by Southern Company Gas. The traditional electric operating companies – Alabama Power, Georgia Power, Gulf Power (through December 31, 2018), and Mississippi Power – are vertically integrated utilities providing electric service in four Southeastern states. On January 1, 2019, Southern Company completed its sale of Gulf Power to NextEra Energy. Southern Power develops, constructs, acquires, owns, and manages power generation assets, including renewable energy projects, and sells electricity at market-based rates in the wholesale market. Southern Company Gas distributes natural gas through its natural gas distribution utilities and is involved in several other complementary businesses including gas pipeline investments, wholesale gas services, and gas marketing services. In July 2018, Southern Company Gas completed sales of three of its natural gas distribution utilities. See Note 15 for additional information regarding disposition activities.

Southern Company's reportable business segments are the sale of electricity by the traditional electric operating companies, the sale of electricity in the competitive wholesale market by Southern Power, and the sale of natural gas and other complementary products and services by Southern Company Gas. Revenues from sales by Southern Power to the traditional electric operating companies were \$435 million, \$392 million, and \$419 million in 2018, 2017, and 2016, respectively. Revenues from sales of natural gas from Southern Company Gas to the traditional electric operating companies and Southern Power were \$32 million and \$119 million, respectively, in 2018, \$23 million and \$119 million, respectively, in 2017, and \$11 million and \$17 million, respectively, in 2016. The "All Other" column includes the Southern Company parent entity, which does not allocate operating expenses to business segments. Also, this category includes segments below the quantitative threshold for separate disclosure. These segments include providing energy technologies and services to electric utilities and large industrial, commercial, institutional, and municipal customers, as well as investments in telecommunications and leveraged lease projects. All other inter-segment revenues are not material.

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Financial data for business segments and products and services for the years ended December 31, 2018, 2017, and 2016 was as follows:

	Electric Utilities							
	Traditional Electric Operating Companies	Southern Power	Eliminations	Total	Southern Company Gas	All Other	Eliminations	Consolidated
	<i>(in millions)</i>							
2018								
Operating revenues	\$ 16,843	\$ 2,205	\$ (477)	\$ 18,571	\$ 3,909	\$ 1,213	\$ (198)	\$ 23,495
Depreciation and amortization	2,072	493	—	2,565	500	66	—	3,131
Interest income	23	8	—	31	4	8	(5)	38
Earnings from equity method investments	(1)	—	—	(1)	148	2	(1)	148
Interest expense	852	183	—	1,035	228	580	(1)	1,842
Income taxes (benefit)	371	(164)	—	207	464	(222)	—	449
Segment net income (loss) ^{(a)(b)(c)(d)}	2,117	187	—	2,304	372	(453)	3	2,226
Goodwill	—	2	—	2	5,015	298	—	5,315
Total assets	79,382	14,883	(306)	93,959	21,448	3,285	(1,778)	116,914
Gross property additions	6,077	315	—	6,392	1,399	414	—	8,205
2017								
Operating revenues	\$ 16,884	\$ 2,075	\$ (419)	\$ 18,540	\$ 3,920	\$ 741	\$ (170)	\$ 23,031
Depreciation and amortization	1,954	503	—	2,457	501	52	—	3,010
Interest income	14	7	—	21	3	11	(9)	26
Earnings from equity method investments	1	—	—	1	106	(1)	—	106
Interest expense	820	191	—	1,011	200	490	(7)	1,694
Income taxes (benefit)	1,021	(939)	—	82	367	(307)	—	142
Segment net income (loss) ^{(a)(b)(e)(f)}	(193)	1,071	—	878	243	(279)	—	842
Goodwill	—	2	—	2	5,967	299	—	6,268
Total assets	72,204	15,206	(325)	87,085	22,987	2,552	(1,619)	111,005
Gross property additions	3,836	268	—	4,104	1,525	355	—	5,984
2016								
Operating revenues	\$ 16,803	\$ 1,577	\$ (439)	\$ 17,941	\$ 1,652	\$ 463	\$ (160)	\$ 19,896
Depreciation and amortization	1,881	352	—	2,233	238	31	—	2,502
Interest income	6	7	—	13	2	20	(15)	20
Earnings from equity method investments	2	—	—	2	60	(3)	—	59
Interest expense	814	117	—	931	81	317	(12)	1,317
Income taxes (benefit)	1,286	(195)	—	1,091	76	(216)	—	951
Segment net income (loss) ^{(a)(b)}	2,233	338	—	2,571	114	(230)	(7)	2,448
Goodwill	—	2	—	2	5,967	282	—	6,251
Total assets	72,141	15,169	(316)	86,994	21,853	2,474	(1,624)	109,697
Gross property additions	4,852	2,114	—	6,966	618	41	(1)	7,624

