SOUTHERN CO
Form 10-Q
May 07, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2015
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

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

333-98553	Southern Power Company (A Delaware Corporation) 30 Ivan Allen Jr. Boulevard, N.W. Atlanta, Georgia 30308 (404) 506-5000	58-2598670

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

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

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

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

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

Registrant	Description of Common Stock	Shares Outstanding at March 31, 2015
The Southern Company	Par Value $5 Per Share	908,261,371
Alabama Power Company	Par Value $40 Per Share	30,537,500
Georgia Power Company	Without Par Value	9,261,500
Gulf Power Company	Without Par Value	5,642,717
Mississippi Power Company	Without Par Value	1,121,000
Southern Power Company	Par Value $0.01 Per Share	1,000

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

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INDEX TO QUARTERLY REPORT ON FORM 10-Q
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DEFINITIONS

Term	Meaning
2012 MPSC CPCN Order	A detailed order issued by the Mississippi PSC in April 2012 confirming the CPCN originally approved by the Mississippi PSC in 2010 authorizing the acquisition, construction, and operation of the Kemper IGCC
2013 ARP	Alternative Rate Plan approved by the Georgia PSC for Georgia Power for the years 2014 through 2016
AFUDC	Allowance for funds used during construction
Alabama Power	Alabama Power Company
ASC	Accounting Standards Codification
Baseload Act	State of Mississippi legislation designed to enhance the Mississippi PSC's authority to facilitate development and construction of baseload generation in the State of Mississippi
CCR	Coal combustion residuals
Clean Air Act	Clean Air Act Amendments of 1990
Contractor	Westinghouse and CB&I Stone & Webster, Inc. (formerly known as Stone & Webster, Inc.), a subsidiary of The Shaw Group Inc., which was acquired by Chicago Bridge & Iron Company N.V.
CO_2	Carbon dioxide
CPCN	Certificate of public convenience and necessity
CWIP	Construction work in progress
DOE	U.S. Department of Energy
ECO Plan	Mississippi Power's Environmental Compliance Overview Plan
EPA	U.S. Environmental Protection Agency
FERC	Federal Energy Regulatory Commission
FFB	Federal Financing Bank
Form 10-K	Combined Annual Report on Form 10-K of Southern Company, Alabama Power, Georgia Power, Gulf Power, Mississippi Power, and Southern Power for the year ended December 31, 2014
GAAP	Generally accepted accounting principles
Georgia Power	Georgia Power Company
Gulf Power	Gulf Power Company
IGCC	Integrated coal gasification combined cycle
IIC	Intercompany interchange contract
Internal Revenue Code	Internal Revenue Code of 1986, as amended
IRS	Internal Revenue Service
ITC	Investment tax credit
Kemper IGCC	IGCC facility under construction in Kemper County, Mississippi
KWH	Kilowatt-hour
LIBOR	London Interbank Offered Rate
MATS rule	Mercury and Air Toxics Standards rule
Mirror CWIP	A regulatory liability account for use in mitigating future rate impacts for Mississippi Power customers
Mississippi Power	Mississippi Power Company
mmBtu	Million British thermal units
Moody's	Moody's Investors Service, Inc.

MW	Megawatt

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DEFINITIONS
(continued)

Term	Meaning
NCCR	Georgia Power's Nuclear Construction Cost Recovery
NRC	U.S. Nuclear Regulatory Commission
OCI	Other comprehensive income
PEP	Mississippi Power's Performance Evaluation Plan
Plant Vogtle Units 3 and 4	Two new nuclear generating units under construction at Plant Vogtle
power pool	The operating arrangement whereby the integrated generating resources of the traditional operating companies and Southern Power Company are subject to joint commitment and dispatch in order to serve their combined load obligations
PPA	Power purchase agreement
PSC	Public Service Commission
Rate CNP	Alabama Power's Rate Certificated New Plant
Rate CNP Compliance	Alabama Power's Rate Certificated New Plant Compliance
Rate CNP Environmental	Alabama Power's Rate Certificated New Plant Environmental
Rate CNP PPA	Alabama Power's Rate Certificated New Plant Power Purchase Agreement
registrants	Southern Company, Alabama Power, Georgia Power, Gulf Power, Mississippi Power, and Southern Power Company
ROE	Return on equity
S&P	Standard and Poor's Ratings Services, a division of The McGraw Hill Companies, Inc.
scrubber	Flue gas desulfurization system
SEC	U.S. Securities and Exchange Commission
SMEPA	South Mississippi Electric Power Association
Southern Company	The Southern Company
Southern Company system	Southern Company, the traditional operating companies, Southern Power, Southern Electric Generating Company, Southern Nuclear, Southern Company Services, Inc. (the Southern Company system service company), Southern Communications Services, Inc., and other subsidiaries
Southern Nuclear	Southern Nuclear Operating Company, Inc.
Southern Power	Southern Power Company and its subsidiaries
traditional operating companies	Alabama Power, Georgia Power, Gulf Power, and Mississippi Power
Vogtle Owners	Georgia Power, Oglethorpe Power Corporation, the Municipal Electric Authority of Georgia, and the City of Dalton, Georgia, an incorporated municipality in the State of Georgia acting by and through its Board of Water, Light, and Sinking Fund Commissioners
Westinghouse	Westinghouse Electric Company LLC

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This Quarterly Report on Form 10-Q contains forward-looking statements. Forward-looking statements include, among other things, statements concerning retail rates, the strategic goals for the wholesale business, economic recovery, 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 plan, postretirement benefit plan, and nuclear decommissioning trust fund contributions, financing activities, completion dates of acquisitions, construction projects, and changing fuel sources, filings with state and federal regulatory authorities, estimated sales and purchases under power sale and purchase agreements, and estimated construction and other plans and expenditures. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "could," "should," "expects," "plans," "anticipates," "believes," "estimates," "projects," "predicts," "potential," or "continue" or the negative of these terms or other similar terminology. There are various factors that could cause actual results to differ materially from those suggested by the forward-looking statements; accordingly, there can be no assurance that such indicated results will be realized. These factors include:

- the impact of recent and future federal and state regulatory changes, including legislative and regulatory initiatives regarding deregulation and restructuring of the electric utility industry, environmental laws including regulation of water, CCR, and emissions of sulfur, nitrogen, CO_2, soot, particulate matter, hazardous air pollutants, including mercury, and other substances, and also changes in tax and other laws and regulations to which Southern Company and its subsidiaries are subject, as well as changes in application of existing laws and regulations;
- current and future litigation, regulatory investigations, proceedings, or inquiries, including pending EPA civil actions against certain Southern Company subsidiaries, FERC matters, and IRS and state tax audits;
- the effects, extent, and timing of the entry of additional competition in the markets in which Southern Company's subsidiaries operate;
- variations in demand for electricity, including those relating to weather, the general economy and recovery from the last recession, population and business growth (and declines), the effects of energy conservation and efficiency measures, including from the development and deployment of alternative energy sources such as self-generation and distributed generation technologies, and any potential economic impacts resulting from federal fiscal decisions;
- available sources and costs of fuels;
- effects of inflation;
- the ability to control costs and avoid cost overruns during the development and construction of facilities, which include the development and construction of generating facilities with designs that have not been finalized or previously constructed, including changes in labor costs and productivity, adverse weather conditions, shortages and inconsistent quality of equipment, materials, and labor, contractor or supplier delay, non-performance under construction or other agreements, operational readiness, including specialized operator training and required site safety programs, unforeseen engineering or design problems, start-up activities (including major equipment failure and system integration), and/or operational performance (including additional costs to satisfy any operational parameters ultimately adopted by any PSC);
- the ability to construct facilities in accordance with the requirements of permits and licenses, to satisfy any environmental performance standards and the requirements of tax credits and other incentives, and to integrate facilities into the Southern Company system upon completion of construction;
- investment performance of Southern Company's employee and retiree benefit plans and the Southern Company system's nuclear decommissioning trust funds;
- advances in technology;
- state and federal rate regulations and the impact of pending and future rate cases and negotiations, including rate actions relating to fuel and other cost recovery mechanisms;
- legal proceedings and regulatory approvals and actions related to Plant Vogtle Units 3 and 4, including Georgia PSC approvals and NRC actions and related legal proceedings involving the commercial parties;
-

actions related to cost recovery for the Kemper IGCC, including actions relating to proposed securitization, Mississippi PSC approval of a rate recovery plan, including the ability to complete the proposed sale of an interest in the Kemper IGCC to SMEPA, the ability to utilize bonus depreciation, which currently requires that assets be placed in service in 2015, and satisfaction of requirements to utilize ITCs and grants;

- Mississippi PSC review of the prudence of Kemper IGCC costs;

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION
(continued)

- the ultimate outcome and impact of the February 2015 decision of the Mississippi Supreme Court, Mississippi Power's request for rehearing of such decision, and any further legal or regulatory proceedings regarding any settlement agreement between Mississippi Power and the Mississippi PSC, the March 2013 rate order regarding retail rate increases, or the Baseload Act;
- the ability to successfully operate the electric utilities' generating, transmission, and distribution facilities and the successful performance of necessary corporate functions;
- the inherent risks involved in operating and constructing nuclear generating facilities, including environmental, health, regulatory, natural disaster, terrorism, and financial risks;
- the performance of projects undertaken by the non-utility businesses and the success of efforts to invest in and develop new opportunities;
- internal restructuring or other restructuring options that may be pursued;
- potential business strategies, including acquisitions or dispositions of assets or businesses, which cannot be assured to be completed or beneficial to Southern Company or its subsidiaries;
- the ability of counterparties of Southern Company and its subsidiaries to make payments as and when due and to perform as required;
- the ability to obtain new short- and long-term contracts with wholesale customers;
- the direct or indirect effect on the Southern Company system's business resulting from cyber intrusion or terrorist incidents and the threat of terrorist incidents;
- interest rate fluctuations and financial market conditions and the results of financing efforts;
- changes in Southern Company's and any of its subsidiaries' credit ratings, including impacts on interest rates, access to capital markets, and collateral requirements;
- the impacts of any sovereign financial issues, including impacts on interest rates, access to capital markets, impacts on currency exchange rates, counterparty performance, and the economy in general, as well as potential impacts on the benefits of the DOE loan guarantees;
- the ability of Southern Company's subsidiaries to obtain additional generating capacity at competitive prices;
- catastrophic events such as fires, earthquakes, explosions, floods, hurricanes and other storms, droughts, pandemic health events such as influenzas, or other similar occurrences;
- the direct or indirect effects on the Southern Company system's business resulting from incidents affecting the U.S. electric grid or operation of generating resources;
- the effect of accounting pronouncements issued periodically by standard-setting bodies; and
- other factors discussed elsewhere herein and in other reports (including the Form 10-K) filed by the registrants from time to time with the SEC.

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

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

	For the Three Months Ended March 31,	
	2015	2014
	(in millions)	
Operating Revenues:		
Retail revenues	$3,542	$3,858
Wholesale revenues	467	604
Other electric revenues	163	165
Other revenues	11	17
Total operating revenues	4,183	4,644
Operating Expenses:		
Fuel	1,212	1,647
Purchased power	144	187
Other operations and maintenance	1,122	986
Depreciation and amortization	487	497
Taxes other than income taxes	252	247
Estimated loss on Kemper IGCC	9	380
Total operating expenses	3,226	3,944
Operating Income	957	700
Other Income and (Expense):		
Allowance for equity funds used during construction	63	57
Interest expense, net of amounts capitalized	(213)	(206)
Other income (expense), net	(8)	(7)
Total other income and (expense)	(158)	(156)
Earnings Before Income Taxes	799	544
Income taxes	274	176
Consolidated Net Income	525	368
Dividends on Preferred and Preference Stock of Subsidiaries	17	17
Consolidated Net Income After Dividends on Preferred and Preference Stock of Subsidiaries	$508	$351
Common Stock Data:		
Earnings per share (EPS) —		
Basic EPS	$0.56	$0.39
Diluted EPS	$0.56	$0.39
Average number of shares of common stock outstanding (in millions)		
Basic	910	890
Diluted	915	893
Cash dividends paid per share of common stock	$0.5250	$0.5075

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

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

	For the Three Months Ended March 31,	
	2015	2014
	(in millions)	
Consolidated Net Income	$525	$368
Other comprehensive income (loss):		
Qualifying hedges:		
Changes in fair value, net of tax of $(11) and $-, respectively	(18)	—
Reclassification adjustment for amounts included in net income, net of tax of $1 and $1, respectively	1	1
Pension and other post retirement benefit plans:		
Reclassification adjustment for amounts included in net income, net of tax of $1 and $-, respectively	2	1
Total other comprehensive income (loss)	(15)	2
Dividends on preferred and preference stock of subsidiaries	(17)	(17)
Comprehensive Income	$493	$353

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

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

	For the Three Months Ended March 31, 2015	2014
	(in millions)	
Operating Activities:		
Consolidated net income	$525	$368
Adjustments to reconcile consolidated net income to net cash provided from operating activities —		
Depreciation and amortization, total	578	587
Deferred income taxes	113	(37)
Allowance for equity funds used during construction	(63)	(57)
Stock based compensation expense	56	28
Estimated loss on Kemper IGCC	9	380
Other, net	4	(42)
Changes in certain current assets and liabilities —		
-Receivables	180	(128)
-Fossil fuel stock	76	441
-Materials and supplies	4	(5)
-Other current assets	(89)	(114)
-Accounts payable	(426)	(109)
-Accrued taxes	197	(44)
-Accrued compensation	(381)	(144)
-Mirror CWIP	40	34
-Other current liabilities	90	(55)
Net cash provided from operating activities	913	1,103
Investing Activities:		
Property additions	(1,097)	(1,180)
Distribution of restricted cash	—	9
Nuclear decommissioning trust fund purchases	(290)	(231)
Nuclear decommissioning trust fund sales	284	229
Cost of removal, net of salvage	(36)	(22)
Change in construction payables, net	65	51
Prepaid long-term service agreement	(37)	(64)
Other investing activities	4	(7)
Net cash used for investing activities	(1,107)	(1,215)
Financing Activities:		
Increase (decrease) in notes payable, net	597	(884)
Proceeds —		
Long-term debt issuances	550	1,251
Interest-bearing refundable deposit	—	75
Common stock issuances	112	128
Short-term borrowings	280	—
Redemptions —		
Long-term debt	(333)	(9)
Common stock repurchased	(115)	(4)
Payment of common stock dividends	(478)	(451)

Payment of dividends on preferred and preference stock of subsidiaries	(17)	(17)
Other financing activities	—	(46)
Net cash provided from financing activities	596	43
Net Change in Cash and Cash Equivalents	402	(69)
Cash and Cash Equivalents at Beginning of Period	710	659
Cash and Cash Equivalents at End of Period	$1,112	$590
Supplemental Cash Flow Information:		
Cash paid (received) during the period for —		
Interest (net of $32 and $22 capitalized for 2015 and 2014, respectively)	$207	$186
Income taxes, net	(289)	(7)
Noncash transactions — Accrued property additions at end of period	347	450

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

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

Assets	At March 31, 2015	At December 31, 2014
	(in millions)	
Current Assets:		
Cash and cash equivalents	$1,112	$710
Receivables —		
Customer accounts receivable	1,117	1,090
Unbilled revenues	374	432
Under recovered regulatory clause revenues	159	136
Other accounts and notes receivable	241	307
Accumulated provision for uncollectible accounts	(19)	(18)
Fossil fuel stock, at average cost	855	930
Materials and supplies, at average cost	1,050	1,039
Vacation pay	178	177
Prepaid expenses	299	665
Deferred income taxes, current	578	506
Other regulatory assets, current	363	346
Other current assets	65	50
Total current assets	6,372	6,370
Property, Plant, and Equipment:		
In service	70,279	70,013
Less accumulated depreciation	24,307	24,059
Plant in service, net of depreciation	45,972	45,954
Other utility plant, net	275	211
Nuclear fuel, at amortized cost	914	911
Construction work in progress	8,314	7,792
Total property, plant, and equipment	55,475	54,868
Other Property and Investments:		
Nuclear decommissioning trusts, at fair value	1,574	1,546
Leveraged leases	749	743
Miscellaneous property and investments	204	203
Total other property and investments	2,527	2,492
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	1,527	1,510
Unamortized debt issuance expense	200	202
Unamortized loss on reacquired debt	239	243
Other regulatory assets, deferred	4,462	4,334
Other deferred charges and assets	808	904
Total deferred charges and other assets	7,236	7,193
Total Assets	$71,610	$70,923

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

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

Liabilities and Stockholders' Equity	At March 31, 2015	At December 31, 2014
	(in millions)	
Current Liabilities:		
Securities due within one year	$3,306	$3,333
Interest-bearing refundable deposit	275	275
Notes payable	1,679	803
Accounts payable	1,289	1,593
Customer deposits	395	390
Accrued taxes —		
Accrued income taxes	198	151
Other accrued taxes	248	487
Accrued interest	286	295
Accrued vacation pay	222	223
Accrued compensation	186	576
Mirror CWIP	311	271
Other current liabilities	790	570
Total current liabilities	9,185	8,967
Long-term Debt	21,093	20,841
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	11,706	11,568
Deferred credits related to income taxes	185	192
Accumulated deferred investment tax credits	1,198	1,208
Employee benefit obligations	2,416	2,432
Asset retirement obligations	2,151	2,168
Other cost of removal obligations	1,209	1,215
Other regulatory liabilities, deferred	439	398
Other deferred credits and liabilities	619	594
Total deferred credits and other liabilities	19,923	19,775
Total Liabilities	50,201	49,583
Redeemable Preferred Stock of Subsidiaries	375	375
Redeemable Noncontrolling Interest	40	39
Stockholders' Equity:		
Common Stockholders' Equity:		
Common stock, par value $5 per share —		
Authorized — 1.5 billion shares		
Issued — March 31, 2015: 912 million shares		
— December 31, 2014: 909 million shares		
Treasury — March 31, 2015: 3.3 million shares		
— December 31, 2014: 0.7 million shares		
Par value	4,555	4,539
Paid-in capital	6,108	5,955
Treasury, at cost	(142)	(26)
Retained earnings	9,639	9,609
Accumulated other comprehensive loss	(143)	(128)

Total Common Stockholders' Equity	20,017	19,949
Preferred and Preference Stock of Subsidiaries	756	756
Noncontrolling Interest	221	221
Total Stockholders' Equity	20,994	20,926
Total Liabilities and Stockholders' Equity	$71,610	$70,923

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

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

FIRST QUARTER 2015 vs. FIRST QUARTER 2014

OVERVIEW

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

In addition, subsidiaries of Southern Company are constructing Plant Vogtle Units 3 and 4 and the Kemper IGCC. Georgia Power has a 45.7% ownership interest in Plant Vogtle Units 3 and 4, each with approximately 1,100 MWs, and Mississippi Power is ultimately expected to hold an 85% ownership interest in the 582-MW Kemper IGCC. See RESULTS OF OPERATIONS – "Estimated Loss on Kemper IGCC," FUTURE EARNINGS POTENTIAL – "Construction Program," and Note (B) to the Condensed Financial Statements under "Retail Regulatory Matters – Georgia Power – Nuclear Construction" and "Integrated Coal Gasification Combined Cycle" herein for additional information.

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

RESULTS OF OPERATIONS

Net Income

First Quarter 2015 vs. First Quarter 2014	
(change in millions)	(% change)
$157	44.7

Southern Company's first quarter 2015 net income after dividends on preferred and preference stock of subsidiaries was $508 million ($0.56 per share) compared to $351 million ($0.39 per share) for the first quarter 2014. The increase was primarily the result of a lower pre-tax charge of $9 million ($6 million after tax) recorded in the first quarter 2015 compared to a pre-tax charge of $380 million ($235 million after tax) recorded in the first quarter 2014 for revisions of estimated costs expected to be incurred on Mississippi Power's construction of the Kemper IGCC, as well as an increase in retail base rates. The increase in net income was partially offset by increases in non-fuel operations and maintenance expenses and a decrease in revenues due to milder weather in the first quarter 2015 as compared to the corresponding period in 2014.

Retail Revenues
First Quarter 2015 vs. First Quarter 2014

(change in millions)	(% change)
$(316)	(8.2)

In the first quarter 2015, retail revenues were $3.5 billion compared to $3.9 billion for the corresponding period in 2014.

Details of the changes in retail revenues were as follows:

	First Quarter 2015 (in millions)	(% change)
Retail – prior year	$3,858	
Estimated change resulting from –		
Rates and pricing	77	2.0
Sales growth	18	0.5
Weather	(38)	(1.0)
Fuel and other cost recovery	(373)	(9.7)
Retail – current year	$3,542	(8.2)%

Revenues associated with changes in rates and pricing increased in the first quarter 2015 when compared to the corresponding period in 2014 primarily due to increased revenues at Alabama Power associated with an increase in rates under rate stabilization and equalization (Rate RSE) and at Georgia Power related to base tariff increases approved under the 2013 ARP and increases in collections for financing costs related to the construction of Plant Vogtle Units 3 and 4 through the NCCR tariff, all effective January 1, 2015. The increase was partially offset by lower contributions from market-driven rates from commercial and industrial customers at Georgia Power. See Note 3 to the financial statements of Southern Company under "Retail Regulatory Matters – Alabama Power – Rate RSE" and "Retail Regulatory Matters – Georgia Power – Rate Plans" in Item 8 of the Form 10-K for additional information.

Revenues attributable to changes in sales increased in the first quarter 2015 as compared to the corresponding period in 2014. Industrial KWH sales increased 2.0% in the first quarter 2015 primarily due to increased sales in the paper, non-manufacturing, stone, clay, and glass, transportation, textiles, and pipeline sectors, partially offset by decreased sales in the primary metals and chemicals sectors. Weather-adjusted commercial KWH sales increased 0.7% in the first quarter 2015 primarily due to customer growth. Weather-adjusted residential KWH sales increased 0.2% in the first quarter 2015 as a result of customer growth, partially offset by decreased customer usage.