(a) Attributable to Southern Company.

(b) Segment net income (loss) for the traditional electric operating companies includes pre-tax charges for estimated losses on plants under construction of \$1.1 billion (\$722 million after tax) in 2018, \$3.4 billion (\$2.4 billion after tax) in 2017, and \$428 million (\$264 million after tax) in 2016. See Note 2 under "Georgia Power – Nuclear Construction" and "Mississippi Power – Kemper County Energy Facility – Schedule and Cost Estimate" for additional information.

(c) Segment net income (loss) for Southern Power includes pre-tax impairment charges of \$156 million (\$117 million after tax) in 2018. See Note 15 under "Southern Power – Development Projects" and "– Sales of Natural Gas Plants" for additional information.

(d) Segment net income (loss) for Southern Company Gas includes a net gain on dispositions of \$291 million (\$51 million loss after tax) in 2018 related to the Southern Company Gas Dispositions and a goodwill impairment charge of \$42 million in 2018 related to the sale of Pivotal Home Solutions. See Note 15 under "Southern Company Gas" for additional information.

(e) Segment net income (loss) for the traditional electric operating companies includes a pre-tax charge for the write-down of Gulf Power's ownership of Plant Scherer Unit 3 of \$33 million (\$20 million after tax) in 2017. See Note 2 under "Southern Company – Gulf Power" for additional information.

(f) Segment net income (loss) includes income tax expense of \$367 million for the traditional electric operating companies, income tax benefit of \$743 million for Southern Power, and income tax expense of \$93 million for Southern Company Gas in 2017 related to the Tax Reform Legislation.

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Products and Services

Year	Electric Utilities' Revenues				Total
	Retail	Wholesale	Other		
	<i>(in millions)</i>				
2018	\$ 15,222	\$ 2,516	\$ 833	\$	18,571
2017	15,330	2,426	784		18,540
2016	15,234	1,926	781		17,941

Year	Southern Company Gas' Revenues				Total
	Gas Distribution Operations	Gas Marketing Services	All Other		
	<i>(in millions)</i>				
2018	\$ 3,155	\$ 568	\$ 186	\$	3,909
2017	3,024	860	36		3,920
2016	1,266	354	32		1,652

Southern Company Gas

Southern Company Gas manages its business through four reportable segments - gas distribution operations, gas pipeline investments, wholesale gas services, and gas marketing services. The non-reportable segments are combined and presented as all other. During 2018, Southern Company Gas changed its reportable segments to further align the way its new Chief Operating Decision Maker reviews operating results and has reclassified prior years' data to conform to the new reportable segment presentation. This change resulted in a new reportable segment, gas pipeline investments, which was formerly included in gas midstream operations.

Gas distribution operations is the largest component of Southern Company Gas' business and includes natural gas local distribution utilities that construct, manage, and maintain intrastate natural gas pipelines and gas distribution facilities in four states. In July 2018, Southern Company Gas sold three of its natural gas distribution utilities, Elizabethtown Gas, Elkton Gas, and Florida City Gas. See Note 15 under "Southern Company Gas" for additional information.

Gas pipeline investments consists of joint ventures in natural gas pipeline investments including a 50% interest in SNG, two significant pipeline construction projects, and a 50% joint ownership interest in the Dalton Pipeline. These natural gas pipelines enable the provision of diverse sources of natural gas supplies to the customers of Southern Company Gas. See Notes 5 and 7 for additional information.

Wholesale gas services provides natural gas asset management and/or related logistics services for each of Southern Company Gas' utilities except Nicor Gas as well as for non-affiliated companies. Additionally, wholesale gas services engages in natural gas storage and gas pipeline arbitrage and related activities.

Gas marketing services provides natural gas marketing to end-use customers primarily in Georgia and Illinois through SouthStar. On June 4, 2018, Southern Company Gas sold Pivotal Home Solutions, which provided home equipment protection products and services. See Note 15 under "Southern Company Gas – Sale of Pivotal Home Solutions" for additional information.

The all other column includes segments below the quantitative threshold for separate disclosure, including the storage and fuels operations, which was formerly included in gas midstream operations, and the other subsidiaries that fall below the quantitative threshold for separate disclosure.

After the Merger, Southern Company Gas changed the segment performance measure to net income, which is utilized by its parent company. In order to properly assess net income by segment, Southern Company Gas executed various intercompany note agreements to revise interest charges to its segments. Since such agreements did not exist in the predecessor period, Southern Company Gas is unable to provide the comparable net income for that period.

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Financial data for business segments for the successor years ended December 31, 2018 and 2017, the successor period of July 1, 2016 through December 31, 2016, and the predecessor period of January 1, 2016 through June 30, 2016 were as follows:

	Gas Distribution Operations ^{(a)(b)}	Gas Pipeline Investments	Wholesale Gas Services ^(c)	Gas Marketing Services ^{(b)(d)}	Total	All Other	Eliminations	Consolidated
<i>(in millions)</i>								
Successor – Year ended December 31, 2018								
Operating revenues	\$ 3,186	\$ 32	\$ 144	\$ 568	\$ 3,930	\$ 55	\$ (76)	\$ 3,909
Depreciation and amortization	409	5	2	37	453	47	—	500
Operating income (loss)	904	20	70	19	1,013	(98)	—	915
Earnings from equity method investments	—	145	—	—	145	3	—	148
Interest expense	(178)	(34)	(9)	(6)	(227)	(1)	—	(228)
Income taxes (benefit)	409	28	4	54	495	(31)	—	464
Segment net income (loss)	334	103	38	(40)	435	(63)	—	372
Gross property additions	1,429	32	—	6	1,467	54	—	1,521
Successor – Total assets at December 31, 2018	17,266	1,763	1,302	1,587	21,918	11,112	(11,582)	21,448
Successor – Year ended December 31, 2017								
Operating revenues	\$ 3,207	\$ 17	\$ 6	\$ 860	\$ 4,090	\$ 64	\$ (234)	\$ 3,920
Depreciation and amortization	391	2	2	62	457	44	—	501
Operating income (loss)	645	10	(51)	113	717	(57)	—	660
Earnings from equity method investments	—	103	—	—	103	3	—	106
Interest expense	(153)	(26)	(7)	(5)	(191)	(9)	—	(200)
Income taxes ^(e)	178	109	—	24	311	56	—	367
Segment net income (loss) ^(e)	353	(22)	(57)	84	358	(115)	—	243
Gross property additions	1,330	117	1	9	1,457	51	—	1,508
Successor – Total assets at December 31, 2017	19,358	1,699	1,096	2,147	24,300	12,726	(14,039)	22,987
Successor – July 1, 2016 through December 31, 2016								
Operating revenues	\$ 1,342	\$ 3	\$ 24	\$ 354	\$ 1,723	\$ 31	\$ (102)	\$ 1,652
Depreciation and amortization	185	—	1	35	221	17	—	238
Operating income (loss)	225	1	(2)	27	251	(52)	—	199
Earnings from equity method investments	—	58	—	—	58	2	—	60
Interest expense	(105)	(10)	(3)	(1)	(119)	38	—	(81)
Income taxes (benefit)	51	21	(3)	7	76	—	—	76
Segment net income (loss)	77	29	—	19	125	(11)	—	114
Gross property additions	561	51	1	5	618	14	—	632
Successor – Total assets at December 31, 2016	19,453	1,659	1,127	2,084	24,323	11,697	(14,167)	21,853