In the first quarter 2015, Mississippi Power updated the methodology to estimate the unbilled revenue allocation among customer classes. This change did not have a significant impact on net income. The KWH sales variances discussed above reflect an adjustment to the estimated allocation of Mississippi Power's unbilled first quarter 2014 KWH sales among customer classes that is consistent with the actual allocation in 2015. Without this adjustment, first quarter 2015 industrial KWH sales increased 1.9%, weather-adjusted commercial sales increased 0.3%, and weather-adjusted residential sales decreased 0.1% as compared to the corresponding period in 2014.

Fuel and other cost recovery revenues decreased $373 million in the first quarter 2015 when compared to the corresponding period in 2014 primarily due to a decrease in fuel prices and decreased energy sales as a result of milder weather in the first quarter 2015 as compared to the corresponding period in 2014.

Electric rates for the traditional operating companies include provisions to adjust billings for fluctuations in fuel costs, including the energy component of purchased power costs. Under these provisions, fuel revenues generally equal fuel expenses, including the energy component of purchased power costs, and do not affect net income. The traditional operating companies may also have one or more regulatory mechanisms to recover other costs such as environmental and other compliance costs, storm damage, new plants, and PPAs.

Wholesale Revenues

First Quarter 2015 vs. First Quarter 2014	
(change in millions)	(% change)
$(137)	(22.7)

Wholesale revenues consist of PPAs primarily with investor-owned utilities and electric cooperatives and short-term opportunity sales. Wholesale revenues from PPAs (other than solar PPAs) have both capacity and energy components. Capacity revenues reflect the recovery of fixed costs and a return on investment. Energy revenues will vary depending on fuel prices, the market prices of wholesale energy compared to the Southern Company system's generation, demand for energy within the Southern Company system's service territory, and the availability of the Southern Company system's generation. Increases and decreases in energy revenues that are driven by fuel prices are accompanied by an increase or decrease in fuel costs and do not have a significant impact on net income. Wholesale revenues at Mississippi Power include FERC-regulated municipal and rural association sales as well as market-based sales. Short-term opportunity sales are made at market-based rates that generally provide a margin above the Southern Company system's variable cost to produce the energy.

In the first quarter 2015, wholesale revenues were $467 million compared to $604 million for the corresponding period in 2014 primarily related to a $118 million decrease in energy revenues and a $19 million decrease in capacity revenues. The decrease in energy revenues was primarily related to decreased demand resulting from milder weather in the first quarter 2015 as compared to the corresponding period in 2014 and lower natural gas prices, as well as contract expirations at Southern Power. The decrease in energy revenues was partially offset by new solar PPAs at Southern Power. The decrease in capacity revenues was primarily a result of the expiration of wholesale contracts in December 2014 at Georgia Power and contract expirations at Southern Power.

Fuel and Purchased Power Expenses

	First Quarter 2015 vs. First Quarter 2014 (change in millions)	(% change)
Fuel	$(435)	(26.4)
Purchased power	(43)	(23.0)
Total fuel and purchased power expenses	$(478)	

In the first quarter 2015, total fuel and purchased power expenses were $1.4 billion compared to $1.8 billion for the corresponding period in 2014. The decrease was primarily the result of a $443 million decrease in the average cost of fuel and purchased power primarily due to lower coal and natural gas prices and a $35 million decrease in the volume of KWHs generated and purchased primarily due to decreased demand resulting from milder weather in the first quarter 2015 as compared to the corresponding period in 2014.

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

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

	First Quarter 2015	First Quarter 2014
Total generation (billions of KWHs)	46	47
Total purchased power (billions of KWHs)	3	3
Sources of generation (percent) —		
Coal	33	47
Nuclear	16	16
Gas	47	33
Hydro	4	4
Cost of fuel, generated (cents per net KWH) —		
Coal	3.70	4.19
Nuclear	0.67	0.89
Gas	2.71	4.19
Average cost of fuel, generated (cents per net KWH)	2.71	3.63
Average cost of purchased power (cents per net KWH)[(a)]	7.18	8.89

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

Fuel

In the first quarter 2015, fuel expense was $1.2 billion compared to $1.6 billion for the corresponding period in 2014. The decrease was primarily due to a 25.3% decrease in the average cost of fuel per KWH generated and a 31.0% decrease in the volume of KWHs generated by coal, partially offset by a 45.5% increase in the volume of KWHs generated by natural gas.

Purchased Power

In the first quarter 2015, purchased power expense was $144 million compared to $187 million for the corresponding period in 2014. The decrease was primarily due to a 19.2% decrease in the average cost per KWH purchased primarily as a result of lower natural gas prices and a 10.2% decrease in the volume of KWHs purchased primarily as a result of decreased demand from milder weather in the first quarter 2015 as compared to the corresponding period in 2014.
Energy purchases will vary depending on demand for energy within the Southern Company system's service territory, the market prices of wholesale energy as compared to the cost of the Southern Company system's generation, and the availability of the Southern Company system's generation.

Other Operations and Maintenance Expenses

First Quarter 2015 vs. First Quarter 2014

(change in millions)	(% change)
$136	13.8

In the first quarter 2015, other operations and maintenance expenses were $1.1 billion compared to $986 million for the corresponding period in 2014. The increase was primarily due to a $35 million increase in employee compensation and benefits including pension costs, a $28 million increase in scheduled outage and maintenance costs at generation facilities, a $16 million increase in customer accounts, service, and sales costs primarily related to customer incentive and demand side management programs, a $9 million increase in transmission and distribution costs primarily related to overhead line maintenance, and an $8 million increase in other generation expenses. In addition, Alabama Power deferred approximately $25 million of certain non-nuclear outage expenditures under an accounting order in the first quarter 2014. See Note 3 to the financial statements of Southern Company under "Retail Regulatory Matters – Alabama Power – Non-Nuclear Outage Accounting Order" in Item 8 of the Form 10-K for additional information related to non-nuclear outage expenditures. Also see Note (F) to the Condensed Financial Statements herein for additional information related to pension costs.

Depreciation and Amortization

First Quarter 2015 vs. First Quarter 2014

(change in millions)	(% change)
$(10)	(2.0)

In the first quarter 2015, depreciation and amortization was $487 million compared to $497 million for the corresponding period in 2014. The decrease was primarily due to a $26 million reduction in depreciation rates at Alabama Power and a $13 million reduction in depreciation at Gulf Power, as approved by the Florida PSC, partially offset by an increase of $28 million as a result of additional plant in service at the traditional operating companies and Southern Power.

Estimated Loss on Kemper IGCC

First Quarter 2015 vs. First Quarter 2014

(change in millions)	(% change)
$(371)	(97.6)

In the first quarter 2015 and 2014, estimated probable losses on the Kemper IGCC of $9 million and $380 million, respectively, were recorded at Southern Company. These losses reflect revisions of estimated costs expected to be incurred on Mississippi Power's construction of the Kemper IGCC in excess of the $2.88 billion cost cap established by the Mississippi PSC, net of $245 million of grants awarded to the project by the DOE under the Clean Coal Power Initiative Round 2 (DOE Grants) and excluding the cost of the lignite mine and equipment, the cost of the CO_2 pipeline facilities, AFUDC, and certain general exceptions, including change of law, force majeure, and beneficial capital (which exists when Mississippi Power demonstrates that the purpose and effect of the construction cost increase is to produce efficiencies that will result in a neutral or favorable effect on customers relative to the original proposal for the CPCN) (Cost Cap Exceptions). See FUTURE EARNINGS POTENTIAL – "Construction Program" and Note (B) to the Condensed Financial Statements under "Integrated Coal Gasification Combined Cycle" herein for additional information.

Allowance for Equity Funds Used During Construction

First Quarter 2015 vs. First Quarter 2014

(change in millions)	(% change)
$6	10.5

In the first quarter 2015, AFUDC equity was $63 million compared to $57 million for the corresponding period in 2014. The increase was primarily related to $17 million of additional capital expenditures for environmental and transmission projects at the traditional operating companies, partially offset by an $11 million decrease related to placing the combined cycle and the associated common facilities portion of Mississippi Power's Kemper IGCC in service in August 2014. See Note (B) to the Condensed Financial Statements under "Integrated Coal Gasification Combined Cycle" herein for additional information regarding the Kemper IGCC.

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Income Taxes
First Quarter 2015 vs. First Quarter 2014

(change in millions)	(% change)
$98	55.7

In the first quarter 2015, income taxes were $274 million compared to $176 million for the corresponding period in 2014. The increase primarily reflects a reduction in tax benefits related to the estimated probable losses on Mississippi Power's construction of the Kemper IGCC recorded in 2014, partially offset by otherwise lower pre-tax earnings in 2015.

FUTURE EARNINGS POTENTIAL

The results of operations discussed above are not necessarily indicative of Southern Company's future earnings potential. The level of Southern Company's future earnings depends on numerous factors that affect the opportunities, challenges, and risks of the Southern Company system's primary business of selling electricity. These factors include the traditional operating companies' ability to maintain a constructive regulatory environment that continues to allow for the timely recovery of prudently-incurred costs during a time of increasing costs and the completion and subsequent operation of the Kemper IGCC and Plant Vogtle Units 3 and 4 as well as other ongoing construction projects. Other major factors include the profitability of the competitive wholesale business and successfully expanding investments in renewable energy projects. Future earnings for the electricity business in the near term will depend, in part, upon maintaining and growing sales which are subject to a number of factors. These factors include weather, competition, new energy contracts with other utilities and other wholesale customers, energy conservation practiced by customers, the use of alternative energy sources by customers, the price of electricity, the price elasticity of demand, and the rate of economic growth or decline in the service territory. In addition, the level of future earnings for the wholesale business also depends on numerous factors including creditworthiness of customers, total generating capacity available and related costs, future acquisitions and construction of generating facilities, including the impact of ITCs, and the successful remarketing of capacity as current contracts expire. Changes in regional and global economic conditions may impact sales for the traditional operating companies and Southern Power as the pace of the economic recovery remains uncertain. The timing and extent of the economic recovery will impact growth and may impact future earnings. For additional information relating to these issues, see RISK FACTORS in Item 1A and MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL of Southern Company in Item 7 of the Form 10-K.

Environmental Matters

Compliance costs related to federal and state environmental statutes and regulations could affect earnings if such costs cannot continue to be fully recovered in rates on a timely basis or through market-based contracts. Environmental compliance spending over the next several years may differ materially from the amounts estimated. The timing, specific requirements, and estimated costs could change as environmental statutes and regulations are adopted or modified. Further, higher costs that are recovered through regulated rates could contribute to reduced demand for electricity, which could negatively affect results of operations, cash flows, and financial condition. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters" of Southern Company in Item 7 and Note 3 to the financial statements of Southern Company under "Environmental Matters" in Item 8 of the Form 10-K for additional information.

Environmental Statutes and Regulations

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Statutes and Regulations," – "Retail Regulatory Matters – Alabama Power – Environmental Accounting Order," and – "Retail Regulatory Matters – Georgia Power – Integrated Resource Plans" of Southern Company in Item 7 and Note 3 to the financial statements of Southern Company under "Other Matters

– Sierra Club Settlement Agreement" in Item 8 of the Form 10-K for additional information on planned unit retirements and fuel conversions at Alabama Power, Georgia Power, and Mississippi Power.

Coal Combustion Residuals

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

On April 17, 2015, the EPA published the Disposal of Coal Combustion Residuals from Electric Utilities final rule (CCR Rule) in the Federal Register, setting October 14, 2015 as the effective date of the CCR Rule. The ultimate impact of the CCR Rule cannot be determined at this time and will depend on the traditional operating companies' ongoing review of the CCR Rule, the results of initial and ongoing minimum criteria assessments, and the outcome of legal challenges. Based on initial estimates, Southern Company expects to record incremental asset retirement obligations of approximately $525 million to $575 million related to the CCR Rule in the second quarter 2015.

FERC Matters

The traditional operating companies and Southern Power have authority from the FERC to sell electricity at market-based rates. Since 2008, that authority, for certain balancing authority areas, has been conditioned on compliance with the requirements of an energy auction, which the FERC found to be tailored mitigation that addresses potential market power concerns. In accordance with FERC regulations governing such authority, the traditional operating companies and Southern Power filed a triennial market power analysis on June 30, 2014, which included continued reliance on the energy auction as tailored mitigation. On April 27, 2015, the FERC issued an order finding that the traditional operating companies' and Southern Power's existing tailored mitigation may not effectively mitigate the potential to exert market power in certain areas served by the traditional operating companies and in some adjacent areas. To retain market-based rate authority, the FERC has directed the traditional operating companies and Southern Power, within 60 days, to show why market-based rate authority should not be revoked in these areas or to provide a mitigation plan to further address market power concerns. The traditional operating companies and Southern Power are evaluating the order. The ultimate outcome of this matter cannot be determined at this time.

Retail Regulatory Matters

Retail Fuel Cost Recovery

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

See Note 3 to the financial statements of Southern Company under "Retail Regulatory Matters – Alabama Power – Rate ECR" and "Retail Regulatory Matters – Georgia Power – Fuel Cost Recovery" in Item 8 of the Form 10-K for additional information.

Alabama Power

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

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Rate CNP

In March 2015, the Emerging Issues Task Force unanimously recommended to allow the normal purchases and normal sales exception for physical forward transactions in nodal energy markets. The Financial Accounting Standards Board (FASB) proposed new accounting guidance reflecting the recommendation on April 23, 2015. This guidance is subject to a public comment period before the FASB issues a final accounting standard. The ultimate outcome of this matter cannot be determined at this time.

Environmental Accounting Order

In April 2015, as part of its environmental compliance strategy, Alabama Power retired Plant Gorgas Units 6 and 7. These units represented 200 MWs of Alabama Power's approximately 12,200 MWs of generating capacity. Additionally, in April 2015, Alabama Power ceased using coal at Plant Barry Units 1 and 2 (250 MWs), but such units will remain available on a limited basis with natural gas as the fuel source. No later than April 2016, Alabama Power expects to cease using coal at Plant Greene County Units 1 and 2 (300 MWs) and begin operating those units solely on natural gas. Alabama Power is continuing to evaluate its plans for Plant Barry Unit 3 (225 MWs), which is currently unavailable for generation.

In accordance with an accounting order from the Alabama PSC, Alabama Power will transfer the unrecovered plant asset balances to a regulatory asset at their respective retirement dates. The regulatory asset will be amortized over the remaining useful lives, as established prior to the decision for retirement. As a result, these decisions will not have a significant impact on Southern Company's financial statements.

Rate CNP Compliance (Formerly Known As Rate CNP Environmental)

See Note 3 to the financial statements of Southern Company under "Retail Regulatory Matters – Alabama Power – Rate CNP" and " – Non-Environmental Federal Mandated Costs Accounting Order" in Item 8 of the Form 10-K for additional information regarding Alabama Power's development of a revised cost recovery mechanism.

On March 3, 2015, the Alabama PSC approved a modification to Rate CNP Environmental to include compliance costs for both environmental and non-environmental mandates. The recoverable non-environmental compliance costs result from laws, regulations, and other mandates directed at the utility industry involving the security, reliability, safety, sustainability, or similar considerations impacting Alabama Power's facilities or operations. This modification to Rate CNP Environmental was effective March 20, 2015 with the revised rate now defined as Rate CNP Compliance. Alabama Power incurred $14 million of non-environmental compliance costs during the first quarter 2015 and will be limited to recovery of $50 million for the year. Customer rates will not be impacted before January 2016; therefore, the modification will increase the under-recovered position for Rate CNP Compliance during the year.

Georgia Power

Georgia Power's revenues from regulated retail operations are collected through various rate mechanisms subject to the oversight of the Georgia PSC. Georgia Power currently recovers its costs from the regulated retail business through the 2013 ARP, which includes traditional base tariff rates, Demand-Side Management (DSM) tariffs, Environmental Compliance Cost Recovery (ECCR) tariffs, and Municipal Franchise Fee (MFF) tariffs. In addition, financing costs related to the construction of Plant Vogtle Units 3 and 4 are being collected through the NCCR tariff and fuel costs are collected through separate fuel cost recovery tariffs. See Note 3 to the financial statements of Southern Company under "Retail Regulatory Matters – Georgia Power" in Item 8 of the Form 10-K for additional information.

Renewables Development

As part of the Georgia Power Advanced Solar Initiative program, Georgia Power executed ten PPAs that were approved by the Georgia PSC in 2014 and provide for the purchase of energy from 515 MWs of solar capacity. These PPAs are expected to commence in December 2015 and 2016 and have terms ranging from 20 to 30 years. As

a result of certain acquisitions by Southern Power, Georgia Power expects that 229 MWs of the 515 MWs will be purchased from solar facilities owned or under development by Southern Power.

Integrated Resource Plan

To comply with the April 16, 2015 effective date of the MATS rule, Plant Branch Units 1, 3, and 4 (1,266 MWs), Plant Yates Units 1 through 5 (579 MWs), and Plant McManus Units 1 and 2 (122 MWs) were retired on April 15, 2015. In addition, operations were discontinued at Plant Mitchell Unit 3 (155 MWs) and its decertification will be requested in connection with the triennial Integrated Resource Plan in 2016. The switch to natural gas as the primary fuel is complete at Plant Yates Unit 7 and is underway at Plant Yates Unit 6. Plant Yates Unit 7 was returned to service on May 4, 2015 and Plant Yates Unit 6 is expected to return to service in mid-2015.

Gulf Power

Renewables

The Florida PSC preliminarily approved on April 16, 2015, three energy purchase agreements totaling 120 MWs of utility-scale solar generation located at three military installations in northwest Florida. These contracts are expected to begin in 2016 with a term of 25 years each. The Florida PSC preliminarily approved on May 5, 2015, an energy purchase agreement for up to 178 MWs of wind generation in central Oklahoma. The agreement is expected to begin by the end of 2015 with a term of 20 years. Purchases under these agreements will be for energy only and are expected to be recovered through Gulf Power's fuel cost recovery mechanism. The ultimate outcome of these matters cannot be determined at this time.

Mississippi Power

Renewables

Subsequent to March 31, 2015, Mississippi Power entered into separate PPAs for three solar facilities for a combined total of approximately 105 MWs. Mississippi Power would purchase all of the energy produced by the solar facilities for the 25-year term of the contracts. If approved by the Mississippi PSC, the projects are expected to be in service by the end of 2016 and the resulting energy purchases will be recovered through Mississippi Power's fuel cost recovery mechanism. The ultimate outcome of this matter cannot be determined at this time.

Construction Program

The subsidiary companies of Southern Company are engaged in continuous construction programs to accommodate existing and estimated future loads on their respective systems. The Southern Company system intends to continue its strategy of developing and constructing new generating facilities, as well as adding or changing fuel sources for certain existing units, adding environmental control equipment, and expanding the transmission and distribution systems. For the traditional operating companies, major generation construction projects are subject to state PSC approval in order to be included in retail rates. While Southern Power generally constructs and acquires generation assets covered by long-term PPAs, any uncontracted capacity could negatively affect future earnings.

The two largest construction projects currently underway in the Southern Company system are Plant Vogtle Units 3 and 4 and the Kemper IGCC. Georgia Power has a 45.7% ownership interest in Plant Vogtle Units 3 and 4, each with approximately 1,100 MWs, and Mississippi Power is ultimately expected to hold an 85% ownership interest in the 582-MW Kemper IGCC. See Note 3 to the financial statements of Southern Company under "Retail Regulatory Matters – Georgia Power – Nuclear Construction" and "Integrated Coal Gasification Combined Cycle" in Item 8 of the Form 10-K and Note (B) to the Condensed Financial Statements under "Retail Regulatory Matters – Georgia Power – Nuclear Construction" and "Integrated Coal Gasification Combined Cycle" herein for additional information. For additional information about costs relating to Southern Power's acquisitions that involve construction of renewable energy facilities, see Note (I) to the Condensed Financial Statements herein.

From 2013 through March 31, 2015, Southern Company recorded pre-tax charges totaling $2.06 billion ($1.27 billion after tax) for revisions of estimated costs expected to be incurred on Mississippi Power's construction

of the Kemper IGCC above the $2.88 billion cost cap established by the Mississippi PSC, net of the DOE Grants and excluding the Cost Cap Exceptions. In subsequent periods, any further changes in the estimated costs to complete construction of the Kemper IGCC subject to the $2.88 billion cost cap, net of the DOE Grants and excluding the Cost Cap Exceptions, will be reflected in Southern Company's statements of income and these changes could be material.

On January 29, 2015, Georgia Power announced it was notified by the Contractor of the Contractor's revised forecast for completion of Plant Vogtle Units 3 and 4, which would incrementally delay the previously disclosed estimated in-service dates by 18 months (from the fourth quarter of 2017 to the second quarter of 2019 for Unit 3 and from the fourth quarter of 2018 to the second quarter of 2020 for Unit 4).

While Georgia Power has not agreed to any change to the guaranteed substantial completion dates (April 2016 for Unit 3 and April 2017 for Unit 4) included in the engineering, procurement, and construction agreement relating to Plant Vogtle Units 3 and 4, Georgia Power's twelfth Vogtle Construction Monitoring (VCM) report, filed February 27, 2015, included a requested amendment (Requested Amendment) to the Plant Vogtle Units 3 and 4 certificate to reflect the Contractor's revised forecast, to include the estimated owner's costs associated with the proposed 18-month Contractor delay, and to increase the estimated in-service capital cost of Plant Vogtle Units 3 and 4 from $4.4 billion to $5.0 billion. No Contractor costs related to the Contractor's proposed 18-month delay were included in the twelfth VCM report. The twelfth VCM report estimated financing costs during the construction period to total approximately $2.5 billion.

On April 15, 2015, the Georgia PSC issued a procedural order in connection with the twelfth VCM report. Pursuant to this order, the Georgia PSC deemed the Requested Amendment unnecessary and withdrawn until the completion of construction of Plant Vogtle Unit 3. The Georgia PSC recognized that the certified cost does not constitute a cost recovery cap. In accordance with the Georgia Integrated Resource Planning Act, any costs incurred by Georgia Power in excess of the certified amount will be included in rate base, provided Georgia Power shows the costs to be reasonable and prudent. Financing costs up to the certified amount will be collected through the NCCR tariff until the units are placed in service, while financing costs on any construction-related costs in excess of the $4.4 billion certified amount are expected to be recovered through AFUDC.

Additionally, there are certain risks associated with the construction program in general and certain risks associated with the licensing, construction, and operation of nuclear generating units in particular, including potential impacts that could result from a major incident at a nuclear facility anywhere in the world. The ultimate outcome of these events cannot be determined at this time.

See FINANCIAL CONDITION AND LIQUIDITY – "Capital Requirements and Contractual Obligations" for additional information.

Income Tax Matters

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

Section 174 Research and Experimental Deduction

Southern Company reflected deductions for research and experimental expenditures related to the Kemper IGCC in its federal income tax calculations for 2013 and 2014. Due to the uncertainty related to this tax position, Southern Company had unrecognized tax benefits totaling approximately $211 million at March 31, 2015. See Note 5 to the financial statements of Southern Company under "Unrecognized Tax Benefits" in Item 8 of the Form 10-K and Notes (B) and (G) to the Condensed Financial Statements under "Integrated Coal Gasification Combined Cycle" and "Unrecognized Tax Benefits," respectively, herein for additional information. The ultimate outcome of this tax matter cannot be determined at this time.

Other Matters

Southern Company and its subsidiaries are involved in various other matters being litigated and regulatory matters that could affect future earnings. In addition, Southern Company and its subsidiaries are subject to certain claims

and legal actions arising in the ordinary course of business. The business activities of Southern Company's subsidiaries are subject to extensive governmental regulation related to public health and the environment, such as regulation of air emissions and water discharges. Litigation over environmental issues and claims of various types, including property damage, personal injury, common law nuisance, and citizen enforcement of environmental requirements, such as air quality and water standards, has occurred throughout the U.S. This litigation has included claims for damages alleged to have been caused by CO_2 and other emissions, CCR, and alleged exposure to hazardous materials, and/or requests for injunctive relief in connection with such matters.

The ultimate outcome of such pending or potential litigation against Southern Company and its subsidiaries cannot be predicted at this time; however, for current proceedings not specifically reported in Note (B) to the Condensed Financial Statements herein or in Note 3 to the financial statements of Southern Company in Item 8 of the Form 10-K, management does not anticipate that the ultimate liabilities, if any, arising from such current proceedings would have a material effect on Southern Company's financial statements. See Note (B) to the Condensed Financial Statements herein for a discussion of various other contingencies, regulatory matters, and other matters being litigated which may affect future earnings potential.

ACCOUNTING POLICIES

Application of Critical Accounting Policies and Estimates

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

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

During 2015, Mississippi Power further revised its cost estimate to complete construction and start-up of the Kemper IGCC to an amount that exceeds the $2.88 billion cost cap, net of the DOE Grants and excluding the Cost Cap Exceptions. Mississippi Power does not intend to seek any rate recovery or any joint owner contributions for any costs related to the construction of the Kemper IGCC that exceed the $2.88 billion cost cap, net of the DOE Grants and excluding the Cost Cap Exceptions.

As a result of the revisions to the cost estimate, Southern Company recorded total pre-tax charges to income for the estimated probable losses on the Kemper IGCC of $9 million ($6 million after tax) in the first quarter 2015, $70 million ($43 million after tax) in the fourth quarter 2014, $418 million ($258 million after tax) in the third quarter 2014, $380 million ($235 million after tax) in the first quarter 2014, $40 million ($25 million after tax) in the fourth quarter 2013, $150 million ($93 million after tax) in the third quarter 2013, $450 million ($278 million after tax) in the second quarter 2013, and $540 million ($333 million after tax) in the first quarter 2013. In the aggregate, Southern Company has incurred charges of $2.06 billion ($1.27 billion after tax) as a result of changes in the cost estimate for the Kemper IGCC through March 31, 2015.

Mississippi Power has experienced, and may continue to experience, material changes in the cost estimate for the Kemper IGCC. In subsequent periods, any further changes in the estimated costs to complete construction and start-up of the Kemper IGCC subject to the $2.88 billion cost cap, net of the DOE Grants and excluding the Cost Cap Exceptions will be reflected in Southern Company's statements of income and these changes could be material. Any further cost increases and/or extensions of the in-service date with respect to the Kemper IGCC may result from factors including, but not limited to, labor costs and productivity, adverse weather conditions, shortages and inconsistent quality of equipment, materials, and labor, contractor or supplier delay, non-performance under

construction or other agreements, operational readiness, including specialized operator training and required site safety programs, unforeseen engineering or design problems, start-up activities for this first-of-a-kind technology (including major equipment failure and system integration), and/or operational performance (including additional costs to satisfy any operational parameters ultimately adopted by the Mississippi PSC).

Mississippi Power's revised cost estimate includes costs through March 31, 2016. Any further extension of the in-service date is currently estimated to result in additional base costs of approximately $25 million to $30 million per month, which includes maintaining necessary levels of start-up labor, materials, and fuel, as well as operational resources required to execute start-up and commissioning activities. Any further extension of the in-service date with respect to the Kemper IGCC would also increase costs for the Cost Cap Exceptions, which are not subject to the $2.88 billion cost cap established by the Mississippi PSC. These costs include AFUDC, which is currently estimated to total approximately $13 million per month, as well as carrying costs and operating expenses on Kemper IGCC assets placed in service and consulting fees and legal fees which are being deferred as regulatory assets and are estimated to total approximately $6 million per month.

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

Recently Issued Accounting Standards

In May 2014, the FASB issued ASC 606, Revenue from Contracts with Customers. ASC 606 revises the accounting for revenue recognition. On April 29, 2015, the FASB issued an exposure draft proposing the standard be effective for fiscal years beginning after December 15, 2017. Southern Company continues to evaluate the requirements of ASC 606. The ultimate impact of the new standard has not yet been determined.

On April 7, 2015, the FASB issued Accounting Standards Update (ASU) No. 2015-03, Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability and is effective for fiscal years beginning after December 15, 2015. Southern Company currently reflects unamortized debt issuance costs in unamortized debt issuance expense on its balance sheet. Upon adoption, the reclassification will not have a material impact on the results of operations, financial position, or cash flows of Southern Company.

FINANCIAL CONDITION AND LIQUIDITY

Overview

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Overview" of Southern Company in Item 7 of the Form 10-K for additional information. Southern Company's financial condition remained stable at March 31, 2015. Through March 31, 2015, Southern Company has incurred non-recoverable cash expenditures of $1.49 billion and is expected to incur approximately $567 million in additional non-recoverable cash expenditures through completion of the Kemper IGCC. Southern Company intends to continue to monitor its access to short-term and long-term capital markets as well as bank credit agreements to meet future capital and liquidity needs. See "Capital Requirements and Contractual Obligations," "Sources of Capital," and "Financing Activities" herein for additional information.

Net cash provided from operating activities totaled $913 million for the first three months of 2015, a decrease of $190 million from the corresponding period in 2014. The decrease in net cash provided from operating activities was primarily due to a decrease in KWH generation from coal and the timing of fuel purchases. Net cash used for investing activities totaled $1.1 billion for the first three months of 2015 primarily due to gross property additions for installation of equipment to comply with environmental standards, construction of generation, transmission, and

distribution facilities, acquisitions of solar facilities, and purchases of nuclear fuel. Net cash provided from financing activities totaled $596 million for the first three months of 2015. This was primarily due to issuances of long-term debt and common stock and an increase in short-term debt outstanding, partially offset by common stock dividend payments, redemptions of long-term debt, and the repurchase of common stock. Fluctuations in cash flow from financing activities vary from period to period based on capital needs and the maturity or redemption of securities.

Significant balance sheet changes for the first three months of 2015 include an increase of $607 million in total property, plant, and equipment to comply with environmental standards and construction of generation, transmission, and distribution facilities. Other significant changes include an $876 million increase in notes payable and a $390 million decrease in accrued compensation.

At the end of the first quarter 2015, the market price of Southern Company's common stock was $44.28 per share (based on the closing price as reported on the New York Stock Exchange) and the book value was $22.04 per share, representing a market-to-book ratio of 201%, compared to $49.11, $21.98, and 223%, respectively, at the end of 2014.

Southern Company's common stock dividend for the first quarter 2015 was $0.5250 per share compared to $0.5075 per share in the first quarter 2014. In April 2015, the quarterly dividend payable in June 2015 was increased to $0.5425 per share.

Capital Requirements and Contractual Obligations

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Capital Requirements and Contractual Obligations" of Southern Company in Item 7 of the Form 10-K for a description of Southern Company's capital requirements for the construction programs of the Southern Company system, including estimated capital expenditures for new generating facilities and to comply with existing environmental statutes and regulations, scheduled maturities of long-term debt, as well as related interest, derivative obligations, preferred and preference stock dividends, leases, purchase commitments, trust funding requirements, and unrecognized tax benefits. Approximately $3.7 billion will be required through March 31, 2016 to fund maturities of long-term debt and announced redemptions of preferred and preference stock of Alabama Power. See "Sources of Capital" herein for additional information.

The construction programs are subject to periodic review and revision, and actual construction costs may vary from these estimates because of numerous factors. These factors include: changes in business conditions; changes in load projections; changes in environmental statutes and regulations; the outcome of any legal challenges to the environmental rules; changes in generating plants, including unit retirements and replacements and adding or changing fuel sources at existing units, to meet regulatory requirements; changes in FERC rules and regulations; PSC approvals; changes in the expected environmental compliance program; changes in legislation; the cost and efficiency of construction labor, equipment, and materials; project scope and design changes; storm impacts; and the cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered. Additionally, planned expenditures for plant acquisitions may vary due to market opportunities and Southern Power's ability to execute its growth strategy. See Note 3 to the financial statements of Southern Company under "Retail Regulatory Matters – Georgia Power – Nuclear Construction" and "Integrated Coal Gasification Combined Cycle" in Item 8 of the Form 10-K and Note (B) to the Condensed Financial Statements under "Retail Regulatory Matters – Georgia Power – Nuclear Construction" and "Integrated Coal Gasification Combined Cycle" herein for information regarding additional factors that may impact construction expenditures.

Sources of Capital

Southern Company intends to meet its future capital needs through operating cash flow, short-term debt, term loans, and external security issuances. Equity capital can be provided from any combination of Southern Company's stock plans, private placements, or public offerings. The amount and timing of additional equity capital to be raised in 2015, as well as in subsequent years, will be contingent on Southern Company's investment opportunities and the Southern Company system's capital requirements.

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

In addition, Georgia Power may make borrowings through a loan guarantee agreement (Loan Guarantee Agreement) between Georgia Power and the DOE, the proceeds of which may be used to reimburse Georgia Power for eligible costs incurred in connection with its construction of Plant Vogtle Units 3 and 4. Under the Loan Guarantee Agreement, the DOE agreed to guarantee borrowings of up to $3.46 billion (not to exceed 70% of eligible costs) to be made by Georgia Power under a multi-advance credit facility (FFB Credit Facility) among Georgia Power, the DOE, and the FFB. See Note 6 to the financial statements of Southern Company under "DOE Loan Guarantee Borrowings" in Item 8 of the Form 10-K for additional information regarding the Loan Guarantee Agreement and Note (B) to the Condensed Financial Statements under "Retail Regulatory Matters – Georgia Power – Nuclear Construction" herein for additional information regarding Plant Vogtle Units 3 and 4.

Eligible project costs incurred through March 31, 2015 would allow for borrowings of up to $2.1 billion under the FFB Credit Facility. Through March 31, 2015, Georgia Power has borrowed $1.2 billion under the FFB Credit Facility, leaving $0.9 billion of available borrowing ability.

Mississippi Power received $245 million of DOE Grants in prior years that were used for the construction of the Kemper IGCC. An additional $25 million of DOE Grants is expected to be received for commercial operation of the Kemper IGCC. In addition, see Note (B) to the Condensed Financial Statements under "Integrated Coal Gasification Combined Cycle" herein for information regarding legislation related to the securitization of certain costs of the Kemper IGCC.

As of March 31, 2015, Southern Company's current liabilities exceeded current assets by $2.8 billion, primarily due to long-term debt that is due within one year of $3.3 billion, including approximately $0.4 billion at Southern Company, $0.7 billion at Alabama Power, $1.6 billion at Georgia Power, and $0.5 billion at Southern Power. In addition, Mississippi Power has $0.9 billion in bank term loans that mature on April 1, 2016. To meet short-term cash needs and contingencies, Southern Company has substantial cash flow from operating activities and access to capital markets and financial institutions. Southern Company, the traditional operating companies, and Southern Power intend to utilize operating cash flows, as well as commercial paper, lines of credit, bank notes, and securities issuances as market conditions permit, as well as, under certain circumstances for the traditional operating companies and Southern Power, equity contributions and/or loans from Southern Company to meet their short-term capital needs. In addition, in 2015, Georgia Power expects to utilize borrowings through the FFB Credit Facility as its primary source of long-term borrowed funds.

At March 31, 2015, Southern Company and its subsidiaries had approximately $1.1 billion of cash and cash equivalents. Committed credit arrangements with banks at March 31, 2015 were as follows:

	Expires						Executable Term Loans		Due Within One Year	
Company	2015	2016	2017	2018	Total	Unused	One Year	Two Years	Term Out	No Term Out
	(in millions)				(in millions)		(in millions)		(in millions)	
Southern Company	$—	$—	$—	$1,000	$1,000	$1,000	$—	$—	$—	$—
Alabama Power	228	50	—	1,030	1,308	1,308	58	—	58	170
Georgia Power	—	150	—	1,600	1,750	1,736	—	—	—	150
Gulf Power	45	200	30	—	275	275	50	—	50	195
Mississippi Power	135	165	—	—	300	270	25	40	65	235
Southern Power	—	—	—	500	500	488	—	—	—	—
Other	70	—	—	—	70	70	20	—	20	50
Total	$478	$565	$30	$4,130	$5,203	$5,147	$153	$40	$193	$800

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

A portion of the unused credit with banks is allocated to provide liquidity support to the traditional operating companies' variable rate pollution control revenue bonds and commercial paper programs. The amount of variable rate pollution control revenue bonds outstanding requiring liquidity support as of March 31, 2015 was approximately $1.8 billion. In addition, at March 31, 2015, the traditional operating companies had $396 million of fixed rate pollution control revenue bonds outstanding that were required to be remarketed within the next 12 months. Subsequent to March 31, 2015, $145 million of these fixed rate pollution control revenue bonds were purchased and are being held by the applicable traditional operating company and currently are not required to be remarketed within the next 12 months.

Subject to applicable market conditions, Southern Company and its subsidiaries expect to renew or replace their bank credit arrangements, as needed, prior to expiration.

Most of these bank credit arrangements contain covenants that limit debt levels and contain cross default provisions to other indebtedness (including guarantee obligations) that are restricted only to the indebtedness of the individual company. Such cross default provisions to other indebtedness would trigger an event of default if the applicable borrower defaulted on indebtedness or guarantee obligations over a specified threshold. Southern Company, the traditional operating companies, and Southern Power are currently in compliance with all such covenants. None of the bank credit arrangements contain material adverse change clauses at the time of borrowings.

Southern Company, the traditional operating companies, and Southern Power make short-term borrowings primarily through commercial paper programs that have the liquidity support of the committed bank credit arrangements described above. Southern Company, the traditional operating companies, and Southern Power may also borrow through various other arrangements with banks. Commercial paper and short-term bank term loans are included in notes payable in the balance sheets.

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

Details of short-term borrowings were as follows:

	Short-term Debt at March 31, 2015		Short-term Debt During the Period(*)		
	Amount Outstanding	Weighted Average Interest Rate	Average Outstanding	Weighted Average Interest Rate	Maximum Amount Outstanding
	(in millions)		(in millions)		(in millions)
Commercial paper	$1,399	0.3 %	$883	0.3 %	$1,487
Short-term bank debt	280	0.8 %	10	1.1 %	280
Total	$1,679	0.4 %	$893	0.3 %	

(*) Average and maximum amounts are based upon daily balances during the three-month period ended March 31, 2015.

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

Credit Rating Risk

Southern Company and its subsidiaries 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 contracts that could require collateral, but not accelerated payment, in the event of a credit rating change of certain subsidiaries to BBB and Baa2, or BBB- and/or Baa3 or below. These contracts are for physical electricity purchases and sales, fuel purchases, fuel transportation and storage, energy price risk management, interest rate derivatives, and construction of new generation at Plant Vogtle Units 3 and 4.

The maximum potential collateral requirements under these contracts at March 31, 2015 were as follows:

Credit Ratings	Maximum Potential Collateral Requirements
	(in millions)
At BBB and Baa2	$9
At BBB- and/or Baa3	385
Below BBB- and/or Baa3	2,454

Generally, collateral may be provided by a Southern Company guaranty, letter of credit, or cash. Additionally, any credit rating downgrade could impact the ability of Southern Company and its subsidiaries to access capital markets, particularly the short-term debt market and the variable rate pollution control revenue bond market.

Financing Activities

During the first three months of 2015, Southern Company issued approximately 3.1 million shares of common stock primarily through the employee equity compensation plan and received proceeds of approximately $112 million. Southern Company is not currently issuing shares of common stock through the Southern Investment Plan or its employee savings plan. All sales under the Southern Investment Plan and the employee savings plan are currently being funded with shares acquired on the open market by independent plan administrators.

On March 2, 2015, Southern Company announced a program to repurchase up to 20 million shares of Southern Company common stock to offset all or a portion of the incremental shares issued under its employee and director equity compensation plans, including through stock option exercises, until December 31, 2017. Under this program, approximately 2.6 million shares have been repurchased through March 31, 2015 at a total cost of approximately $115 million. Pursuant to board approval, Southern Company may repurchase shares through open market

purchases or privately negotiated transactions, including accelerated or other share repurchase programs, in accordance with applicable securities laws.

The following table outlines the long-term debt financing activities for Southern Company and its subsidiaries for the first three months of 2015:

Company[(a)]	Senior Note Issuances	Senior Note Redemptions	Other Long-Term Debt Redemptions and Maturities[(b)]
	(in millions)		
Alabama Power	$550	$250	$—
Georgia Power	—	—	3
Mississippi Power	—	—	76
Other	—	—	4
Total	$550	$250	$83

(a) Southern Company, Gulf Power, and Southern Power did not issue or redeem any long-term debt during the first three months of 2015.

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

Alabama Power used the proceeds of the debt issuance shown in the table above for its redemption shown in the table above and for general corporate purposes, including its continuous construction program.

In March 2015, Georgia Power entered into a three-month floating rate bank loan bearing interest based on one-month LIBOR. This short-term loan was for $250 million aggregate principal amount and the proceeds were used for working capital and other general corporate purposes.

Subsequent to March 31, 2015, Alabama Power purchased and held $80 million aggregate principal amount of Industrial Development Board of the City of Mobile, Alabama Pollution Control Revenue Bonds (Alabama Power Company Barry Plant Project), Series 2007-B. Alabama Power may reoffer these bonds to the public at a later date.

Also subsequent to March 31, 2015, Alabama Power issued $175 million additional aggregate principal amount of its Series 2015A 3.750% Senior Notes due March 1, 2045 (Additional Series 2015A Senior Notes) and $250 million aggregate principal amount of its Series 2015B 2.800% Senior Notes due April 1, 2025 (Series 2015B Senior Notes). A portion of the proceeds of the Additional Series 2015A Senior Notes and the Series 2015B Senior Notes will be used for the announced redemption on May 15, 2015 of 6.48 million shares ($162 million aggregate stated capital) of Alabama Power's 5.20% Class A Preferred Stock at a redemption price of $25 per share plus accrued and unpaid dividends to the redemption date, 4.0 million shares ($100 million aggregate stated capital) of Alabama Power's 5.30% Class A Preferred Stock at a redemption price of $25 per share plus accrued and unpaid dividends to the redemption date, and 6.0 million shares ($150 million aggregate stated capital) of Alabama Power's 5.625% Series Preference Stock at a redemption price of $25 per share plus accrued and unpaid dividends to the redemption date, and the remaining net proceeds will be used for general corporate purposes, including Alabama Power's continuous construction program.

Also subsequent to March 31, 2015, Georgia Power purchased and held $65 million aggregate principal amount of Development Authority of Burke County (Georgia) Pollution Control Revenue Bonds (Georgia Power Company Plant Vogtle Project), Second Series 2008. Georgia Power may reoffer these bonds to the public at a later date.

Also subsequent to March 31, 2015, Georgia Power redeemed $125 million aggregate principal amount of its Series Y 5.80% Senior Notes due April 15, 2035; as a result, Georgia Power reclassified the outstanding principal balance to securities due within one year at March 31, 2015.

Also subsequent to March 31, 2015, Mississippi Power entered into two floating rate bank loans with a maturity date of April 1, 2016, in an aggregate principal amount of $475 million, bearing interest based on one-month LIBOR. The proceeds of these loans were used for the repayment of term loans in an aggregate principal amount of

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$275 million, working capital, and other general corporate purposes, including Mississippi Power's ongoing construction program. Mississippi Power also amended three outstanding floating rate bank loans for an aggregate principal amount of $425 million which, among other things, extended the maturity dates from various dates in 2015 to April 1, 2016.

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

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PART I

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

During the three months ended March 31, 2015, there were no material changes to each registrant's disclosures about market risk. For an in-depth discussion of each registrant's market risks, see MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Market Price Risk" of each registrant in Item 7 of the Form 10-K and Note 1 to the financial statements of each registrant under "Financial Instruments," Note 11 to the financial statements of Southern Company, Alabama Power, and Georgia Power, Note 10 to the financial statements of Gulf Power and Mississippi Power, and Note 9 to the financial statements of Southern Power in Item 8 of the Form 10-K. Also, see Note (H) to the Condensed Financial Statements herein for information relating to derivative instruments.

Item 4. Controls and Procedures.

(a) Evaluation of disclosure controls and procedures.

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

(b) Changes in internal controls.

There have been no changes in Southern Company's, Alabama Power's, Georgia Power's, Gulf Power's, Mississippi Power's, or Southern Power Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) during the first quarter 2015 that have materially affected or are reasonably likely to materially affect Southern Company's, Alabama Power's, Georgia Power's, Gulf Power's, Mississippi Power's, or Southern Power Company's internal control over financial reporting.