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	Gas Distribution Operations ^{(a)(b)}	Gas Pipeline Investments	Wholesale Gas Services ^(c)	Gas Marketing Services ^{(b)(d)}	Total	All Other	Eliminations	Consolidated
<i>(in millions)</i>								
Predecessor – January 1, 2016 through June 30, 2016								
Operating revenues	\$ 1,575	\$ 3	\$ (32)	\$ 435	\$ 1,981	\$ 26	\$ (102)	\$ 1,905
Depreciation and amortization	178	—	1	11	190	16	—	206
Operating income (loss)	353	3	(69)	109	396	(73)	—	323
EBIT	353	3	(68)	109	397	(69)	—	328
Gross property additions	484	40	1	4	529	19	—	548

- (a) Operating revenues for the three gas distribution operations dispositions were \$244 million, \$399 million, and \$168 million for the successor years ended December 31, 2018 and 2017 and the successor period of July 1, 2016 through December 31, 2016, respectively, and \$215 million for the predecessor period ended June 30, 2016. See Note 15 under "Southern Company Gas" for additional information.
- (b) Segment net income for gas distribution operations includes a gain on dispositions of \$324 million (\$16 million after tax) for the year ended December 31, 2018. Segment net income for gas marketing services includes a loss on disposition of \$(33) million (\$(67) million loss after tax) and a goodwill impairment charge of \$42 million for the year ended December 31, 2018 recorded in contemplation of the sale of Pivotal Home Solutions. See Note 15 under "Southern Company Gas" for additional information.
- (c) The revenues for wholesale gas services are netted with costs associated with its energy and risk management activities. A reconciliation of operating revenues and intercompany revenues is shown in the following table.

	Third Party Gross Revenues	Intercompany Revenues	Total Gross Revenues	Less Gross Gas Costs	Operating Revenues
<i>(in millions)</i>					
Successor – Year Ended December 31, 2018	\$ 6,955	\$ 451	\$ 7,406	\$ 7,262	\$ 144
Successor – Year Ended December 31, 2017	6,152	481	6,633	6,627	6
Successor – July 1, 2016 through December 31, 2016	5,807	333	6,140	6,116	24
Predecessor – January 1, 2016 through June 30, 2016	2,500	143	2,643	2,675	(32)

- (d) Operating revenues for the gas marketing services disposition were \$55 million, \$129 million, and \$56 million for the successor years ended December 31, 2018 and 2017 and the successor period of July 1, 2016 through December 31, 2016, respectively, and \$64 million for the predecessor period ended June 30, 2016. See Note 15 under "Southern Company Gas" for additional information.
- (e) Includes the impact of the Tax Reform Legislation and new income tax apportionment factors in several states resulting from Southern Company Gas' inclusion in the consolidated Southern Company state tax filings.

NOTES TO FINANCIAL STATEMENTS (continued)
Alabama Power Company 2018 Annual Report

17. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The tables below provide summarized quarterly financial information for each registrant for 2018 and 2017. Each registrant's business is influenced by seasonal weather conditions.

Quarter Ended	Southern Company ^(a)	Alabama Power	Georgia Power ^(b)	Mississippi Power ^(c)	Southern Power ^(d)	Southern Company Gas ^(e)
<i>(in millions)</i>						
March 2018						
Operating Revenues	\$ 6,372	\$ 1,473	\$ 1,961	\$ 302	\$ 509	\$ 1,639
Operating Income (Loss)	1,376	372	513	7	60	388
Net Income (Loss)	936	225	352	(7)	115	279
Net Income (Loss) Attributable to Registrant	938	225	352	(7)	121	279
June 2018						
Operating Revenues	\$ 5,627	\$ 1,503	\$ 2,048	\$ 297	\$ 555	\$ 730
Operating Income (Loss)	63	380	(472)	54	16	49
Net Income (Loss)	(127)	259	(396)	46	45	(31)
Net Income (Loss) Attributable to Registrant	(154)	259	(396)	46	22	(31)
September 2018						
Operating Revenues	\$ 6,159	\$ 1,740	\$ 2,593	\$ 358	\$ 635	\$ 492
Operating Income (Loss)	2,174	561	991	80	136	374
Net Income (Loss)	1,222	373	664	47	146	46
Net Income (Loss) Attributable to Registrant	1,164	373	664	47	92	46
December 2018						
Operating Revenues	\$ 5,337	\$ 1,316	\$ 1,818	\$ 308	\$ 506	\$ 1,048
Operating Income (Loss)	578	164	257	52	30	104
Net Income (Loss)	269	73	173	149	(60)	78
Net Income (Loss) Attributable to Registrant	278	73	173	149	(48)	78

(a) See notes (b), (c), (d), and (e) below.