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ALABAMA POWER COMPANY
CONDENSED STATEMENTS OF INCOME (UNAUDITED)

	For the Three Months Ended March 31,	
	2015	2014
	(in millions)	
Operating Revenues:		
Retail revenues	$1,268	$1,297
Wholesale revenues, non-affiliates	65	85
Wholesale revenues, affiliates	15	69
Other revenues	53	57
Total operating revenues	1,401	1,508
Operating Expenses:		
Fuel	310	432
Purchased power, non-affiliates	41	57
Purchased power, affiliates	53	49
Other operations and maintenance	399	325
Depreciation and amortization	158	175
Taxes other than income taxes	94	89
Total operating expenses	1,055	1,127
Operating Income	346	381
Other Income and (Expense):		
Allowance for equity funds used during construction	15	10
Interest expense, net of amounts capitalized	(65)	(62)
Other income (expense), net	(4)	(5)
Total other income and (expense)	(54)	(57)
Earnings Before Income Taxes	292	324
Income taxes	113	127
Net Income	179	197
Dividends on Preferred and Preference Stock	10	10
Net Income After Dividends on Preferred and Preference Stock	$169	$187

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	For the Three Months Ended March 31,	
	2015	2014
	(in millions)	
Net Income	$179	$197
Other comprehensive income (loss):		
Qualifying hedges:		
Changes in fair value, net of tax of $(2) and $-, respectively	(4)	—
Total other comprehensive income (loss)	(4)	—
Comprehensive Income	$175	$197

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

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ALABAMA POWER COMPANY
CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the Three Months Ended March 31,	
	2015	2014
	(in millions)	
Operating Activities:		
Net income	$179	$197
Adjustments to reconcile net income to net cash provided from operating activities —		
Depreciation and amortization, total	196	210
Deferred income taxes	16	25
Allowance for equity funds used during construction	(15)	(10)
Other, net	2	(22)
Changes in certain current assets and liabilities —		
-Receivables	(3)	(17)
-Fossil fuel stock	—	99
-Materials and supplies	12	3
-Other current assets	(80)	(81)
-Accounts payable	(229)	(139)
-Accrued taxes	246	147
-Accrued compensation	(89)	(37)
-Retail fuel cost over recovery	34	(20)
-Other current liabilities	21	(3)
Net cash provided from operating activities	290	352
Investing Activities:		
Property additions	(325)	(287)
Nuclear decommissioning trust fund purchases	(129)	(56)
Nuclear decommissioning trust fund sales	129	56
Cost of removal, net of salvage	(13)	(12)
Change in construction payables	34	49
Other investing activities	(9)	(5)
Net cash used for investing activities	(313)	(255)
Financing Activities:		
Proceeds —		
Senior note issuances	550	—
Capital contributions from parent company	6	7
Redemptions — Senior notes	(250)	—
Payment of preferred and preference stock dividends	(10)	(10)
Payment of common stock dividends	(143)	(137)
Other financing activities	(8)	—
Net cash provided from (used for) financing activities	145	(140)
Net Change in Cash and Cash Equivalents	122	(43)
Cash and Cash Equivalents at Beginning of Period	273	295
Cash and Cash Equivalents at End of Period	$395	$252
Supplemental Cash Flow Information:		
Cash paid (received) during the period for —		
Interest (net of $5 and $4 capitalized for 2015 and 2014, respectively)	$68	$61

Income taxes, net	(136)	(28)
Noncash transactions — Accrued property additions at end of period	41	66

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

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ALABAMA POWER COMPANY
CONDENSED BALANCE SHEETS (UNAUDITED)

Assets	At March 31, 2015	At December 31, 2014
	(in millions)	
Current Assets:		
Cash and cash equivalents	$395	$273
Receivables —		
Customer accounts receivable	374	345
Unbilled revenues	115	138
Under recovered regulatory clause revenues	16	74
Other accounts and notes receivable	24	23
Affiliated companies	36	37
Accumulated provision for uncollectible accounts	(10)	(9)
Fossil fuel stock, at average cost	268	268
Materials and supplies, at average cost	410	406
Vacation pay	66	65
Prepaid expenses	134	244
Other regulatory assets, current	91	84
Other current assets	4	5
Total current assets	1,923	1,953
Property, Plant, and Equipment:		
In service	23,254	23,080
Less accumulated provision for depreciation	8,627	8,522
Plant in service, net of depreciation	14,627	14,558
Nuclear fuel, at amortized cost	359	348
Construction work in progress	1,089	1,006
Total property, plant, and equipment	16,075	15,912
Other Property and Investments:		
Equity investments in unconsolidated subsidiaries	67	66
Nuclear decommissioning trusts, at fair value	770	756
Miscellaneous property and investments	85	84
Total other property and investments	922	906
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	523	525
Deferred under recovered regulatory clause revenues	87	31
Other regulatory assets, deferred	1,065	1,063
Other deferred charges and assets	161	162
Total deferred charges and other assets	1,836	1,781
Total Assets	$20,756	$20,552

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

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ALABAMA POWER COMPANY
CONDENSED BALANCE SHEETS (UNAUDITED)

Liabilities and Stockholder's Equity	At March 31, 2015	At December 31, 2014
	(in millions)	
Current Liabilities:		
Securities due within one year	$734	$454
Accounts payable —		
Affiliated	225	248
Other	273	443
Customer deposits	88	87
Accrued taxes —		
Accrued income taxes	37	2
Other accrued taxes	59	37
Accrued interest	59	66
Accrued vacation pay	54	54
Accrued compensation	44	131
Other regulatory liabilities, current	2	2
Other current liabilities	114	80
Total current liabilities	1,689	1,604
Long-term Debt	6,193	6,176
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	3,890	3,874
Deferred credits related to income taxes	71	72
Accumulated deferred investment tax credits	123	125
Employee benefit obligations	322	326
Asset retirement obligations	840	829
Other cost of removal obligations	743	744
Other regulatory liabilities, deferred	242	239
Deferred over recovered regulatory clause revenues	81	47
Other deferred credits and liabilities	88	79
Total deferred credits and other liabilities	6,400	6,335
Total Liabilities	14,282	14,115
Redeemable Preferred Stock	342	342
Preference Stock	343	343
Common Stockholder's Equity:		
Common stock, par value $40 per share —		
Authorized — 40,000,000 shares		
Outstanding — 30,537,500 shares	1,222	1,222
Paid-in capital	2,318	2,304
Retained earnings	2,281	2,255
Accumulated other comprehensive loss	(32)	(29)
Total common stockholder's equity	5,789	5,752
Total Liabilities and Stockholder's Equity	$20,756	$20,552

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

FIRST QUARTER 2015 vs. FIRST QUARTER 2014

OVERVIEW

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

Many factors affect the opportunities, challenges, and risks of Alabama Power's business of selling electricity. These factors include the ability to maintain a constructive regulatory environment, to maintain and grow energy sales, and to effectively manage and secure timely recovery of costs. These costs include those related to projected long-term demand growth, increasingly stringent environmental standards, reliability, fuel, capital expenditures, and restoration following major storms. Appropriately balancing required costs and capital expenditures with customer prices will continue to challenge Alabama Power for the foreseeable future.

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

RESULTS OF OPERATIONS

Net Income

First Quarter 2015 vs. First Quarter 2014	
(change in millions)	(% change)
$(18)	(9.6)

Alabama Power's net income after dividends on preferred and preference stock for the first quarter 2015 was $169 million compared to $187 million for the corresponding period in 2014. The decrease in net income was primarily related to an increase in non-fuel operations and maintenance expenses, partially offset by an increase in rates under rate stabilization and equalization (Rate RSE) as well as a decrease in depreciation expense. Also contributing to the decrease in net income was milder weather in the first quarter 2015 as compared to the corresponding period in 2014.

Retail Revenues

First Quarter 2015 vs. First Quarter 2014	
(change in millions)	(% change)
$(29)	(2.2)

In the first quarter 2015, retail revenues were $1.27 billion compared to $1.30 billion for the corresponding period in 2014.

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

Details of the changes in retail revenues were as follows:

	First Quarter 2015 (in millions)	(% change)
Retail – prior year	$1,297	
Estimated change resulting from –		
Rates and pricing	47	3.6
Sales growth	9	0.7
Weather	(20)	(1.5)
Fuel and other cost recovery	(65)	(5.0)
Retail – current year	$1,268	(2.2)%

Revenues associated with changes in rates and pricing increased in the first quarter 2015 when compared to the corresponding period in 2014 primarily due to a Rate RSE increase effective January 1, 2015. See Note 3 to the financial statements of Alabama Power under "Retail Regulatory Matters" in Item 8 of the Form 10-K for additional information.

Revenues attributable to changes in sales increased in the first quarter 2015 when compared to the corresponding period in 2014. Industrial KWH energy sales slightly increased 0.3% in the first quarter 2015 as a result of an increase in demand resulting from changes in production levels primarily in the pipelines, stone, clay, and glass, and automotive and plastics sectors, offset by a decrease in demand in the primary metals and forest products sectors. Weather-adjusted residential and commercial KWH energy sales increased 0.8% and 1.6%, respectively, in the first quarter 2015 as a result of increased customer usage and customer growth.

Revenues resulting from changes in weather decreased in the first quarter 2015 due to milder weather experienced in Alabama Power's service territory as compared to the corresponding period in 2014. For the first quarter 2015, the resulting decreases were 2.4% and 1.7% for residential and commercial sales revenue, respectively.

Fuel and other cost recovery revenues decreased in the first quarter 2015 when compared to the corresponding period in 2014 primarily due to a decrease in KWH generation and the average cost of natural gas. Electric rates include provisions to recognize the full recovery of fuel costs, purchased power costs, PPAs certificated by the Alabama PSC, and costs associated with the Natural Disaster Reserve. Under these provisions, fuel and other cost recovery revenues generally equal fuel and other cost recovery expenses and do not affect net income.

Wholesale Revenues – Non-Affiliates

First Quarter 2015 vs. First Quarter 2014

(change in millions)	(% change)
$(20)	(23.5)

Wholesale revenues from sales to non-affiliates will vary depending on the market prices of available wholesale energy compared to the cost of Alabama Power's and the Southern Company system's generation, demand for energy within the Southern Company system's service territory, and the availability of the Southern Company system's generation. Increases and decreases in energy revenues that are driven by fuel prices are accompanied by an increase or decrease in fuel costs and do not have a significant impact on net income.

In the first quarter 2015, wholesale revenues from sales to non-affiliates were $65 million compared to $85 million for the corresponding period in 2014. The decrease was primarily due to a 9.0% decrease in KWH sales and a 15.9% decrease in the price of energy. In 2014, Alabama Power's fuel diversity led to increased sales to non-affiliates due to higher than normal natural gas prices. In 2015, lower natural gas prices and decreased availability of hydro generation, due to less rainfall, resulted in lower sales of Alabama Power's generation to non-affiliates.

Wholesale Revenues – Affiliates

First Quarter 2015 vs. First Quarter 2014	
(change in millions)	(% change)
$(54)	(78.3)

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

In the first quarter 2015, wholesale revenues from sales to affiliates were $15 million compared to $69 million for the corresponding period in 2014. The decrease was primarily due to a 69.1% decrease in KWH sales and a 30.9% decrease in the price of energy. In 2014, Alabama Power's fuel diversity led to increased sales to affiliates due to higher than normal natural gas prices. In 2015, lower natural gas prices and decreased availability of hydro generation, due to less rainfall, resulted in lower sales of Alabama Power's generation to affiliates.

Fuel and Purchased Power Expenses

	First Quarter 2015 vs. First Quarter 2014 (change in millions)	(% change)
Fuel	$(122)	(28.2)
Purchased power – non-affiliates	(16)	(28.1)
Purchased power – affiliates	4	8.2
Total fuel and purchased power expenses	$(134)	

In the first quarter 2015, total fuel and purchased power expenses were $404 million compared to $538 million for the corresponding period in 2014. The decrease was primarily due to a $69 million decrease in the average cost of fuel, a $53 million decrease related to the volume of KWHs generated, and a $37 million decrease in the average cost of purchased power, partially offset by a $25 million increase in the volume of KWHs purchased.

Fuel and purchased power energy transactions do not have a significant impact on earnings, since energy expenses are generally offset by energy revenues through Alabama Power's energy cost recovery clause. Alabama Power, along with the Alabama PSC, continuously monitors the under/over recovered balance to determine whether adjustments to billing rates are required. See Note 3 to the financial statements of Alabama Power under "Retail Regulatory Matters – Rate ECR" in Item 8 of the Form 10-K for additional information.

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

	First Quarter 2015	First Quarter 2014
Total generation (billions of KWHs)	15	16
Total purchased power (billions of KWHs)	2	2
Sources of generation (percent) —		
Coal	47	53
Nuclear	26	23
Gas	19	15
Hydro	8	9
Cost of fuel, generated (cents per net KWH) —		
Coal	2.89	3.40
Nuclear	0.80	0.87
Gas	3.03	4.19
Average cost of fuel, generated (cents per net KWH)[(a)]	2.33	2.89
Average cost of purchased power (cents per net KWH)[(b)]	4.60	6.41

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

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

Fuel

In the first quarter 2015, fuel expense was $310 million compared to $432 million for the corresponding period in 2014. The decrease was primarily due to a 27.6% decrease in the average cost of natural gas per KWH generated, which excludes fuel associated with tolling agreements, a 20.6% decrease in the volume of KWHs generated by coal, and a 15.1% decrease in the average cost of coal generation. This was partially offset by a 22.6% decrease in the volume of KWHs generated by hydro facilities as a result of less rainfall and a 6.7% increase in the volume of KWHs generated by natural gas.

Purchased Power – Non-Affiliates

In the first quarter 2015, purchased power expense from non-affiliates was $41 million compared to $57 million for the corresponding period in 2014. The decrease was related to a 33.1% decrease in the average cost per KWH purchased as a result of lower natural gas prices, partially offset by a 7.3% increase in the amount of energy purchased due to decreased availability of hydro generation as a result of less rainfall in the first quarter of 2015 as compared to the corresponding period during 2014.

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

Purchased Power – Affiliates

In the first quarter 2015, purchased power expense from affiliates was $53 million compared to $49 million for the corresponding period in 2014. The increase was related to a 35.6% increase in the amount of energy purchased primarily due to the availability of Southern Company's lower cost generation sources and the decreased availability of hydro generation as a result of less rainfall. This increase was partially offset by a 20.2% decrease in the average cost per KWH purchased due to lower natural gas prices.

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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

First Quarter 2015 vs. First Quarter 2014

(change in millions)	(% change)
$74	22.8

In the first quarter 2015, other operations and maintenance expenses were $399 million compared to $325 million for the corresponding period in 2014. The increase was primarily due to the implementation of an accounting order in 2014 allowing the deferral of non-nuclear outage costs. Alabama Power deferred approximately $25 million of non-nuclear outage expenditures in the first quarter 2014. See Note 3 to the financial statements of Alabama Power under "Retail Regulatory Matters – Cost of Removal Accounting Order" in Item 8 of the Form 10-K for additional information. In addition, there was an increase of $23 million in steam production primarily due to scheduled outage costs and a $10 million increase in employee benefits including pension costs. See Note (F) to the Condensed Financial Statements herein for additional information related to pension costs.

Depreciation and Amortization

First Quarter 2015 vs. First Quarter 2014

(change in millions)	(% change)
$(17)	(9.7)

In the first quarter 2015, depreciation and amortization was $158 million compared to $175 million for the corresponding period in 2014. The decrease was primarily due to a decrease in depreciation rates related to steam, transmission, distribution, and environmental assets effective January 1, 2015, as authorized by the FERC, partially offset by increases in plant in service.

Allowance for Equity Funds Used During Construction

First Quarter 2015 vs. First Quarter 2014

(change in millions)	(% change)
$5	50.0

In the first quarter 2015, AFUDC equity was $15 million compared to $10 million for the corresponding period in 2014. The increase was primarily due to additional capital expenditures for steam environmental, steam generation, and nuclear production.

Income Taxes

First Quarter 2015 vs. First Quarter 2014

(change in millions)	(% change)
$(14)	(11.0)

In the first quarter 2015, income taxes were $113 million compared to $127 million for the corresponding period in 2014. The decrease was primarily due to lower pre-tax earnings.

FUTURE EARNINGS POTENTIAL

The results of operations discussed above are not necessarily indicative of Alabama Power's future earnings potential. The level of Alabama Power's future earnings depends on numerous factors that affect the opportunities, challenges, and risks of Alabama Power's primary business of selling electricity. These factors include Alabama Power's ability to maintain a constructive regulatory environment that continues to allow for the timely recovery of prudently-incurred costs during a time of increasing costs. Future earnings in the near term will depend, in part, upon maintaining and growing sales which are subject to a number of factors. These factors include weather, competition, new energy contracts with other utilities, energy conservation practiced by customers, the use of alternative energy sources by customers, the price of electricity, the price elasticity of demand, and the rate of economic growth or decline in Alabama Power's service territory. Changes in regional and global economic conditions may impact sales for Alabama Power as the pace of the economic recovery remains uncertain. The timing and extent of the economic recovery will impact growth and may impact future earnings. For additional information relating to these issues, see RISK FACTORS in Item 1A and MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL of Alabama Power in Item 7 of the Form 10-K.

Environmental Matters

Compliance costs related to federal and state environmental statutes and regulations could affect earnings if such costs cannot continue to be fully recovered in rates on a timely basis. Environmental compliance spending over the next several years may differ materially from the amounts estimated. The timing, specific requirements, and estimated costs could change as environmental statutes and regulations are adopted or modified. Further, higher costs that are recovered through regulated rates could contribute to reduced demand for electricity, which could negatively affect results of operations, cash flows, and financial condition. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters" of Alabama Power in Item 7 and Note 3 to the financial statements of Alabama Power under "Environmental Matters" in Item 8 of the Form 10-K for additional information.

Environmental Statutes and Regulations

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Statutes and Regulations" and – "Retail Regulatory Matters – Environmental Accounting Order" of Alabama Power in Item 7 of the Form 10-K and "Retail Regulatory Matters – Environmental Accounting Order" herein for additional information regarding Alabama Power's plan for compliance with environmental statutes and regulations.

Coal Combustion Residuals

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

On April 17, 2015, the EPA published the Disposal of Coal Combustion Residuals from Electric Utilities final rule (CCR Rule) in the Federal Register, setting October 14, 2015 as the effective date of the CCR Rule. The ultimate impact of the CCR Rule cannot be determined at this time and will depend on Alabama Power's ongoing review of the CCR Rule, the results of initial and ongoing minimum criteria assessments, and the outcome of legal challenges. Based on initial estimates, Alabama Power expects to record incremental asset retirement obligations of approximately $330 million to $350 million related to the CCR Rule in the second quarter 2015.

FERC Matters

Alabama Power has authority from the FERC to sell electricity at market-based rates. Since 2008, that authority, for certain balancing authority areas, has been conditioned on compliance with the requirements of an energy auction, which the FERC found to be tailored mitigation that addresses potential market power concerns. In accordance with FERC regulations governing such authority, the traditional operating companies (including Alabama Power) and Southern Power filed a triennial market power analysis on June 30, 2014, which included continued reliance on the energy auction as tailored mitigation. On April 27, 2015, the FERC issued an order finding that the traditional operating companies' (including Alabama Power's) and Southern Power's existing tailored mitigation may not effectively mitigate the potential to exert market power in certain areas served by the traditional operating companies and in some adjacent areas. To retain market-based rate authority, the FERC has directed the traditional operating companies (including Alabama Power) and Southern Power, within 60 days, to show why market-based rate authority should not be revoked in these areas or to provide a mitigation plan to further address market power concerns. Alabama Power is evaluating the order. The ultimate outcome of this matter cannot be determined at this time.

Retail Regulatory Matters

Alabama Power's revenues from regulated retail operations are collected through various rate mechanisms subject to the oversight of the Alabama PSC. Alabama Power currently recovers its costs from the regulated retail business primarily through its Rate RSE, Rate CNP, rate energy cost recovery, and natural disaster reserve rate. In addition, the Alabama PSC issues accounting orders to address current events impacting Alabama Power. See Note 1 to the financial statements of Alabama Power under "Nuclear Outage Accounting Order" and Note 3 under "Retail Regulatory Matters" in Item 8 of the Form 10-K for additional information regarding Alabama Power's rate mechanisms and accounting orders. The recovery balance of each regulatory clause for Alabama Power is reported in Note (B) to the Condensed Financial Statements herein.

Rate CNP

In March 2015, the Emerging Issues Task Force unanimously recommended to allow the normal purchases and normal sales exception for physical forward transactions in nodal energy markets. The Financial Accounting Standards Board (FASB) proposed new accounting guidance reflecting the recommendation on April 23, 2015. This guidance is subject to a public comment period before the FASB issues a final accounting standard. The ultimate outcome of this matter cannot be determined at this time.

Environmental Accounting Order

In April 2015, as part of its environmental compliance strategy, Alabama Power retired Plant Gorgas Units 6 and 7. These units represented 200 MWs of Alabama Power's approximately 12,200 MWs of generating capacity. Additionally, in April 2015, Alabama Power ceased using coal at Plant Barry Units 1 and 2 (250 MWs), but such units will remain available on a limited basis with natural gas as the fuel source. No later than April 2016, Alabama Power expects to cease using coal at Plant Greene County Units 1 and 2 (300 MWs) and begin operating those units solely on natural gas. Alabama Power is continuing to evaluate its plans for Plant Barry Unit 3 (225 MWs), which is currently unavailable for generation.

In accordance with an accounting order from the Alabama PSC, Alabama Power will transfer the unrecovered plant asset balances to a regulatory asset at their respective retirement dates. The regulatory asset will be amortized over the remaining useful lives, as established prior to the decision for retirement. As a result, these decisions will not have a significant impact on Alabama Power's financial statements.

Rate CNP Compliance (Formerly Known As Rate CNP Environmental)

See Note 3 to the financial statements of Alabama Power under "Retail Regulatory Matters – Rate CNP" and " – Non-Environmental Federal Mandated Costs Accounting Order" in Item 8 of the Form 10-K for additional information regarding Alabama Power's development of a revised cost recovery mechanism.

On March 3, 2015, the Alabama PSC approved a modification to Rate CNP Environmental to include compliance costs for both environmental and non-environmental mandates. The recoverable non-environmental compliance costs result from laws, regulations, and other mandates directed at the utility industry involving the security, reliability, safety, sustainability, or similar considerations impacting Alabama Power's facilities or operations. This modification to Rate CNP Environmental was effective March 20, 2015 with the revised rate now defined as Rate CNP Compliance. Alabama Power incurred $14 million of non-environmental compliance costs during the first quarter 2015 and will be limited to recovery of $50 million for the year. Customer rates will not be impacted before January 2016; therefore, the modification will increase the under-recovered position for Rate CNP Compliance during the year.

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Other Matters

Alabama Power is involved in various other matters being litigated and regulatory matters that could affect future earnings. In addition, Alabama Power is subject to certain claims and legal actions arising in the ordinary course of business. Alabama Power's business activities are subject to extensive governmental regulation related to public health and the environment, such as regulation of air emissions and water discharges. Litigation over environmental issues and claims of various types, including property damage, personal injury, common law nuisance, and citizen enforcement of environmental requirements, such as air quality and water standards, has occurred throughout the U.S. This litigation has included claims for damages alleged to have been caused by CO_2 and other emissions, CCR, and alleged exposure to hazardous materials, and/or requests for injunctive relief in connection with such matters.

The ultimate outcome of such pending or potential litigation against Alabama Power cannot be predicted at this time; however, for current proceedings not specifically reported in Note (B) to the Condensed Financial Statements herein or in Note 3 to the financial statements of Alabama Power in Item 8 of the Form 10-K, management does not anticipate that the ultimate liabilities, if any, arising from such current proceedings would have a material effect on Alabama Power's financial statements. See Note (B) to the Condensed Financial Statements herein for a discussion of various other contingencies, regulatory matters, and other matters being litigated which may affect future earnings potential.

ACCOUNTING POLICIES

Application of Critical Accounting Policies and Estimates

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

Recently Issued Accounting Standards

In May 2014, the FASB issued ASC 606, Revenue from Contracts with Customers. ASC 606 revises the accounting for revenue recognition. On April 29, 2015, the FASB issued an exposure draft proposing the standard be effective for fiscal years beginning after December 15, 2017. Alabama Power continues to evaluate the requirements of ASC 606. The ultimate impact of the new standard has not yet been determined.

On April 7, 2015, the FASB issued Accounting Standards Update (ASU) No. 2015-03, Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability and is effective for fiscal years beginning after December 15, 2015. Alabama Power currently reflects unamortized debt issuance costs in other deferred charges and assets on its balance sheet. Upon adoption, the reclassification will not have a material impact on the results of operations, financial position, or cash flows of Alabama Power.

FINANCIAL CONDITION AND LIQUIDITY

Overview

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Overview" of Alabama Power in Item 7 of the Form 10-K for additional information. Alabama Power's financial condition remained stable at March 31, 2015. Alabama Power intends to continue to monitor its access to short-term and long-term capital markets as well as its bank credit arrangements to meet future capital and liquidity needs. See

"Capital Requirements and Contractual Obligations," "Sources of Capital," and "Financing Activities" herein for additional information.

Net cash provided from operating activities totaled $290 million for the first three months of 2015, a decrease of $62 million as compared to the first three months of 2014. The decrease in net cash provided from operating activities was primarily due to the timing of fossil fuel stock purchases and payments of accounts payable, partially offset by the timing of payments and refunds associated with bonus depreciation. Net cash used for investing activities totaled $313 million for the first three months of 2015 primarily due to gross property additions related to distribution, environmental, transmission, steam generation, and nuclear fuel. Net cash provided from financing activities totaled $145 million for the first three months of 2015 primarily due to the issuance of long-term debt, partially offset by the redemption of long-term debt and a payment of common stock dividends. Fluctuations in cash flow from financing activities vary period to period based on capital needs and the maturity or redemption of securities.

Significant balance sheet changes for the first three months of 2015 include an increase of $280 million in securities due within one year, $163 million in property, plant, and equipment, primarily due to additions to distribution, environmental, transmission, steam generation, and nuclear fuel and $122 million in cash and cash equivalents. Other significant changes include decreases of $170 million in other accounts payable due to property tax payments and $110 million in prepaid expenses associated with an income tax refund.

Capital Requirements and Contractual Obligations

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Capital Requirements and Contractual Obligations" of Alabama Power in Item 7 of the Form 10-K for a description of Alabama Power's capital requirements for its construction program, including estimated capital expenditures to comply with existing environmental statutes and regulations, scheduled maturities of long-term debt, as well as the related interest, derivative obligations, preferred and preference stock dividends, leases, purchase commitments, and trust funding requirements. Approximately $1.1 billion will be required through March 31, 2016 to fund maturities of long-term debt and announced redemptions of preferred and preference stock.

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

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

Sources of Capital

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

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Alabama Power's current liabilities sometimes exceed current assets because of Alabama Power's debt due within one year and the periodic use of short-term debt as a funding source primarily to meet scheduled maturities of long-term debt, as well as cash needs, which can fluctuate significantly due to the seasonality of the business.

At March 31, 2015, Alabama Power had approximately $395 million of cash and cash equivalents. Committed credit arrangements with banks at March 31, 2015 were as follows:

Expires					Executable Term Loans		Due Within One Year	
2015	2016	2018	Total	Unused	One Year	Two Years	Term Out	No Term Out
(in millions)			(in millions)		(in millions)		(in millions)	
$228	$50	$1,030	$1,308	$1,308	$58	$—	$58	$170

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

Most of these bank credit arrangements contain covenants that limit debt levels and contain cross default provisions to other indebtedness (including guarantee obligations) of Alabama Power. Such cross default provisions to other indebtedness would trigger an event of default if Alabama Power defaulted on indebtedness or guarantee obligations over a specified threshold. Alabama Power is currently in compliance with all such covenants. None of the bank credit arrangements contain material adverse change clauses at the time of borrowings.

Subject to applicable market conditions, Alabama Power expects to renew or replace its bank credit arrangements, as needed, prior to expiration.

A portion of the unused credit with banks is allocated to provide liquidity support to Alabama Power's variable rate pollution control revenue bonds and commercial paper borrowings. As of March 31, 2015, Alabama Power had $864 million of outstanding variable rate pollution control revenue bonds requiring liquidity support. In addition, at March 31, 2015, Alabama Power had $200 million of fixed rate pollution control revenue bonds outstanding that were required to be remarketed within the next 12 months. Subsequent to March 31, 2015, $80 million of these fixed rate pollution control revenue bonds were purchased and are being held by Alabama Power and currently are not required to be remarketed within the next 12 months.

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

Details of short-term borrowings were as follows:

	Short-term Debt at March 31, 2015		Short-term Debt During the Period(*)		
	Amount Outstanding	Weighted Average Interest Rate	Average Outstanding	Weighted Average Interest Rate	Maximum Amount Outstanding
	(in millions)		(in millions)		(in millions)
Commercial Paper	$—	—%	$29	0.2%	$100

(*) Average and maximum amounts are based upon daily balances during the three-month period ended March 31, 2015.

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

Credit Rating Risk

Alabama Power does not have any credit arrangements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade.

There are certain contracts that could require collateral, but not accelerated payment, in the event of a credit rating change to below BBB- and/or Baa3. These contracts are primarily for physical electricity purchases, fuel purchases, fuel transportation and storage, and energy price risk management. At March 31, 2015, the maximum potential collateral requirements under these contracts at a rating below BBB- and/or Baa3 were approximately $366 million. Included in these amounts are certain agreements that could require collateral in the event that one or more Southern Company system power pool participants has a credit rating change to below investment grade. Generally, collateral may be provided by a Southern Company guaranty, letter of credit, or cash.

Financing Activities

In March 2015, Alabama Power issued $550 million aggregate principal amount of Series 2015A 3.750% Senior Notes due March 1, 2045. The proceeds were used to redeem $250 million aggregate principal amount of Series DD 5.65% Senior Notes due March 15, 2035 and for general corporate purposes, including Alabama Power's continuous construction program.

Subsequent to March 31, 2015, Alabama Power purchased and held $80 million aggregate principal amount of Industrial Development Board of the City of Mobile, Alabama Pollution Control Revenue Bonds (Alabama Power Company Barry Plant Project), Series 2007-B. Alabama Power may reoffer these bonds to the public at a later date.

Also subsequent to March 31, 2015, Alabama Power issued $175 million additional aggregate principal amount of its Series 2015A 3.750% Senior Notes due March 1, 2045 (Additional Series 2015A Senior Notes) and $250 million aggregate principal amount of its Series 2015B 2.800% Senior Notes due April 1, 2025 (Series 2015B Senior Notes). A portion of the proceeds of the Additional Series 2015A Senior Notes and the Series 2015B Senior Notes will be used for the announced redemption on May 15, 2015 of 6.48 million shares ($162 million aggregate stated capital) of Alabama Power's 5.20% Class A Preferred Stock at a redemption price of $25 per share plus accrued and unpaid dividends to the redemption date, 4.0 million shares ($100 million aggregate stated capital) of Alabama Power's 5.30% Class A Preferred Stock at a redemption price of $25 per share plus accrued and unpaid dividends to the redemption date, and 6.0 million shares ($150 million aggregate stated capital) of Alabama Power's 5.625% Series Preference Stock at a redemption price of $25 per share plus accrued and unpaid dividends to the redemption date, and the remaining net proceeds will be used for general corporate purposes, including Alabama Power's continuous construction program.

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

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GEORGIA POWER COMPANY
CONDENSED STATEMENTS OF INCOME (UNAUDITED)

	For the Three Months Ended March 31,	
	2015	2014
	(in millions)	
Operating Revenues:		
Retail revenues	$1,814	$2,050
Wholesale revenues, non-affiliates	68	109
Wholesale revenues, affiliates	8	21
Other revenues	88	89
Total operating revenues	1,978	2,269
Operating Expenses:		
Fuel	526	752
Purchased power, non-affiliates	60	79
Purchased power, affiliates	149	184
Other operations and maintenance	474	427
Depreciation and amortization	216	208
Taxes other than income taxes	99	103
Total operating expenses	1,524	1,753
Operating Income	454	516
Other Income and (Expense):		
Allowance for equity funds used during construction	15	6
Interest expense, net of amounts capitalized	(89)	(84)
Other income (expense), net	—	(2)
Total other income and (expense)	(74)	(80)
Earnings Before Income Taxes	380	436
Income taxes	140	166
Net Income	240	270
Dividends on Preferred and Preference Stock	4	4
Net Income After Dividends on Preferred and Preference Stock	$236	$266

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	For the Three Months Ended March 31,	
	2015	2014
	(in millions)	
Net Income	$240	$270
Other comprehensive income (loss):		
Qualifying hedges:		
Changes in fair value, net of tax of $(9) and $-, respectively	(14)	—
Total other comprehensive income (loss)	(14)	—
Comprehensive Income	$226	$270

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

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GEORGIA POWER COMPANY
CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the Three Months Ended March 31,	
	2015	2014
	(in millions)	
Operating Activities:		
Net income	$240	$270
Adjustments to reconcile net income to net cash provided from operating activities —		
Depreciation and amortization, total	256	250
Deferred income taxes	(7)	96
Allowance for equity funds used during construction	(15)	(6)
Retail fuel cost over recovery — long-term	—	(44)
Deferred expenses	33	33
Pension, postretirement, and other employee benefits	6	(4)
Other, net	(2)	(10)
Changes in certain current assets and liabilities —		
-Receivables	166	(83)
-Fossil fuel stock	67	257
-Prepaid income taxes	170	(11)
-Other current assets	(13)	(12)
-Accounts payable	(261)	(28)
-Accrued taxes	(217)	(166)
-Accrued compensation	(81)	(38)
-Retail fuel cost over recovery — short-term	—	(14)
-Other current liabilities	21	9
Net cash provided from operating activities	363	499
Investing Activities:		
Property additions	(422)	(460)
Nuclear decommissioning trust fund purchases	(161)	(175)
Nuclear decommissioning trust fund sales	155	173
Change in construction payables, net of joint owner portion	37	28
Prepaid long-term service agreements	(9)	(44)
Other investing activities	(5)	(2)
Net cash used for investing activities	(405)	(480)
Financing Activities:		
Increase (decrease) in notes payable, net	434	(749)
Proceeds —		
Capital contributions from parent company	11	12
FFB loan	—	1,000
Short-term borrowings	250	—
Payment of preferred and preference stock dividends	(4)	(4)
Payment of common stock dividends	(259)	(238)
FFB loan issuance costs	—	(49)
Other financing activities	(1)	(3)
Net cash provided from (used for) financing activities	431	(31)
Net Change in Cash and Cash Equivalents	389	(12)
Cash and Cash Equivalents at Beginning of Period	24	30

Cash and Cash Equivalents at End of Period	$413	$18
Supplemental Cash Flow Information:		
Cash paid during the period for —		
Interest (net of $6 and $3 capitalized for 2015 and 2014, respectively)	$79	$71
Income taxes, net	(34)	11
Noncash transactions — Accrued property additions at end of period	177	229

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

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GEORGIA POWER COMPANY
CONDENSED BALANCE SHEETS (UNAUDITED)

Assets	At March 31, 2015	At December 31, 2014
	(in millions)	
Current Assets:		
Cash and cash equivalents	$413	$24
Receivables —		
Customer accounts receivable	642	553
Unbilled revenues	174	201
Joint owner accounts receivable	47	121
Other accounts and notes receivable	70	61
Affiliated companies	16	18
Accumulated provision for uncollectible accounts	(7)	(6)
Fossil fuel stock, at average cost	372	439
Materials and supplies, at average cost	443	438
Vacation pay	91	91
Prepaid income taxes	86	278
Other regulatory assets, current	142	136
Other current assets	85	74
Total current assets	2,574	2,428
Property, Plant, and Equipment:		
In service	31,425	31,083
Less accumulated provision for depreciation	11,326	11,222
Plant in service, net of depreciation	20,099	19,861
Other utility plant, net	197	211
Nuclear fuel, at amortized cost	555	563
Construction work in progress	4,193	4,031
Total property, plant, and equipment	25,044	24,666
Other Property and Investments:		
Equity investments in unconsolidated subsidiaries	60	58
Nuclear decommissioning trusts, at fair value	804	789
Miscellaneous property and investments	37	38
Total other property and investments	901	885
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	696	698
Deferred under recovered regulatory clause revenues	62	197
Other regulatory assets, deferred	1,796	1,753
Other deferred charges and assets	443	403
Total deferred charges and other assets	2,997	3,051
Total Assets	$31,516	$31,030

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

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GEORGIA POWER COMPANY
CONDENSED BALANCE SHEETS (UNAUDITED)

Liabilities and Stockholder's Equity	At March 31, 2015	At December 31, 2014
	(in millions)	
Current Liabilities:		
Securities due within one year	$1,600	$1,154
Notes payable	840	156
Accounts payable —		
Affiliated	364	451
Other	469	555
Customer deposits	256	253
Other accrued taxes	116	332
Accrued interest	100	96
Accrued vacation pay	62	63
Accrued compensation	54	153
Liabilities from risk management activities	52	32
Other current liabilities	388	225
Total current liabilities	4,301	3,470
Long-term Debt	8,393	8,683
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	5,471	5,507
Deferred credits related to income taxes	104	106
Accumulated deferred investment tax credits	193	196
Employee benefit obligations	891	903
Asset retirement obligations	1,223	1,223
Other deferred credits and liabilities	268	255
Total deferred credits and other liabilities	8,150	8,190
Total Liabilities	20,844	20,343
Preferred Stock	45	45
Preference Stock	221	221
Common Stockholder's Equity:		
Common stock, without par value —		
Authorized — 20,000,000 shares		
Outstanding — 9,261,500 shares	398	398
Paid-in capital	6,218	6,196
Retained earnings	3,812	3,835
Accumulated other comprehensive loss	(22)	(8)
Total common stockholder's equity	10,406	10,421
Total Liabilities and Stockholder's Equity	$31,516	$31,030

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

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

FIRST QUARTER 2015 vs. FIRST QUARTER 2014

OVERVIEW

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

Many factors affect the opportunities, challenges, and risks of Georgia Power's business of selling electricity. These factors include the ability to maintain a constructive regulatory environment, to maintain and grow energy sales, and to effectively manage and secure timely recovery of costs. These costs include those related to projected long-term demand growth, increasingly stringent environmental standards, reliability, and fuel. In addition, Georgia Power is currently constructing Plant Vogtle Units 3 and 4 and will own a 45.7% interest in these two nuclear generating units to increase its generation diversity and meet future supply needs. Appropriately balancing required costs and capital expenditures with customer prices will continue to challenge Georgia Power for the foreseeable future.

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

RESULTS OF OPERATIONS

Net Income

First Quarter 2015 vs. First Quarter 2014	
(change in millions)	(% change)
$(30)	(11.3)

Georgia Power's net income after dividends on preferred and preference stock for the first quarter 2015 was $236 million compared to $266 million for the corresponding period in 2014. The decrease was primarily due to higher non-fuel operations and maintenance expenses and milder weather in the first quarter 2015 as compared to the corresponding period in 2014, partially offset by an increase in retail base revenues effective January 1, 2015 as authorized under the 2013 ARP.

Retail Revenues

First Quarter 2015 vs. First Quarter 2014	
(change in millions)	(% change)
$(236)	(11.5)

In the first quarter 2015, retail revenues were $1.81 billion compared to $2.05 billion for the corresponding period in 2014.

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

Details of the changes in retail revenues were as follows:

	First Quarter 2015	
	(in millions)	(% change)
Retail – prior year	$2,050	
Estimated change resulting from –		
Rates and pricing	29	1.4
Sales growth	16	0.8
Weather	(16)	(0.8)
Fuel cost recovery	(265)	(12.9)
Retail – current year	$1,814	(11.5)%

Revenues associated with changes in rates and pricing increased in the first quarter 2015 when compared to the corresponding period in 2014 primarily due to base tariff increases approved under the 2013 ARP and increases in collections for financing costs related to the construction of Plant Vogtle Units 3 and 4 through the NCCR tariff, which were both effective January 1, 2015, partially offset by lower contributions from market-driven rates from commercial and industrial customers. See Note 3 to the financial statements of Georgia Power under "Retail Regulatory Matters – Rate Plans" in Item 8 of the Form 10-K for additional information.

Revenues attributable to changes in sales increased in the first quarter 2015 when compared to the corresponding period in 2014. Weather-adjusted residential KWH sales increased 1.0%, weather-adjusted commercial KWH sales increased 0.9%, and weather-adjusted industrial KWH sales increased 4.2% in the first quarter 2015. An increase of approximately 26,000 residential customers since March 31, 2014 contributed to the increase in weather-adjusted residential KWH sales. Increased customer usage and an increase of approximately 2,700 customers since March 31, 2014 contributed to the increase in weather-adjusted commercial sales. Increased demand in the paper, textile, and stone, clay, and glass sectors was the main contributor to the increase in weather-adjusted industrial KWH sales, partially offset by a decrease in the chemicals sector.

Fuel revenues and costs are allocated between retail and wholesale jurisdictions. Retail fuel cost recovery revenues decreased $265 million in the first quarter 2015 when compared to the corresponding period in 2014 primarily due to lower natural gas, coal, and nuclear fuel costs and lower energy sales resulting from milder weather in the first quarter 2015 as compared to the corresponding period in 2014. Electric rates include provisions to adjust billings for fluctuations in fuel costs, including the energy component of purchased power costs. Under these fuel cost recovery provisions, fuel revenues generally equal fuel expenses and do not affect net income. See FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters – Fuel Cost Recovery" herein for additional information.

Wholesale Revenues – Non-Affiliates

First Quarter 2015 vs. First Quarter 2014	
(change in millions)	(% change)
$(41)	(37.6)

Wholesale revenues from sales to non-affiliates consist of PPAs and short-term opportunity sales. Wholesale revenues from PPAs have both capacity and energy components. Wholesale capacity revenues from PPAs are recognized either on a levelized basis over the appropriate contract period or the amounts billable under the contract terms and provide for recovery of fixed costs and a return on investment. Wholesale revenues from sales to non-affiliates will vary depending on fuel prices, the market prices of wholesale energy compared to the cost of Georgia Power's and the Southern Company system's generation, demand for energy within the Southern Company system's service territory, and the availability of the Southern Company system's generation. Increases and decreases in energy revenues that are driven by fuel prices are accompanied by an increase or decrease in fuel costs and do not

have a significant impact on net income. Short-term opportunity sales are made at market-based rates that generally provide a margin above Georgia Power's variable cost of energy.

In the first quarter 2015, wholesale revenues from sales to non-affiliates were $68 million compared to $109 million for the corresponding period in 2014 primarily related to a $33 million decrease in energy revenues and an $8 million decrease in capacity revenues. The decrease in energy revenues was primarily due to decreased demand resulting from milder weather in the first quarter 2015 as compared to the corresponding period in 2014. The decrease in capacity revenues reflects the expiration of wholesale contracts in December 2014.

Wholesale Revenues – Affiliates

First Quarter 2015 vs. First Quarter 2014	
(change in millions)	(% change)
$(13)	(61.9)

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

In the first quarter 2015, wholesale revenues from sales to affiliates were $8 million compared to $21 million for the corresponding period in 2014. The decrease was due to lower demand resulting from milder weather in the first quarter 2015 as compared to the corresponding period in 2014.

Fuel and Purchased Power Expenses

	First Quarter 2015 vs. First Quarter 2014	
	(change in millions)	(% change)
Fuel	$(226)	(30.1)
Purchased power – non-affiliates	(19)	(24.1)
Purchased power – affiliates	(35)	(19.0)
Total fuel and purchased power expenses	$(280)	

In the first quarter 2015, total fuel and purchased power expenses were $735 million compared to $1.02 billion in the corresponding period in 2014. The decrease in the first quarter 2015 was primarily due to a $237 million decrease in the average cost of fuel related to lower natural gas, coal and nuclear fuel prices and the average cost of purchased power due to lower natural gas prices and an $82 million decrease in the volume of KWHs generated due to milder weather as compared to the corresponding period in 2014 resulting in lower customer demand, partially offset by a $39 million increase in the volume of KWHs purchased due to lower natural gas prices.