(b) Georgia Power recorded an estimated probable loss of \$1.1 billion in the second quarter 2018 to reflect its revised estimate to complete construction and start-up of Plant Vogtle Units 3 and 4. See Note 2 under "Georgia Power – Nuclear Construction" for additional information.

(c) As a result of the abandonment and related closure activities for the mine and gasifier-related assets at the Kemper County energy facility, Mississippi Power recorded total pre-tax charges to income of \$44 million (\$33 million after tax) in the first quarter 2018, immaterial amounts in the second and third quarters 2018, and a pre-tax credit to income of \$9 million in the fourth quarter 2018. In addition, Mississippi Power recorded a credit to earnings of \$95 million in the fourth quarter 2018 primarily resulting from the reduction of a valuation allowance for a state income tax NOL carryforward associated with the Kemper County energy facility. See Note 2 under "Mississippi Power – Kemper County Energy Facility" and Note 10 for additional information.

(d) Southern Power recorded pre-tax impairment charges of \$119 million (\$89 million after tax) in the second quarter 2018 in contemplation of the sale of the Florida Plants and \$36 million (\$27 million after tax) in the third quarter 2018 related to wind turbine equipment. See Note 15 under "Southern Power – Sales of Natural Gas Plants" and " – Development Projects" for additional information. As a result of the Tax Reform Legislation, Southern Power recorded income tax expense of \$75 million in the fourth quarter 2018. See Note 10 for additional information.

(e) Southern Company Gas recorded a goodwill impairment charge of \$42 million in the first quarter 2018 in contemplation of the sale of Pivotal Home Solutions. Southern Company Gas also recorded gains (losses) on dispositions in the second, third, and fourth quarters 2018 of \$(36) million pre-tax and \$(76) million after tax, \$353 million pre-tax and \$40 million after tax, and \$(27) million pre-tax and \$(15) million after tax, respectively. See Note 15 under "Southern Company Gas" for additional information.

NOTES TO FINANCIAL STATEMENTS (continued)
Alabama Power Company 2018 Annual Report

Quarter Ended	Southern Company ^{(a)(b)(c)}	Alabama Power	Georgia Power	Mississippi Power ^{(d)(b)}	Southern Power ^(b)	Southern Company Gas ^(b)
<i>(in millions)</i>						
March 2017						
Operating Revenues	\$ 5,771	\$ 1,382	\$ 1,832	\$ 272	\$ 450	\$ 1,560
Operating Income (Loss)	1,252	361	483	(64)	65	389
Net Income (Loss)	665	174	260	(20)	66	239
Net Income (Loss) Attributable to Registrant	658	174	260	(20)	70	239
June 2017						
Operating Revenues	\$ 5,430	\$ 1,484	\$ 2,048	\$ 303	\$ 529	\$ 716
Operating Income (Loss)	(1,649)	440	621	(2,956)	112	95
Net Income (Loss)	(1,348)	230	347	(2,054)	104	49
Net Income (Loss) Attributable to Registrant	(1,381)	230	347	(2,054)	82	49
September 2017						
Operating Revenues	\$ 6,201	\$ 1,740	\$ 2,546	\$ 341	\$ 618	\$ 565
Operating Income (Loss)	1,991	601	1,017	49	159	67
Net Income (Loss)	1,109	325	580	40	154	15
Net Income (Loss) Attributable to Registrant	1,069	325	580	40	124	15
December 2017						
Operating Revenues	\$ 5,629	\$ 1,433	\$ 1,884	\$ 271	\$ 478	\$ 1,079
Operating Income (Loss)	739	255	452	(180)	32	109
Net Income (Loss)	500	119	227	(556)	793	(60)
Net Income (Loss) Attributable to Registrant	496	119	227	(556)	795	(60)