Fuel and purchased power energy transactions do not have a significant impact on earnings since these fuel expenses are generally offset by fuel revenues through Georgia Power's fuel cost recovery mechanism. See FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters – Fuel Cost Recovery" herein for additional information.

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

	First Quarter 2015	First Quarter 2014
Total generation (billions of KWHs)	17	18
Total purchased power (billions of KWHs)	6	5
Sources of generation (percent) —		
Coal	34	48
Nuclear	22	20
Gas	42	29
Hydro	2	3
Cost of fuel, generated (cents per net KWH) —		
Coal	4.71	5.03
Nuclear	0.54	0.91
Gas	2.63	4.39
Average cost of fuel, generated (cents per net KWH)	2.86	3.99
Average cost of purchased power (cents per net KWH)(*)	4.39	5.75

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

Fuel

In the first quarter 2015, fuel expense was $526 million compared to $752 million in the corresponding period in 2014. The decrease was primarily due to a 28.3% decrease in the average cost of fuel per KWH generated and a 35.5% decrease in the volume of KWHs generated by coal, partially offset by a 30.9% increase in the volume of KWHs generated by natural gas.

Purchased Power – Non-Affiliates

In the first quarter 2015, purchased power expense from non-affiliates was $60 million compared to $79 million in the corresponding period in 2014. The decrease was primarily due to a 21.5% decrease in the average cost per KWH purchased primarily resulting from lower natural gas prices.

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

Purchased Power – Affiliates

In the first quarter 2015, purchased power expense from affiliates was $149 million compared to $184 million in the corresponding period in 2014. The decrease was due to a 22.8% decrease in the average cost per KWH purchased primarily resulting from lower natural gas prices, partially offset by a 14.3% increase in the volume of KWHs purchased as Georgia Power's units generally dispatched at a higher cost than other Southern Company system resources.

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

Other Operations and Maintenance Expenses

First Quarter 2015 vs. First Quarter 2014	
(change in millions)	(% change)
$47	11.0

In the first quarter 2015, other operations and maintenance expenses were $474 million compared to $427 million in the corresponding period in 2014. The increase was primarily due to increases of $19 million in employee compensation and benefits including pension costs, $10 million in customer accounts, service, and sales costs primarily related to customer incentive and demand-side management costs, $7 million in transmission and distribution costs primarily related to overhead line maintenance, and $6 million in scheduled outage-related costs. See Note (F) to the Condensed Financial Statements herein for additional information related to pension costs.

Allowance for Equity Funds Used During Construction

First Quarter 2015 vs. First Quarter 2014	
(change in millions)	(% change)
$9	150.0

In the first quarter 2015, AFUDC equity was $15 million compared to $6 million in the corresponding period in 2014. The increase was primarily due to an increase in construction related to ongoing environmental and transmission projects.

Income Taxes

First Quarter 2015 vs. First Quarter 2014	
(change in millions)	(% change)
$(26)	(15.7)

In the first quarter 2015, income taxes were $140 million compared to $166 million for the corresponding period in 2014. The decrease in income taxes was primarily due to lower pre-tax earnings and an increase in non-taxable AFUDC equity.

FUTURE EARNINGS POTENTIAL

The results of operations discussed above are not necessarily indicative of Georgia Power's future earnings potential. The level of Georgia Power's future earnings depends on numerous factors that affect the opportunities, challenges, and risks of Georgia Power's business of selling electricity. These factors include Georgia Power's ability to maintain a constructive regulatory environment that continues to allow for the timely recovery of prudently-incurred costs during a time of increasing costs and the completion and subsequent operation of ongoing construction projects, primarily Plant Vogtle Units 3 and 4. Future earnings in the near term will depend, in part, upon maintaining and growing sales which are subject to a number of factors. These factors include weather, competition, new energy contracts with other utilities, energy conservation practiced by customers, the use of alternative energy sources by customers, the price of electricity, the price elasticity of demand, and the rate of economic growth or decline in Georgia Power's service territory. Changes in regional and global economic conditions may impact sales for Georgia Power as the pace of the economic recovery remains uncertain. The timing and extent of the economic recovery will impact growth and may impact future earnings. For additional information relating to these issues, see RISK FACTORS in Item 1A and MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL of Georgia Power in Item 7 of the Form 10-K.

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Environmental Matters

Compliance costs related to federal and state environmental statutes and regulations could affect earnings if such costs cannot continue to be fully recovered in rates on a timely basis. Georgia Power's Environmental Compliance Cost Recovery (ECCR) tariff allows for the recovery of capital and operations and maintenance costs related to environmental controls mandated by state and federal regulations. Environmental compliance spending over the next several years may differ materially from the amounts estimated. The timing, specific requirements, and estimated costs could change as environmental statutes and regulations are adopted or modified. Further, higher costs that are recovered through regulated rates could contribute to reduced demand for electricity, which could negatively affect results of operations, cash flows, and financial condition. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters" of Georgia Power in Item 7 and Note 3 to the financial statements of Georgia Power under "Environmental Matters" in Item 8 of the Form 10-K for additional information.

Environmental Statutes and Regulations

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters – Integrated Resource Plans" of Georgia Power in Item 7 of the Form 10-K and "Retail Regulatory Matters – Integrated Resource Plan" herein for additional information on planned unit retirements and fuel conversions at Georgia Power.

Coal Combustion Residuals

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

On April 17, 2015, the EPA published the Disposal of Coal Combustion Residuals from Electric Utilities final rule (CCR Rule) in the Federal Register, setting October 14, 2015 as the effective date of the CCR Rule. The ultimate impact of the CCR Rule cannot be determined at this time and will depend on Georgia Power's ongoing review of the CCR Rule, the results of initial and ongoing minimum criteria assessments, and the outcome of legal challenges. Based on initial estimates, Georgia Power expects to record incremental asset retirement obligations of approximately $10 million to $20 million related to the CCR Rule in the second quarter 2015.

FERC Matters

Georgia Power has authority from the FERC to sell electricity at market-based rates. Since 2008, that authority, for certain balancing authority areas, has been conditioned on compliance with the requirements of an energy auction, which the FERC found to be tailored mitigation that addresses potential market power concerns. In accordance with FERC regulations governing such authority, the traditional operating companies (including Georgia Power) and Southern Power filed a triennial market power analysis on June 30, 2014, which included continued reliance on the energy auction as tailored mitigation. On April 27, 2015, the FERC issued an order finding that the traditional operating companies' (including Georgia Power's) and Southern Power's existing tailored mitigation may not effectively mitigate the potential to exert market power in certain areas served by the traditional operating companies and in some adjacent areas. To retain market-based rate authority, the FERC has directed the traditional operating companies (including Georgia Power) and Southern Power, within 60 days, to show why market-based rate authority should not be revoked in these areas or to provide a mitigation plan to further address market power concerns. Georgia Power is evaluating the order. The ultimate outcome of this matter cannot be determined at this time.

Retail Regulatory Matters

Georgia Power's revenues from regulated retail operations are collected through various rate mechanisms subject to the oversight of the Georgia PSC. Georgia Power currently recovers its costs from the regulated retail business through the 2013 ARP, which includes traditional base tariff rates, Demand-Side Management (DSM) tariffs, ECCR

tariffs, and Municipal Franchise Fee (MFF) tariffs. In addition, financing costs related to the construction of Plant Vogtle Units 3 and 4 are being collected through the NCCR tariff and fuel costs are collected through separate fuel cost recovery tariffs. See Note 3 to the financial statements of Georgia Power under "Retail Regulatory Matters" in Item 8 of the Form 10-K for additional information.

Renewables Development

As part of the Georgia Power Advanced Solar Initiative program, Georgia Power executed ten PPAs that were approved by the Georgia PSC in 2014 and provide for the purchase of energy from 515 MWs of solar capacity. These PPAs are expected to commence in December 2015 and 2016 and have terms ranging from 20 to 30 years. As a result of certain acquisitions by Southern Power, Georgia Power expects that 229 MWs of the 515 MWs will be purchased from solar facilities owned or under development by Southern Power.

Integrated Resource Plan

To comply with the April 16, 2015 effective date of the MATS rule, Plant Branch Units 1, 3, and 4 (1,266 MWs), Plant Yates Units 1 through 5 (579 MWs), and Plant McManus Units 1 and 2 (122 MWs) were retired on April 15, 2015. In addition, operations were discontinued at Plant Mitchell Unit 3 (155 MWs) and its decertification will be requested in connection with the triennial Integrated Resource Plan in 2016. The switch to natural gas as the primary fuel is complete at Plant Yates Unit 7 and is underway at Plant Yates Unit 6. Plant Yates Unit 7 was returned to service on May 4, 2015 and Plant Yates Unit 6 is expected to return to service in mid-2015.

Fuel Cost Recovery

Georgia Power has established fuel cost recovery rates approved by the Georgia PSC. Georgia Power continues to be allowed to adjust its fuel cost recovery rates prior to the next fuel case if the under or over recovered fuel balance exceeds $200 million. On January 20, 2015, the Georgia PSC approved the deferral of Georgia Power's next fuel case filing until at least June 30, 2015.

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 Georgia Power's revenues or net income, but will affect cash flow. See Note (B) to the Condensed Financial Statements under "Retail Regulatory Matters – Georgia Power – Fuel Cost Recovery" herein for additional information.

Nuclear Construction

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters – Nuclear Construction" of Georgia Power in Item 7 and Note 3 to the financial statements of Georgia Power under "Retail Regulatory Matters – Nuclear Construction" in Item 8 of the Form 10-K and Note (B) to the Condensed Financial Statements under "Retail Regulatory Matters – Georgia Power – Nuclear Construction" herein for additional information regarding the construction of Plant Vogtle Units 3 and 4, Vogtle Construction Monitoring (VCM) reports, and pending litigation.

In 2008, Georgia Power, acting for itself and as agent for the Vogtle Owners, entered into an agreement (Vogtle 3 and 4 Agreement) with the Contractor, pursuant to which the Contractor agreed to design, engineer, procure, construct, and test Plant Vogtle Units 3 and 4. Under the terms of the Vogtle 3 and 4 Agreement, the Vogtle Owners agreed to pay a purchase price that is subject to certain price escalations and adjustments, including fixed escalation amounts and index-based adjustments, as well as adjustments for change orders, and performance bonuses for early completion and unit performance. The Vogtle 3 and 4 Agreement also provides for liquidated damages upon the Contractor's failure to fulfill the schedule and performance guarantees. The Contractor's liability to the Vogtle Owners for schedule and performance liquidated damages and warranty claims is subject to a cap. In addition, the Vogtle 3 and 4 Agreement provides for limited cost sharing by the Vogtle Owners for Contractor costs under certain conditions (which have not occurred), with maximum additional capital costs under this provision attributable to Georgia Power (based on Georgia Power's ownership interest) of approximately $114 million. Each Vogtle Owner is

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severally (and not jointly) liable for its proportionate share, based on its ownership interest, of all amounts owed to the Contractor under the Vogtle 3 and 4 Agreement. Georgia Power's proportionate share is 45.7%.

Certain payment obligations of Westinghouse and CB&I Stone & Webster, Inc. (formerly known as Stone & Webster, Inc.) under the Vogtle 3 and 4 Agreement are guaranteed by Toshiba Corporation and The Shaw Group Inc. (a subsidiary of Chicago Bridge & Iron Company, N.V.), respectively. In the event of certain credit rating downgrades of any Vogtle Owner, such Vogtle Owner will be required to provide a letter of credit or other credit enhancement. The Vogtle Owners may terminate the Vogtle 3 and 4 Agreement at any time for their convenience, provided that the Vogtle Owners will be required to pay certain termination costs. The Contractor may terminate the Vogtle 3 and 4 Agreement under certain circumstances, including certain Vogtle Owner suspension or delays of work, action by a governmental authority to permanently stop work, certain breaches of the Vogtle 3 and 4 Agreement by the Vogtle Owners, Vogtle Owner insolvency, and certain other events.

In 2009, the NRC issued an Early Site Permit and Limited Work Authorization which allowed limited work to begin on Plant Vogtle Units 3 and 4. The NRC certified the Westinghouse Design Control Document, as amended (DCD), for the AP1000 nuclear reactor design, in late 2011, and issued combined construction and operating licenses (COLs) in early 2012. Receipt of the COLs allowed full construction to begin. 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 are expected as construction proceeds.

In 2012, the Vogtle Owners and the Contractor began negotiations regarding the costs associated with design changes to the DCD and the delays in the timing of approval of the DCD and issuance of the COLs, including the assertion by the Contractor that the Vogtle Owners are responsible for these costs under the terms of the Vogtle 3 and 4 Agreement. Also in 2012, Georgia Power and the other Vogtle Owners filed suit against the Contractor in the U.S. District Court for the Southern District of Georgia seeking a declaratory judgment that the Vogtle Owners are not responsible for these costs. In 2012, the Contractor also filed suit against Georgia Power and the other Vogtle Owners in the U.S. District Court for the District of Columbia alleging the Vogtle Owners are responsible for these costs. In 2013, the U.S. District Court for the District of Columbia dismissed the Contractor's suit, ruling that the proper venue is the U.S. District Court for the Southern District of Georgia. On March 10, 2015, the U.S. Court of Appeals for the District of Columbia Circuit affirmed the District Court's decision. The portion of additional costs claimed by the Contractor in its initial complaint that would be attributable to Georgia Power (based on Georgia Power's ownership interest) is approximately $425 million (in 2008 dollars). The Contractor also asserted it is entitled to extensions of the guaranteed substantial completion dates of April 2016 and April 2017 for Plant Vogtle Units 3 and 4, respectively. In May 2014, the Contractor filed an amended counterclaim to the suit pending in the U.S. District Court for the Southern District of Georgia alleging that (i) the design changes to the DCD imposed by the NRC delayed module production and the impacts to the Contractor are recoverable by the Contractor under the Vogtle 3 and 4 Agreement and (ii) the changes to the basemat rebar design required by the NRC caused additional costs and delays recoverable by the Contractor under the Vogtle 3 and 4 Agreement. The Contractor did not specify in its amended counterclaim the amounts relating to these new allegations; however, the Contractor has subsequently asserted related minimum damages (based on Georgia Power's ownership interest) of $113 million. The Contractor may from time to time continue to assert that it is entitled to additional payments with respect to these allegations, any of which could be substantial. Georgia Power has not agreed to the proposed cost or to any changes to the guaranteed substantial completion dates or that the Vogtle Owners have any responsibility for costs related to these issues. Litigation is ongoing and Georgia Power intends to vigorously defend the positions of the Vogtle Owners. Georgia Power also expects negotiations with the Contractor to continue with respect to cost and schedule. During such negotiations the parties may reach a mutually acceptable compromise of their positions.

Georgia Power is required to file semi-annual VCM reports with the Georgia PSC by February 28 and August 31 each year. If the projected certified construction capital costs to be borne by Georgia Power increase by 5% or the projected in-service dates are significantly extended, Georgia Power is required to seek an amendment to the Plant Vogtle Units 3 and 4 certificate from the Georgia PSC. Georgia Power's eighth VCM report filed in 2013 requested an amendment to the certificate to increase the estimated in-service capital cost of Plant Vogtle Units 3 and 4 from $4.4 billion to $4.8 billion and to extend the estimated in-service dates to the fourth quarter 2017 and the fourth quarter 2018 for Plant Vogtle Units 3 and 4, respectively. In 2013, the Georgia PSC approved a stipulation (2013 Stipulation) entered into by Georgia Power and the Georgia PSC staff to waive the requirement to amend the Plant Vogtle Units 3 and 4 certificate, until the completion of Plant Vogtle Unit 3, or earlier if deemed appropriate by the Georgia PSC and Georgia Power. The Georgia PSC has approved eleven VCM reports covering the periods through June 30, 2014, including construction capital costs incurred, which through that date totaled $2.8 billion.

On January 29, 2015, Georgia Power announced it was notified by the Contractor of the Contractor's revised forecast for completion of Plant Vogtle Units 3 and 4, which would incrementally delay the previously disclosed estimated in-service dates by 18 months (from the fourth quarter of 2017 to the second quarter of 2019 for Unit 3 and from the fourth quarter of 2018 to the second quarter of 2020 for Unit 4).

Georgia Power does not believe that the Contractor's revised forecast reflects all efforts that may be possible to mitigate the Contractor's delay. In addition, Georgia Power believes that, pursuant to the Vogtle 3 and 4 Agreement, the Contractor is responsible for the Contractor's costs related to the Contractor's delay (including any related construction and mitigation costs, which could be material) and that the Vogtle Owners are entitled to recover liquidated damages for the Contractor's delay beyond the guaranteed substantial completion dates of April 2016 and April 2017 for Plant Vogtle Units 3 and 4, respectively. Consistent with the Contractor's position in the pending litigation described above, Georgia Power expects the Contractor to contest any claims for liquidated damages and to assert that the Vogtle Owners are responsible for additional costs related to the Contractor's delay.

On February 27, 2015, Georgia Power filed its twelfth VCM report with the Georgia PSC covering the period from July 1 through December 31, 2014, which requested approval for an additional $0.2 billion of construction capital costs incurred during that period. The twelfth VCM report also reflected the Contractor's revised forecast for completion of Plant Vogtle Units 3 and 4 as well as additional estimated owner-related costs, which include approximately $10 million per month expected to result from the Contractor's proposed 18-month delay, including property taxes, oversight costs, compliance costs, and other operational readiness costs. No Contractor costs related to the Contractor's proposed 18-month delay were included in the twelfth VCM report. Additionally, while Georgia Power has not agreed to any change to the guaranteed substantial completion dates, the twelfth VCM report included a requested amendment (Requested Amendment) to the Plant Vogtle Units 3 and 4 certificate to reflect the Contractor's revised forecast, to include the estimated owner's costs associated with the proposed 18-month Contractor delay, and to increase the estimated total in-service capital cost of Plant Vogtle Units 3 and 4 to $5.0 billion.

Georgia Power will continue to incur financing costs of approximately $30 million per month until Plant Vogtle Units 3 and 4 are placed in service. The twelfth VCM report estimated financing costs during the construction period to total approximately $2.5 billion.

On April 15, 2015, the Georgia PSC issued a procedural order in connection with the twelfth VCM report. Pursuant to this order, the Georgia PSC deemed the Requested Amendment unnecessary and withdrawn until the completion of construction of Plant Vogtle Unit 3 consistent with the 2013 Stipulation. The Georgia PSC recognized that the certified cost and the 2013 Stipulation do not constitute a cost recovery cap. In accordance with the Georgia Integrated Resource Planning Act, any costs incurred by Georgia Power in excess of the certified amount will be included in rate base, provided Georgia Power shows the costs to be reasonable and prudent. Financing costs up to the certified amount will be collected through the NCCR tariff until the units are placed in service, while financing costs on any construction-related costs in excess of the $4.4 billion certified amount are expected to be recovered through AFUDC.

Processes are in place that are designed to assure compliance with the requirements specified in the DCD and the COLs, 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 issues are expected to arise as construction proceeds, which may result in additional license amendments or require other resolution. If any license amendment requests or other licensing-based compliance issues are not resolved in a timely manner, there may be delays in the project schedule that could result in increased costs either to the Vogtle Owners or the Contractor or to both.

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

Additional claims by the Contractor or Georgia Power (on behalf of the Vogtle Owners) are also likely to arise throughout construction. These claims may be resolved through formal and informal dispute resolution procedures under the Vogtle 3 and 4 Agreement, but also may be resolved through litigation.

See RISK FACTORS of Georgia Power in Item 1A of the Form 10-K for a discussion of certain risks associated with the licensing, construction, and operation of nuclear generating units, including potential impacts that could result from a major incident at a nuclear facility anywhere in the world.

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

Other Matters

Georgia Power is involved in various other matters being litigated and regulatory matters that could affect future earnings. In addition, Georgia Power is subject to certain claims and legal actions arising in the ordinary course of business. Georgia Power's business activities are subject to extensive governmental regulation related to public health and the environment, such as regulation of air emissions and water discharges. Litigation over environmental issues and claims of various types, including property damage, personal injury, common law nuisance, and citizen enforcement of environmental requirements, such as air quality and water standards, has occurred throughout the U.S. This litigation has included claims for damages alleged to have been caused by CO_2 and other emissions, CCR, and alleged exposure to hazardous materials, and/or requests for injunctive relief in connection with such matters.

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

ACCOUNTING POLICIES

Application of Critical Accounting Policies and Estimates

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

Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued ASC 606, Revenue from Contracts with Customers. ASC 606 revises the accounting for revenue recognition. On April 29, 2015, the FASB issued an exposure draft proposing the standard be effective for fiscal years beginning after December 15, 2017. Georgia Power continues to evaluate the requirements of ASC 606. The ultimate impact of the new standard has not yet been determined.

On April 7, 2015, the FASB issued Accounting Standards Update (ASU) No. 2015-03, Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability and is effective for fiscal years beginning after December 15, 2015. Georgia Power currently reflects unamortized debt issuance costs in other deferred charges and assets on its balance sheet. Upon adoption, the reclassification will not have a material impact on the results of operations, financial position, or cash flows of Georgia Power.

FINANCIAL CONDITION AND LIQUIDITY

Overview

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Overview" of Georgia Power in Item 7 of the Form 10-K for additional information. Georgia Power's financial condition remained stable at March 31, 2015. Georgia Power intends to continue to monitor its access to short-term and long-term capital markets as well as bank credit agreements to meet future capital and liquidity needs. See "Capital Requirements and Contractual Obligations," "Sources of Capital," and "Financing Activities" herein for additional information.

Net cash provided from operating activities totaled $363 million for the first three months of 2015 compared to $499 million for the corresponding period in 2014. The decrease was primarily due to lower operating revenues, partially offset by increased fuel cost recovery. Net cash used for investing activities totaled $405 million for the first three months of 2015 compared to $480 million for the corresponding period in 2014 primarily related to installation of equipment to comply with environmental standards, construction of transmission and distribution facilities, and purchases of nuclear fuel. Net cash provided from financing activities totaled $431 million for the first three months of 2015 compared to $31 million used for financing activities in the corresponding period in 2014. The increase in cash provided from financing activities is primarily due to an increase in short-term debt borrowings. Fluctuations in cash flow from financing activities vary from period to period based on capital needs and the maturity or redemption of securities.

Significant balance sheet changes for the first three months of 2015 include increases of $378 million in property, plant, and equipment, $684 million in short-term debt, and $389 million in cash and cash equivalents.

Capital Requirements and Contractual Obligations

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Capital Requirements and Contractual Obligations" of Georgia Power in Item 7 of the Form 10-K for a description of Georgia Power's capital requirements for its construction program, including estimated capital expenditures for Plant Vogtle Units 3 and 4 and to comply with existing environmental statutes and regulations, scheduled maturities of long-term debt, as well as related interest, derivative obligations, preferred and preference stock dividends, leases, purchase commitments, and trust funding requirements. Approximately $1.6 billion will be required through March 31, 2016 to fund maturities of long-term debt. See "Sources of Capital" herein for additional information.

The construction program is subject to periodic review and revision, and actual construction costs may vary from these estimates because of numerous factors. These factors include: changes in business conditions; changes in load projections; changes in environmental statutes 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 units, to meet regulatory requirements; changes in FERC rules and regulations; Georgia PSC approvals; changes in the expected environmental compliance program; changes in legislation; the cost and efficiency of construction labor, equipment, and materials; project scope and design changes; storm impacts; and the cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered. See Note 3 to the financial statements of Georgia Power under "Retail Regulatory Matters – Nuclear Construction" in Item 8 of the Form 10-K and Note (B) to the Condensed Financial Statements under

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

Sources of Capital

Except as described below with respect to the DOE loan guarantees, Georgia Power plans to obtain the funds required for construction and other purposes from sources similar to those used in the past, which were primarily from operating cash flows, short-term debt, security issuances, term loans, and equity contributions from Southern Company. However, the amount, type, and timing of any future financings, if needed, will depend upon regulatory approval, prevailing market conditions, and other factors. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Sources of Capital" of Georgia Power in Item 7 of the Form 10-K for additional information.

In addition, Georgia Power may make borrowings through a loan guarantee agreement (Loan Guarantee Agreement) between Georgia Power and the DOE, the proceeds of which may be used to reimburse Georgia Power for eligible costs incurred in connection with its construction of Plant Vogtle Units 3 and 4. Under the Loan Guarantee Agreement, the DOE agreed to guarantee borrowings of up to $3.46 billion (not to exceed 70% of eligible costs) to be made by Georgia Power under a multi-advance credit facility (FFB Credit Facility) among Georgia Power, the DOE, and the FFB. See Note 6 to the financial statements of Georgia Power under "DOE Loan Guarantee Borrowings" in Item 8 of the Form 10-K for additional information regarding the Loan Guarantee Agreement and Note (B) to the Condensed Financial Statements under "Retail Regulatory Matters – Georgia Power – Nuclear Construction" herein for additional information regarding Plant Vogtle Units 3 and 4.

Eligible project costs incurred through March 31, 2015 would allow for borrowings of up to $2.1 billion under the FFB Credit Facility. Through March 31, 2015, Georgia Power has borrowed $1.2 billion under the FFB Credit Facility, leaving $0.9 billion of available borrowing ability.

As of March 31, 2015, Georgia Power's current liabilities exceeded current assets by $1.7 billion primarily due to approximately $2.4 billion of long-term debt due within one year and notes payable. In 2015, Georgia Power expects to utilize borrowings through the FFB as the primary source of long-term borrowed funds. Georgia Power also intends to utilize operating cash flows, as well as commercial paper, lines of credit, bank notes, and securities issuances, as market conditions permit, and equity contributions from Southern Company to fund its short-term capital needs. Georgia Power has substantial cash flow from operating activities and access to the capital markets and financial institutions to meet liquidity needs.

At March 31, 2015, Georgia Power had approximately $413 million of cash and cash equivalents. Committed credit arrangements with banks at March 31, 2015 were as follows:

Expires				Due Within One Year	
2016	2018	Total	Unused	Term Out	No Term Out
(in millions)		(in millions)		(in millions)	
$150	$1,600	$1,750	$1,736	$—	$150

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

A portion of the unused credit with banks is allocated to provide liquidity support to Georgia Power's variable rate pollution control revenue bonds and commercial paper program. The amount of variable rate pollution control revenue bonds outstanding requiring liquidity support as of March 31, 2015 was approximately $865 million. In addition, at March 31, 2015, Georgia Power had $118 million of fixed rate pollution control revenue bonds outstanding that were required to be remarketed within the next 12 months. Subsequent to March 31, 2015, $65

million of these fixed rate pollution control revenue bonds were purchased and are being held by Georgia Power and currently are not required to be remarketed within the next 12 months.

Georgia Power's credit arrangements contain covenants that limit debt levels and contain cross default provisions to other indebtedness (including guarantee obligations) of Georgia Power. Such cross default provisions to other indebtedness would trigger an event of default if Georgia Power defaulted on indebtedness or guarantee obligations over a specified threshold. Georgia Power is currently in compliance with all such covenants. None of the bank credit arrangements contain material adverse change clauses at the time of borrowings.

Subject to applicable market conditions, Georgia Power expects to renew or replace its credit arrangements, as needed, prior to expiration.

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

Details of short-term borrowings were as follows:

	Short-term Debt at March 31, 2015		Short-term Debt During the Period(*)		
	Amount Outstanding	Weighted Average Interest Rate	Average Outstanding	Weighted Average Interest Rate	Maximum Amount Outstanding
	(in millions)		(in millions)		(in millions)
Commercial paper	$590	0.3 %	$272	0.3 %	$678
Short-term bank debt	250	0.8 %	3	0.8 %	250
Total	$840	0.4 %	$275	0.3 %	

(*) Average and maximum amounts are based upon daily balances during the three-month period ended March 31, 2015.

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

Credit Rating Risk

Georgia Power does not have any credit arrangements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade.

There are certain contracts that could require collateral, but not accelerated payment, in the event of a credit rating change to BBB- and/or Baa3 or below. These contracts are for physical electricity purchases and sales, fuel purchases, fuel transportation and storage, energy price risk management, interest rate derivatives, and construction of new generation. The maximum potential collateral requirements under these contracts at March 31, 2015 were as follows:

Credit Ratings	Maximum Potential Collateral Requirements
	(in millions)
At BBB- and/or Baa3	$24
Below BBB- and/or Baa3	1,424

Included in these amounts are certain agreements that could require collateral in the event that one or more Southern Company system power pool participants has a credit rating change to below investment grade. Generally, collateral may be provided by a Southern Company guaranty, letter of credit, or cash.

Additionally, a credit rating downgrade could impact Georgia Power's access to the short-term debt market and the variable rate pollution control revenue bond market.

Financing Activities

In March 2015, Georgia Power entered into a three-month floating rate bank loan bearing interest based on one-month LIBOR. This short-term loan was for $250 million aggregate principal amount and the proceeds were used for working capital and other general corporate purposes.

Subsequent to March 31, 2015, Georgia Power purchased and held $65 million aggregate principal amount of Development Authority of Burke County (Georgia) Pollution Control Revenue Bonds (Georgia Power Company Plant Vogtle Project), Second Series 2008. Georgia Power may reoffer these bonds to the public at a later date.

Also subsequent to March 31, 2015, Georgia Power redeemed $125 million aggregate principal amount of its Series Y 5.80% Senior Notes due April 15, 2035; as a result, Georgia Power reclassified the outstanding principal balance to securities due within one year at March 31, 2015.

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

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GULF POWER COMPANY
CONDENSED STATEMENTS OF INCOME (UNAUDITED)

	For the Three Months Ended March 31,	
	2015	2014
	(in millions)	
Operating Revenues:		
Retail revenues	$293	$303
Wholesale revenues, non-affiliates	25	36
Wholesale revenues, affiliates	22	53
Other revenues	17	15
Total operating revenues	357	407
Operating Expenses:		
Fuel	110	168
Purchased power, non-affiliates	25	15
Purchased power, affiliates	9	7
Other operations and maintenance	93	84
Depreciation and amortization	20	32
Taxes other than income taxes	28	27
Total operating expenses	285	333
Operating Income	72	74
Other Income and (Expense):		
Allowance for equity funds used during construction	4	2
Interest expense, net of amounts capitalized	(13)	(13)
Other income (expense), net	(1)	(1)
Total other income and (expense)	(10)	(12)
Earnings Before Income Taxes	62	62
Income taxes	23	23
Net Income	39	39
Dividends on Preference Stock	2	2
Net Income After Dividends on Preference Stock	$37	$37

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	For the Three Months Ended March 31,	
	2015	2014
	(in millions)	
Net Income	$39	$39
Other comprehensive income (loss)	—	—
Comprehensive Income	$39	$39

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

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GULF POWER COMPANY
CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the Three Months Ended March 31,	
	2015	2014
	(in millions)	
Operating Activities:		
Net income	$39	$39
Adjustments to reconcile net income to net cash provided from operating activities —		
Depreciation and amortization, total	22	34
Deferred income taxes	27	14
Allowance for equity funds used during construction	(4)	(2)
Other, net	11	2
Changes in certain current assets and liabilities —		
-Receivables	12	(25)
-Fossil fuel stock	(2)	46
-Prepaid income taxes	3	10
-Other current assets	2	1
-Accounts payable	(28)	6
-Accrued taxes	5	9
-Accrued compensation	(16)	(5)
-Other current liabilities	10	13
Net cash provided from operating activities	81	142
Investing Activities:		
Property additions	(84)	(79)
Cost of removal, net of salvage	(5)	(3)
Other investing activities	(3)	(1)
Net cash used for investing activities	(92)	(83)
Financing Activities:		
Increase (decrease) in notes payable, net	40	(75)
Proceeds — Common stock issued to parent	20	50
Payment of preference stock dividends	(2)	(2)
Payment of common stock dividends	(33)	(31)
Other financing activities	2	—
Net cash provided from (used for) financing activities	27	(58)
Net Change in Cash and Cash Equivalents	16	1
Cash and Cash Equivalents at Beginning of Period	39	22
Cash and Cash Equivalents at End of Period	$55	$23
Supplemental Cash Flow Information:		
Cash paid (received) during the period for —		
Interest (net of $2 and $1 capitalized for 2015 and 2014, respectively)	$3	$5
Income taxes, net	(8)	(6)
Noncash transactions — Accrued property additions at end of period	41	33

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

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GULF POWER COMPANY
CONDENSED BALANCE SHEETS (UNAUDITED)

Assets	At March 31, 2015	At December 31, 2014
	(in millions)	
Current Assets:		
Cash and cash equivalents	$55	$39
Receivables —		
Customer accounts receivable	79	73
Unbilled revenues	52	58
Under recovered regulatory clause revenues	53	57
Other accounts and notes receivable	9	8
Affiliated companies	1	10
Accumulated provision for uncollectible accounts	(2)	(2)
Fossil fuel stock, at average cost	104	101
Materials and supplies, at average cost	54	56
Other regulatory assets, current	77	74
Prepaid expenses	38	40
Other current assets	2	2
Total current assets	522	516
Property, Plant, and Equipment:		
In service	4,405	4,495
Less accumulated provision for depreciation	1,236	1,296
Plant in service, net of depreciation	3,169	3,199
Other utility plant, net	79	—
Construction work in progress	474	465
Total property, plant, and equipment	3,722	3,664
Other Property and Investments	15	15
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	59	56
Other regulatory assets, deferred	423	416
Other deferred charges and assets	37	41
Total deferred charges and other assets	519	513
Total Assets	$4,778	$4,708

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

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GULF POWER COMPANY
CONDENSED BALANCE SHEETS (UNAUDITED)

Liabilities and Stockholder's Equity	At March 31, 2015	At December 31, 2014
	(in millions)	
Current Liabilities:		
Securities due within one year	$23	$—
Notes payable	150	110
Accounts payable —		
Affiliated	68	87
Other	49	56
Customer deposits	35	35
Other accrued taxes	14	9
Accrued interest	21	11
Accrued compensation	7	23
Deferred capacity expense, current	22	22
Liabilities from risk management activities	37	37
Other current liabilities	24	23
Total current liabilities	450	413
Long-term Debt	1,347	1,370
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	836	800
Employee benefit obligations	120	121
Other cost of removal obligations	218	235
Other regulatory liabilities, deferred	45	49
Deferred capacity expense	158	163
Other deferred credits and liabilities	120	101
Total deferred credits and other liabilities	1,497	1,469
Total Liabilities	3,294	3,252
Preference Stock	147	147
Common Stockholder's Equity:		
Common stock, without par value —		
Authorized — 20,000,000 shares		
Outstanding — March 31, 2015: 5,642,717 shares		
— December 31, 2014: 5,442,717 shares	503	483
Paid-in capital	563	560
Retained earnings	272	267
Accumulated other comprehensive loss	(1)	(1)
Total common stockholder's equity	1,337	1,309
Total Liabilities and Stockholder's Equity	$4,778	$4,708

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

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FIRST QUARTER 2015 vs. FIRST QUARTER 2014

OVERVIEW

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

Many factors affect the opportunities, challenges, and risks of Gulf Power's business of selling electricity. These factors include the ability to maintain a constructive regulatory environment, to maintain and grow energy sales, and to effectively manage and secure timely recovery of costs. These costs include those related to projected long-term demand growth, increasingly stringent environmental standards, reliability, restoration following major storms, and fuel. Appropriately balancing required costs and capital expenditures with customer prices will continue to challenge Gulf Power for the foreseeable future.

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

RESULTS OF OPERATIONS

Net Income

Gulf Power's net income after dividends on preference stock for the first quarter 2015 and the corresponding period in 2014 was $37 million. Net income for the first quarter 2015 was positively impacted by a reduction in depreciation expense, as authorized by the Florida PSC, which was largely offset by higher operations and maintenance expenses.

Retail Revenues

First Quarter 2015 vs. First Quarter 2014

(change in millions)	(% change)
$(10)	(3.3)

In the first quarter 2015, retail revenues were $293 million compared to $303 million for the corresponding period in 2014.

Details of the changes in retail revenues were as follows:

	First Quarter 2015 (in millions)	(% change)
Retail – prior year	$303	
Estimated change resulting from –		
Rates and pricing	4	1.3
Sales decline	(2)	(0.7)
Weather	—	—
Fuel and other cost recovery	(12)	(3.9)
Retail – current year	$293	(3.3)%

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters" of Gulf Power in Item 7 and Note 1 to the financial statements of Gulf Power under

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"Revenues" and Note 3 to the financial statements of Gulf Power under "Retail Regulatory Matters" in Item 8 of the Form 10-K for additional information regarding Gulf Power's retail base rate case and cost recovery clauses, including Gulf Power's fuel cost recovery, purchased power capacity recovery, environmental cost recovery, and energy conservation cost recovery clauses.

Revenues associated with changes in rates and pricing increased in the first quarter 2015 when compared to the corresponding period in 2014 primarily due to an increase in retail base rates effective in January 2015 and higher revenues associated with an increase in the environmental and energy conservation cost recovery clause rates effective in January 2015.

Revenues attributable to changes in sales decreased in the first quarter 2015 when compared to the corresponding period in 2014. Weather-adjusted KWH energy sales to residential and commercial customers decreased 5.2% and 2.0%, respectively, due to lower customer usage, partially offset by customer growth. KWH energy sales to industrial customers decreased 2.5% primarily due to increased customer co-generation.

Fuel and other cost recovery revenues decreased in the first quarter 2015 when compared to the corresponding period in 2014 primarily due to lower revenues associated with recoverable fuel costs for decreased generation and purchased power costs, partially offset by higher revenues associated with increased recoverable costs under Gulf Power's purchased power capacity cost recovery clause.

Fuel and other cost recovery provisions include fuel expenses, the energy component of purchased power costs, purchased power capacity costs, and the difference between projected and actual costs and revenues related to energy conservation and environmental compliance. See Note 3 to the financial statements of Gulf Power under "Retail Regulatory Matters – Cost Recovery Clauses – Retail Fuel Cost Recovery" in Item 8 of the Form 10-K for additional information.

Wholesale Revenues – Non-Affiliates

First Quarter 2015 vs. First Quarter 2014

(change in millions)	(% change)
$(11)	(30.6)

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

In the first quarter 2015, wholesale revenues from sales to non-affiliates were $25 million compared to $36 million for the corresponding period in 2014. The decrease was primarily due to a 59.7% decrease in KWH sales resulting from lower sales under the Plant Scherer Unit 3 long-term sales agreements due to a planned outage and lower natural gas prices that led to increased customer generation.

Wholesale Revenues – Affiliates

First Quarter 2015 vs. First Quarter 2014

(change in millions)	(% change)
$(31)	(58.5)

Wholesale revenues from sales to affiliated companies will vary depending on demand and the availability and cost of generating resources at each company. These affiliate sales are made in accordance with the IIC, as approved by

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the FERC. These transactions do not have a significant impact on earnings since the revenue related to these energy sales generally offsets the cost of energy sold.

In the first quarter 2015, wholesale revenues from sales to affiliates were $22 million compared to $53 million for the corresponding period in 2014. The decrease was primarily due to a 28.5% decrease in the price of energy sold to affiliates due to lower pool interchange rates resulting from lower natural gas prices and a 40.8% decrease in KWH sales that resulted from more planned outages for Gulf Power generation resources.

Fuel and Purchased Power Expenses

	First Quarter 2015 vs. First Quarter 2014 (change in millions)	(% change)
Fuel	$(58)	(34.5)
Purchased power – non-affiliates	10	66.7
Purchased power – affiliates	2	28.6
Total fuel and purchased power expenses	$(46)	

In the first quarter 2015, total fuel and purchased power expenses were $144 million compared to $190 million for the corresponding period in 2014. The decrease was primarily the result of a $39 million decrease in the volume of KWHs generated and purchased due to more planned outages for Gulf Power's generation and a resource contracted under a PPA and a $7 million decrease due to the lower average cost of fuel and purchased power.

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

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

	First Quarter 2015	First Quarter 2014
Total generation (millions of KWHs)	2,236	2,962
Total purchased power (millions of KWHs)	1,259	1,430
Sources of generation (percent) –		
Coal	59	70
Gas	41	30
Cost of fuel, generated (cents per net KWH) –		
Coal	3.98	4.31
Gas	3.95	3.66
Average cost of fuel, generated (cents per net KWH)	3.97	4.11
Average cost of purchased power (cents per net KWH)(*)	4.36	4.79

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

Fuel

In the first quarter 2015, fuel expense was $110 million compared to $168 million for the corresponding period in 2014. The decrease was primarily due to a 24.5% decrease in the volume of KWHs generated due to more planned outages for Gulf Power's generation and a resource contracted under a PPA in the first quarter 2015.

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Purchased Power – Non-Affiliates
In the first quarter 2015, purchased power expense from non-affiliates was $25 million compared to $15 million for the corresponding period in 2014. The increase was primarily due to an increase in the average cost per KWH purchased, which included a $16 million increase in capacity costs associated with a scheduled rate increase for an existing PPA, partially offset by the expiration of another PPA in mid-2014. The increase was partially offset by a 25.2% decrease in the volume of KWHs purchased due to a planned outage for a resource contracted under a PPA.
Energy purchases from non-affiliates will vary depending on the market prices of wholesale energy compared to the cost of the Southern Company system's generation, demand for energy within the Southern Company system's service territory, and the availability of the Southern Company system's generation.
Purchased Power – Affiliates
In the first quarter 2015, purchased power expense from affiliates was $9 million compared to $7 million for the corresponding period in 2014. The increase was primarily due to an 87.8% increase in the volume of KWHs purchased due to more planned outages for Gulf Power's generation and a resource contracted under a PPA, partially offset by a 33.2% decrease in the average cost per KWH purchased.
Energy purchases from affiliates will vary depending on demand and the availability and cost of generating resources at each company within the Southern Company system. These purchases are made in accordance with the IIC or other contractual agreements, all as approved by the FERC.
Other Operations and Maintenance Expenses

First Quarter 2015 vs. First Quarter 2014	
(change in millions)	(% change)
$9	10.7

In the first quarter 2015, other operations and maintenance expenses were $93 million compared to $84 million for the corresponding period in 2014. The increase was primarily due to increases of $7 million in routine and planned maintenance expense at generation facilities and $2 million in employee compensation and benefits including pension costs. See Note (F) to the Condensed Financial Statements herein for additional information related to pension costs.
Depreciation and Amortization

First Quarter 2015 vs. First Quarter 2014	
(change in millions)	(% change)
$(12)	(37.5)

In the first quarter 2015, depreciation and amortization was $20 million compared to $32 million for the corresponding period in 2014. As authorized by the Florida PSC in a settlement agreement, Gulf Power recorded a $19.6 million reduction in depreciation expense in the first quarter 2015 as compared to $6.2 million in the corresponding period in 2014. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters – Retail Base Rate Case" of Gulf Power in Item 7 and Note 3 to the financial statements of Gulf Power under "Retail Regulatory Matters – Retail Base Rate Case" in Item 8 of the Form 10-K and Note (B) to the Condensed Financial Statements under "Retail Regulatory Matters – Gulf Power – Retail Base Rate Case" herein for additional information.

Allowance for Equity Funds Used During Construction

First Quarter 2015 vs. First Quarter 2014	
(change in millions)	(% change)
$2	100.0

In the first quarter 2015, AFUDC equity was $4 million compared to $2 million for the corresponding period in 2014. The increase was primarily due to increased construction related to environmental control projects at generation and transmission facilities.