- (a) As a result of revisions to the cost estimate for the Kemper IGCC and the project's June 2017 suspension, Mississippi Power recorded total pre-tax charges to income related to the Kemper IGCC of \$108 million (\$67 million after tax) in the first quarter 2017, \$3.0 billion (\$2.1 billion after tax) in the second quarter 2017, \$34 million (\$21 million after tax) in the third quarter 2017, and \$208 million (\$185 million after tax) in the fourth quarter 2017. See Note 2 under "Mississippi Power – Kemper County Energy Facility" for additional information.
- (b) As a result of the Tax Reform Legislation, the Southern Company system recorded a total income tax benefit of \$264 million in the fourth quarter 2017, comprised primarily of income tax expense of \$372 million recorded at Mississippi Power, income tax benefit of \$743 million recorded at Southern Power, and income tax expense of \$93 million recorded at Southern Company Gas. See Note 10 for additional information.
- (c) Gulf Power recorded a pre-tax charge of \$33 million (\$20 million after tax) for the write-down of its ownership in Plant Scherer Unit 3 in the first quarter 2017. See Note 2 under "Southern Company – Gulf Power" for additional information.

NOTES TO FINANCIAL STATEMENTS (continued)
Alabama Power Company 2018 Annual Report

Southern Company

The table below provides quarterly per share financial information for Southern Company common stock for 2018 and 2017.

Quarter Ended	Per Common Share		
	Basic Earnings	Diluted Earnings	Dividends
March 2018	\$ 0.93	\$ 0.92	\$ 0.5800
June 2018	(0.15)	(0.15)	0.6000
September 2018	1.14	1.13	0.6000
December 2018	0.27	0.27	0.6000
March 2017	\$ 0.66	\$ 0.66	\$ 0.5600
June 2017	(1.38)	(1.37)	0.5800
September 2017	1.07	1.06	0.5800
December 2017	0.49	0.49	0.5800

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SELECTED FINANCIAL AND OPERATING DATA 2014-2018
Alabama Power Company 2018 Annual Report

	2018	2017	2016	2015	2014
Operating Revenues (in millions)	\$ 6,032	\$ 6,039	\$ 5,889	\$ 5,768	\$ 5,942
Net Income After Dividends on Preferred and Preference Stock (in millions)	\$ 930	\$ 848	\$ 822	\$ 785	\$ 761
Cash Dividends on Common Stock (in millions)	\$ 801	\$ 714	\$ 765	\$ 571	\$ 550
Return on Average Common Equity (percent)	13.00	12.89	13.34	13.37	13.52
Total Assets (in millions)^(*)	\$ 26,730	\$ 23,864	\$ 22,516	\$ 21,721	\$ 20,493
Gross Property Additions (in millions)	\$ 2,273	\$ 1,949	\$ 1,338	\$ 1,492	\$ 1,543
Capitalization (in millions):					
Common stockholder's equity	\$ 7,477	\$ 6,829	\$ 6,323	\$ 5,992	\$ 5,752
Preference stock	—	—	196	196	343
Redeemable preferred stock	291	291	85	85	342
Long-term debt ^(*)	7,923	7,628	6,535	6,654	6,137
Total (excluding amounts due within one year)	\$ 15,691	\$ 14,748	\$ 13,139	\$ 12,927	\$ 12,574
Capitalization Ratios (percent):					
Common stockholder's equity	47.7	46.3	48.1	46.4	45.8
Preference stock	—	—	1.5	1.5	2.7
Redeemable preferred stock	1.9	2.0	0.7	0.7	2.7
Long-term debt ^(*)	50.4	51.7	49.7	51.4	48.8
Total (excluding amounts due within one year)	100.0	100.0	100.0	100.0	100.0
Customers (year-end):					
Residential	1,273,526	1,268,271	1,262,752	1,253,875	1,247,061
Commercial	200,032	199,840	199,146	197,920	197,082
Industrial	6,158	6,171	6,090	6,056	6,032
Other	760	766	762	757	753
Total	1,480,476	1,475,048	1,468,750	1,458,608	1,450,928
Employees (year-end)	6,650	6,613	6,805	6,986	6,935

(*) A reclassification of debt issuance costs from Total Assets to Long-term debt of \$40 million and a reclassification of deferred tax assets from Total Assets to Accumulated deferred income taxes of \$20 million is reflected for 2014, in accordance with new accounting standards adopted in 2015 and applied retrospectively.

SELECTED FINANCIAL AND OPERATING DATA 2014-2018 (continued)
Alabama Power Company 2018 Annual Report

	2018	2017	2016	2015	2014
Operating Revenues (in millions):					
Residential	\$ 2,335	\$ 2,302	\$ 2,322	\$ 2,207	\$ 2,209
Commercial	1,578	1,649	1,627	1,564	1,533
Industrial	1,428	1,477	1,416	1,436	1,480
Other	26	30	(43)	27	27
Total retail	5,367	5,458	5,322	5,234	5,249
Wholesale — non-affiliates	279	276	283	241	281
Wholesale — affiliates	119	97	69	84	189
Total revenues from sales of electricity	5,765	5,831	5,674	5,559	5,719
Other revenues	267	208	215	209	223
Total	\$ 6,032	\$ 6,039	\$ 5,889	\$ 5,768	\$ 5,942
Kilowatt-Hour Sales (in millions):					
Residential	18,626	17,219	18,343	18,082	18,726
Commercial	13,868	13,606	14,091	14,102	14,118
Industrial	23,006	22,687	22,310	23,380	23,799
Other	187	198	208	201	211
Total retail	55,687	53,710	54,952	55,765	56,854
Wholesale — non-affiliates	5,018	5,415	5,744	3,567	3,588
Wholesale — affiliates	4,565	4,166	3,177	4,515	6,713
Total	65,270	63,291	63,873	63,847	67,155
Average Revenue Per Kilowatt-Hour (cents):					
Residential	12.54	13.37	12.66	12.21	11.80
Commercial	11.38	12.12	11.55	11.09	10.86
Industrial	6.21	6.51	6.35	6.14	6.22
Total retail	9.64	10.16	9.68	9.39	9.23
Wholesale	4.15	3.89	3.95	4.02	4.56
Total sales	8.83	9.21	8.88	8.71	8.52
Residential Average Annual Kilowatt-Hour Use Per Customer	14,660	13,601	14,568	14,454	15,051
Residential Average Annual Revenue Per Customer	\$ 1,878	\$ 1,819	\$ 1,844	\$ 1,764	\$ 1,775
Plant Nameplate Capacity Ratings (year-end) (megawatts)	11,815	11,797	11,797	11,797	12,222
Maximum Peak-Hour Demand (megawatts):					
Winter	11,744	10,513	10,282	12,162	11,761
Summer	10,652	10,711	10,932	11,292	11,054
Annual Load Factor (percent)	60.1	63.5	63.5	58.4	61.4
Plant Availability (percent):					
Fossil-steam	81.6	82.8	83.0	81.5	82.5
Nuclear	91.6	97.6	88.0	92.1	93.3
Source of Energy Supply (percent):					
Coal	43.8	44.8	47.1	49.1	49.0
Nuclear	20.5	22.2	20.3	21.3	20.7
Gas	17.2	18.1	17.1	14.6	15.4
Hydro	6.7	5.4	4.8	5.6	5.5
Purchased power —					
From non-affiliates	5.4	4.6	4.8	4.4	3.6
From affiliates	6.4	4.9	5.9	5.0	5.8
Total	100.0	100.0	100.0	100.0	100.0

DIRECTORS AND OFFICERS

Alabama Power Company 2018 Annual Report

Directors

Whit Armstrong¹
Managing Member,
Creeke Capital Investments, LLC

Angus R. Cooper, III²
President,
Cooper/T.Smith Corporation

Mark A. Crosswhite
Chairman, President, and CEO,
Alabama Power Company

O.B. Grayson Hall, Jr.
Retired³
Former Chairman and CEO,
Regions Financial Corporation

Anthony A. Joseph
Shareholder,
Maynard, Cooper & Gale, P.C.

James K. Lowder
Chairman,
The Colonial Company

Robert D. Powers
President,
The Eufaula Agency, Inc.

Catherine J. Randall
Chairman,
Pettus Randall Holdings, LLC

C. Dowd Ritter
Retired
Regions Financial Corporation

R. Mitchell Shackelford III
Senior Vice President,⁴
Gulf Coast Truck and
Equipment Co.

Phillip M. Webb²
President,
Webb Concrete and Building
Materials

Officers

Mark A. Crosswhite
Chairman, President, and CEO

Philip C. Raymond
Executive Vice President, Chief
Financial Officer, and Treasurer

Gregory J. Barker
Executive Vice President

Zeke W. Smith
Executive Vice President

Alexia B. Borden
Senior Vice President and
General Counsel

James P. Heilbron
Senior Vice President and
Senior Production Officer

John O. Hudson III⁵
Senior Vice President

Gordon G. Martin
Senior Vice President

R. Scott Moore
Senior Vice President

J. Jeffrey Peoples⁶
Senior Vice President

Quentin P. Riggins
Senior Vice President

Anita Allcorn-Walker
Vice President and Comptroller

Ronald Q. Patterson⁷
Vice President and Assistant
Treasurer

Myla E. Calhoun
Vice President

Susan B. Comensky
Vice President

Stephanie K. Cooper
Vice President

Mark S. Crews
Vice President

J. Leigh Davis
Vice President

Richard O. Hutto
Vice President

Theodore J. McCullough⁸
Vice President

Patrick T. Murphy, Jr.
Vice President

Kenneth F. Novak
Vice President

Jonathan K. Porter
Vice President

Ashley N. Robinett
Vice President

Leslie L. Sanders
Vice President

R. Michael Saxon
Vice President

Don A. Scivley
Vice President

Nicholas C. Sellers⁹
Vice President

J. Houston Smith, III
Vice President

Anthony A. Smoke
Vice President

Ceila H. Shorts
Corporate Secretary

Wendy M. Hoomes
Assistant Comptroller

Melissa K. Caen
Assistant Secretary and
Assistant Treasurer

Amy E. Blankenship
Assistant Secretary

Kimberly L. Jackson
Assistant Secretary

Christopher R. Blake
Assistant Treasurer

Brian E. George
Assistant Treasurer

¹ Retiring effective 4/2019

² Elected effective 4/2018

³ Retired effective 12/2018

⁴ Elected effective 1/2019

⁵ Resigned effective 9/2018

⁶ Elected effective 6/2018
(formerly served as Vice
President)

⁷ Retired effective 3/2019

⁸ Elected effective 10/2018

⁹ Elected effective 8/2018

CORPORATE INFORMATION

Alabama Power Company 2018 Annual Report

General

This annual report is submitted for general information and is not intended for use in connection with any sale or purchase of, or any solicitation of offers to buy or sell securities.

Profile

The Company operates as a vertically integrated utility providing electric service to retail and wholesale customers within its traditional service territory located in the State of Alabama in addition to wholesale customers in the Southeast. The Company provides electric service to more than 1.4 million customers. In 2018, retail energy sales accounted for 85% percent of the Company's total sales of 65 billion kilowatt-hours.

The Company is a wholly-owned subsidiary of The Southern Company, which is the parent company of three traditional electric operating companies, Southern Power Company, and Southern Company Gas. There is no established public trading market for the Company's common stock.

Trustee, Registrar, and Paying Agent

All series of Senior Notes and Trust Preferred Securities
Regions Bank
Corporate Trust
1900 5th Avenue North, 25th Floor
Birmingham, AL 35203

Registrar, Transfer Agent, and Dividend Paying Agent

All series of Preferred Stock
EQ Shareowner Services
P.O. Box 64856
St. Paul, MN 55154-0856
(800) 554-7626

shareowneronline.com

Number of Preferred Shareholders of record as of December 31, 2018 was 1,097.

Dividends on the Company's common stock are payable at the discretion of the Company's board of directors.

Form 10-K

A copy of the Form 10-K as filed with the Securities and Exchange Commission will be provided upon written request to the office of the Corporate Secretary. For additional information, contact the office of the Corporate Secretary at (205) 257-1000.

Alabama Power Company

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