FUTURE EARNINGS POTENTIAL

The results of operations discussed above are not necessarily indicative of Gulf Power's future earnings potential. The level of Gulf Power's future earnings depends on numerous factors that affect the opportunities, challenges, and risks of Gulf Power's business of selling electricity. These factors include Gulf Power's ability to maintain a constructive regulatory environment that continues to allow for the timely recovery of prudently-incurred costs during a time of increasing costs. Future earnings in the near term will depend, in part, upon maintaining and growing sales which are subject to a number of factors. These factors include weather, competition, energy conservation practiced by customers, the price of electricity, the price elasticity of demand, the rate of economic growth or decline in Gulf Power's service territory, and the successful remarketing of wholesale capacity as current contracts expire. Changes in regional and global economic conditions may impact sales for Gulf Power as the pace of the economic recovery remains uncertain. The timing and extent of the economic recovery will impact growth and may impact future earnings. For additional information relating to these issues, see RISK FACTORS in Item 1A and MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL of Gulf Power in Item 7 of the Form 10-K.

Gulf Power's wholesale business consists of two types of agreements. The first type, referred to as requirements service, provides that Gulf Power serves the customer's capacity and energy requirements from other Gulf Power resources. The second type, referred to as a unit sale, is a wholesale customer purchase from a dedicated generating plant unit where a portion of that unit is reserved for the customer. These agreements are associated with Gulf Power's co-ownership of a unit with Georgia Power at Plant Scherer and consist of both capacity and energy sales. Capacity revenues represent the majority of Gulf Power's wholesale earnings. Gulf Power currently has long-term sales agreements for 100% of Gulf Power's ownership of that unit through 2015 and 41% through 2019. These capacity revenues represented 82% of total wholesale capacity revenues for 2014. Gulf Power is actively pursuing replacement wholesale contracts but the expiration of current contracts could have a material negative impact on Gulf Power's earnings. In the event some portion of Gulf Power's ownership in Plant Scherer is not subject to a replacement long-term wholesale contract, the proportionate amount of the unit may be sold into the power pool or into the wholesale market.

Environmental Matters

Compliance costs related to federal and state environmental statutes and regulations could affect earnings if such costs cannot continue to be recovered in retail rates or through long-term wholesale agreements on a timely basis or through market-based contracts. The State of Florida has statutory provisions that allow a utility to petition the Florida PSC for recovery of prudent environmental compliance costs that are not being recovered through base rates or any other recovery mechanism. Gulf Power's current long-term wholesale agreements contain provisions that permit charging the customer with costs incurred as a result of changes in environmental laws and regulations. The full impact of any such regulatory or legislative changes cannot be determined at this time. Environmental compliance spending over the next several years may differ materially from the amounts estimated. The timing, specific requirements, and estimated costs could change as environmental statutes and regulations are adopted or modified. Further, higher costs that are recovered through regulated rates or long-term wholesale agreements could contribute to reduced demand for electricity as well as impact the cost competitiveness of wholesale capacity, which could negatively affect results of operations, cash flows, and financial condition. See MANAGEMENT'S

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DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters" and "Retail Regulatory Matters – Cost Recovery Clauses – Environmental Cost Recovery" of Gulf Power in Item 7 and Note 3 to the financial statements of Gulf Power under "Environmental Matters" in Item 8 of the Form 10-K for additional information.

Environmental Statutes and Regulations

Coal Combustion Residuals

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

On April 17, 2015, the EPA published the Disposal of Coal Combustion Residuals from Electric Utilities final rule (CCR Rule) in the Federal Register, setting October 14, 2015 as the effective date of the CCR Rule. The ultimate impact of the CCR Rule cannot be determined at this time and will depend on Gulf Power's ongoing review of the CCR Rule, the results of initial and ongoing minimum criteria assessments, and the outcome of legal challenges. Based on initial estimates, Gulf Power expects to record incremental asset retirement obligations of approximately $70 million to $80 million related to the CCR Rule in the second quarter 2015.

FERC Matters

Gulf Power has authority from the FERC to sell electricity at market-based rates. Since 2008, that authority, for certain balancing authority areas, has been conditioned on compliance with the requirements of an energy auction, which the FERC found to be tailored mitigation that addresses potential market power concerns. In accordance with FERC regulations governing such authority, the traditional operating companies (including Gulf Power) and Southern Power filed a triennial market power analysis on June 30, 2014, which included continued reliance on the energy auction as tailored mitigation. On April 27, 2015, the FERC issued an order finding that the traditional operating companies' (including Gulf Power's) and Southern Power's existing tailored mitigation may not effectively mitigate the potential to exert market power in certain areas served by the traditional operating companies and in some adjacent areas. To retain market-based rate authority, the FERC has directed the traditional operating companies (including Gulf Power) and Southern Power, within 60 days, to show why market-based rate authority should not be revoked in these areas or to provide a mitigation plan to further address market power concerns. Gulf Power is evaluating the order. The ultimate outcome of this matter cannot be determined at this time.

Retail Regulatory Matters

Gulf Power's rates and charges for service to retail customers are subject to the regulatory oversight of the Florida PSC. Gulf Power's rates are a combination of base rates and several separate cost recovery clauses for specific categories of costs. These separate cost recovery clauses address such items as fuel and purchased energy costs, purchased power capacity costs, energy conservation and demand side management programs, and the costs of compliance with environmental laws and regulations. Costs not addressed through one of the specific cost recovery clauses are recovered through base rates. See Note 3 to the financial statements of Gulf Power under "Retail Regulatory Matters – Retail Base Rate Case" in Item 8 of the Form 10-K for additional information.

Retail Base Rate Case

In December 2013, the Florida PSC approved a settlement agreement that provides Gulf Power may reduce depreciation expense and record a regulatory asset up to $62.5 million between January 2014 and June 2017. In any given month, such depreciation expense reduction may not exceed the amount necessary for the ROE, as reported to the Florida PSC monthly, to reach the midpoint of the authorized retail ROE range then in effect. Gulf Power recognized a $19.6 million reduction in depreciation expense in the first three months of 2015.

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Cost Recovery Clauses
See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters – Cost Recovery Clauses" of Gulf Power in Item 7 and Note 3 to the financial statements of Gulf Power under "Retail Regulatory Matters – Cost Recovery Clauses" in Item 8 of the Form 10-K for additional information regarding Gulf Power's recovery of retail costs through various regulatory clauses and accounting orders. Gulf Power has four regulatory clauses which are approved by the Florida PSC. See Note (B) to the Condensed Financial Statements herein for additional information.
Renewables
The Florida PSC preliminarily approved on April 16, 2015, three energy purchase agreements totaling 120 MWs of utility-scale solar generation located at three military installations in northwest Florida. These contracts are expected to begin in 2016 with a term of 25 years each. The Florida PSC preliminarily approved on May 5, 2015, an energy purchase agreement for up to 178 MWs of wind generation in central Oklahoma. The agreement is expected to begin by the end of 2015 with a term of 20 years. Purchases under these agreements will be for energy only and are expected to be recovered through Gulf Power's fuel cost recovery mechanism. The ultimate outcome of these matters cannot be determined at this time.
Other Matters
Gulf Power is involved in various other matters being litigated and regulatory matters that could affect future earnings. In addition, Gulf Power is subject to certain claims and legal actions arising in the ordinary course of business. Gulf Power's business activities are subject to extensive governmental regulation related to public health and the environment, such as regulation of air emissions and water discharges. Litigation over environmental issues and claims of various types, including property damage, personal injury, common law nuisance, and citizen enforcement of environmental requirements, such as air quality and water standards, has occurred throughout the U.S. This litigation included claims for damages alleged to have been caused by CO_2 and other emissions, CCR, and alleged exposure to hazardous materials, and/or requests for injunctive relief in connection with such matters.
The ultimate outcome of such pending or potential litigation against Gulf Power cannot be predicted at this time; however, for current proceedings not specifically reported in Note (B) to the Condensed Financial Statements herein or in Note 3 to the financial statements of Gulf Power in Item 8 of the Form 10-K, management does not anticipate that the ultimate liabilities, if any, arising from such current proceedings would have a material effect on Gulf Power's financial statements. See Note (B) to the Condensed Financial Statements herein for a discussion of various other contingencies, regulatory matters, and other matters being litigated which may affect future earnings potential.
ACCOUNTING POLICIES
Application of Critical Accounting Policies and Estimates
Gulf Power prepares its financial statements in accordance with GAAP. Significant accounting policies are described in Note 1 to the financial statements of Gulf Power in Item 8 of the Form 10-K. In the application of these policies, certain estimates are made that may have a material impact on Gulf Power's results of operations and related disclosures. Different assumptions and measurements could produce estimates that are significantly different from those recorded in the financial statements. See MANAGEMENT'S DISCUSSION AND ANALYSIS – ACCOUNTING POLICIES – "Application of Critical Accounting Policies and Estimates" of Gulf Power in Item 7 of the Form 10-K for a complete discussion of Gulf Power's critical accounting policies and estimates related to Electric Utility Regulation, Contingent Obligations, and Pension and Other Postretirement Benefits.
Recently Issued Accounting Standards
In May 2014, the Financial Accounting Standards Board (FASB) issued ASC 606, Revenue from Contracts with Customers. ASC 606 revises the accounting for revenue recognition. On April 29, 2015, the FASB issued an exposure draft proposing the standard be effective for fiscal years beginning after December 15, 2017. Gulf Power

continues to evaluate the requirements of ASC 606. The ultimate impact of the new standard has not yet been determined.

On April 7, 2015, the FASB issued Accounting Standards Update (ASU) No. 2015-03, Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability and is effective for fiscal years beginning after December 15, 2015. Gulf Power currently reflects unamortized debt issuance costs in other deferred charges and assets on its balance sheet. Upon adoption, the reclassification will not have a material impact on the results of operations, financial position, or cash flows of Gulf Power.

FINANCIAL CONDITION AND LIQUIDITY

Overview

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Overview" of Gulf Power in Item 7 of the Form 10-K for additional information. Gulf Power's financial condition remained stable at March 31, 2015. Gulf Power intends to continue to monitor its access to short-term and long-term capital markets as well as bank credit agreements to meet future capital and liquidity needs. See "Capital Requirements and Contractual Obligations," "Sources of Capital," and "Financing Activities" herein for additional information.

Net cash provided from operating activities totaled $81 million for the first three months of 2015 compared to $142 million for the corresponding period in 2014. The $61 million decrease in net cash was primarily due to decreases in cash flows related to the timing of fossil fuel stock purchases and decreases in accounts payable, partially offset by increases in the recovery of fuel costs. Net cash used for investing activities totaled $92 million in the first three months of 2015 primarily due to property additions related to steam generation and transmission. Net cash provided from financing activities totaled $27 million for the first three months of 2015 primarily due to an increase in notes payable and the issuance of common stock, partially offset by the payment of common stock dividends. Fluctuations in cash flow from financing activities vary from period to period based on capital needs and the maturity or redemption of securities.

Significant balance sheet changes for the first three months of 2015 include increases of $58 million in net property, plant, and equipment, $40 million in notes payable, $36 million in accumulated deferred income tax liabilities, and the reclassification of $23 million of long-term debt to debt due within one year.

Capital Requirements and Contractual Obligations

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Capital Requirements and Contractual Obligations" of Gulf Power in Item 7 of the Form 10-K for a description of Gulf Power's capital requirements for its construction program, including estimated capital expenditures to comply with existing environmental statutes and regulations, scheduled maturities of long-term debt, as well as related interest, leases, derivative obligations, preference stock dividends, purchase commitments, trust funding requirements, and unrecognized tax benefits. Approximately $23 million will be required through March 31, 2016 to fund the repayment of debt due within one year.

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

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Sources of Capital
Gulf Power plans to obtain the funds required for construction and other purposes from sources similar to those used in the past, which were primarily from operating cash flows, short-term debt, security issuances, term loans, and equity contributions from Southern Company. However, the amount, type, and timing of any future financings, if needed, will depend upon regulatory approval, prevailing market conditions, and other factors. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Sources of Capital" of Gulf Power in Item 7 of the Form 10-K for additional information.
Gulf Power's current liabilities frequently exceed current assets because of the continued use of short-term debt as a funding source to meet scheduled maturities of long-term debt, as well as cash needs, which can fluctuate significantly due to the seasonality of the business. Gulf Power has substantial cash flow from operating activities and access to the capital markets and financial institutions to meet short-term liquidity needs, including its commercial paper program which is supported by bank credit facilities.
At March 31, 2015, Gulf Power had approximately $55 million of cash and cash equivalents. Committed credit arrangements with banks at March 31, 2015 were as follows:

Expires					Executable Term Loans		Due Within One Year	
2015	2016	2017	Total	Unused	One Year	Two Years	Term Out	No Term Out
(in millions)			(in millions)		(in millions)		(in millions)	
$45	$200	$30	$275	$275	$50	$—	$50	$195

See Note 6 to the financial statements of Gulf Power under "Bank Credit Arrangements" in Item 8 of the Form 10-K and Note (E) to the Condensed Financial Statements under "Bank Credit Arrangements" herein for additional information.
Most of these bank credit arrangements contain covenants that limit debt levels and contain cross default provisions to other indebtedness (including guarantee obligations) that are restricted only to the indebtedness of Gulf Power. Such cross default provisions to other indebtedness would trigger an event of default if Gulf Power defaulted on indebtedness or guarantee obligations over a specified threshold. Gulf Power is currently in compliance with all such covenants. None of the bank credit arrangements contain material adverse change clauses at the time of borrowings. Subject to applicable market conditions, Gulf Power expects to renew or replace its bank credit arrangements, as needed, prior to expiration.
Most of the unused credit arrangements with banks is allocated to provide liquidity support to Gulf Power's variable rate pollution control revenue bonds and commercial paper program. The amount of variable rate pollution control revenue bonds outstanding requiring liquidity support as of March 31, 2015 was approximately $69 million. In addition, at March 31, 2015, Gulf Power had $78 million of fixed rate pollution control revenue bonds outstanding that were required to be remarketed within the next 12 months.
Gulf Power may also meet short-term cash needs through a Southern Company subsidiary organized to issue and sell commercial paper at the request and for the benefit of Gulf Power and the other traditional operating companies. Proceeds from such issuances for the benefit of Gulf Power are loaned directly to Gulf Power. The obligations of each company under these arrangements are several and there is no cross-affiliate credit support.

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Details of short-term borrowings were as follows:

	Short-term Debt at March 31, 2015		Short-term Debt During the Period(*)		
	Amount Outstanding	Weighted Average Interest Rate	Average Outstanding	Weighted Average Interest Rate	Maximum Amount Outstanding
	(in millions)		(in millions)		(in millions)
Commercial paper	$150	0.3%	$110	0.3%	$150

(*) Average and maximum amounts are based upon daily balances during the three-month period ended March 31, 2015.

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

Credit Rating Risk

Gulf Power does not have any credit arrangements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade.

There are certain contracts that could require collateral, but not accelerated payment, in the event of a credit rating change to BBB- and/or Baa3 or below. These contracts are for physical electricity purchases and sales, fuel transportation and storage, and energy price risk management. The maximum potential collateral requirements under these contracts at March 31, 2015 were as follows:

Credit Ratings	Maximum Potential Collateral Requirements
	(in millions)
At BBB- and/or Baa3	$74
Below BBB- and/or Baa3	447

Included in these amounts are certain agreements that could require collateral in the event that one or more Southern Company system power pool participants has a credit rating change to below investment grade. Generally, collateral may be provided by a Southern Company guaranty, letter of credit, or cash. Additionally, any credit rating downgrade could impact Gulf Power's ability to access capital markets, particularly the short-term debt market and the variable rate pollution control revenue bond market.

Market Price Risk

Gulf Power's market risk exposure relative to interest rate changes for the first quarter 2015 has not changed materially compared to the December 31, 2014 reporting period. Gulf Power's exposure to market volatility in commodity fuel prices and prices of electricity with respect to its wholesale generating capacity is limited because its long-term sales agreements shift substantially all fuel cost responsibility to the purchaser. However, Gulf Power could become exposed to market volatility in energy-related commodity prices to the extent any wholesale generating capacity is uncontracted. Gulf Power currently has long-term sales agreements for 100% of its wholesale capacity through 2015 and 41% through 2019. These capacity revenues represented 82% of total wholesale capacity revenues for 2014. Gulf Power is actively pursuing replacement wholesale contracts but the expiration of current contracts could have a material negative impact on Gulf Power's earnings. In the event some portion of Gulf Power's ownership in Plant Scherer is not subject to a replacement long-term wholesale contract, the proportionate amount of the unit may be sold into the power pool or into the wholesale market. For an in-depth discussion of Gulf Power's market risks, see MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Market Price Risk" of Gulf Power in Item 7 of the Form 10-K.

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Financing Activities

In January 2015, Gulf Power issued 200,000 shares of common stock to Southern Company and realized proceeds of $20 million. The proceeds were used to repay a portion of Gulf Power's short-term debt and for other general corporate purposes, including Gulf Power's continuous construction program.

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

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MISSISSIPPI POWER COMPANY
CONDENSED STATEMENTS OF OPERATIONS (UNAUDITED)

	For the Three Months Ended March 31,	
	2015	2014
	(in millions)	
Operating Revenues:		
Retail revenues	$167	$207
Wholesale revenues, non-affiliates	77	97
Wholesale revenues, affiliates	27	23
Other revenues	5	4
Total operating revenues	276	331
Operating Expenses:		
Fuel	114	147
Purchased power, non-affiliates	2	11
Purchased power, affiliates	2	9
Other operations and maintenance	73	66
Depreciation and amortization	27	23
Taxes other than income taxes	25	20
Estimated loss on Kemper IGCC	9	380
Total operating expenses	252	656
Operating Income (Loss)	24	(325)
Other Income and (Expense):		
Allowance for equity funds used during construction	28	38
Interest expense, net of amounts capitalized	(11)	(12)
Other income (expense), net	(2)	(3)
Total other income and (expense)	15	23
Earnings (Loss) Before Income Taxes	39	(302)
Income taxes (benefit)	4	(130)
Net Income (Loss)	35	(172)
Dividends on Preferred Stock	—	—
Net Income (Loss) After Dividends on Preferred Stock	$35	$(172)

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

	For the Three Months Ended March 31,	
	2015	2014
	(in millions)	
Net Income (Loss)	$35	$(172)
Other comprehensive income (loss)	—	—
Comprehensive Income (Loss)	$35	$(172)

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

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MISSISSIPPI POWER COMPANY
CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the Three Months Ended March 31,	
	2015	2014
	(in millions)	
Operating Activities:		
Net income (loss)	$35	$(172)
Adjustments to reconcile net income (loss) to net cash provided from operating activities —		
Depreciation and amortization, total	26	24
Deferred income taxes	141	(124)
Allowance for equity funds used during construction	(28)	(38)
Regulatory assets associated with Kemper IGCC	(27)	(13)
Estimated loss on Kemper IGCC	9	380
Other, net	11	8
Changes in certain current assets and liabilities —		
-Receivables	17	(14)
-Fossil fuel stock	4	37
-Prepaid income taxes	44	(33)
-Other current assets	(3)	(5)
-Accounts payable	(22)	15
-Accrued taxes	(54)	(55)
-Accrued interest	9	8
-Accrued compensation	(20)	(2)
-Over recovered regulatory clause revenues	22	(18)
-Mirror CWIP	40	34
Net cash provided from operating activities	204	32
Investing Activities:		
Property additions	(213)	(324)
Construction payables	(14)	(31)
Other investing activities	(6)	(6)
Net cash used for investing activities	(233)	(361)
Financing Activities:		
Proceeds —		
Capital contributions from parent company	76	1
Interest-bearing refundable deposit	—	75
Other long-term debt issuances	—	250
Short-term borrowings	30	—
Redemptions — Other long-term debt	(75)	—
Payment of preferred stock dividends	—	—
Return of capital	—	(55)
Other financing activities	(1)	(2)
Net cash provided from financing activities	30	269
Net Change in Cash and Cash Equivalents	1	(60)
Cash and Cash Equivalents at Beginning of Period	133	145
Cash and Cash Equivalents at End of Period	$134	$85
Supplemental Cash Flow Information:		
Cash paid (received) during the period for —		

Interest (paid $17 and $17, net of $18 and $14 capitalized for 2015 and 2014, respectively)	$(1)	$3
Income taxes, net	(180)	26
Noncash transactions — Accrued property additions at end of period	100	132

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

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MISSISSIPPI POWER COMPANY
CONDENSED BALANCE SHEETS (UNAUDITED)

Assets	At March 31, 2015	At December 31, 2014
	(in millions)	
Current Assets:		
Cash and cash equivalents	$134	$133
Receivables —		
Customer accounts receivable	38	43
Unbilled revenues	33	35
Other accounts and notes receivable	13	11
Affiliated companies	40	51
Accumulated provision for uncollectible accounts	(1)	(1)
Fossil fuel stock, at average cost	96	100
Materials and supplies, at average cost	64	62
Other regulatory assets, current	74	73
Prepaid income taxes	162	191
Other current assets	6	6
Total current assets	659	704
Property, Plant, and Equipment:		
In service	4,396	4,378
Less accumulated provision for depreciation	1,194	1,173
Plant in service, net of depreciation	3,202	3,205
Construction work in progress	2,361	2,161
Total property, plant, and equipment	5,563	5,366
Other Property and Investments	6	5
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	243	226
Other regulatory assets, deferred	419	385
Other deferred charges and assets	57	71
Total deferred charges and other assets	719	682
Total Assets	$6,947	$6,757

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

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MISSISSIPPI POWER COMPANY
CONDENSED BALANCE SHEETS (UNAUDITED)

Liabilities and Stockholder's Equity	At March 31, 2015	At December 31, 2014
	(in millions)	
Current Liabilities:		
Securities due within one year	$3	$778
Notes Payable	30	—
Interest-bearing refundable deposit	275	275
Accounts payable —		
Affiliated	80	86
Other	148	178
Accrued taxes —		
Accrued income taxes	185	142
Other accrued taxes	29	84
Accrued interest	86	76
Accrued compensation	6	26
Over recovered regulatory clause liabilities	23	1
Mirror CWIP	311	271
Other current liabilities	61	61
Total current liabilities	1,237	1,978
Long-term Debt	2,328	1,630
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	397	285
Accumulated deferred investment tax credits	282	283
Employee benefit obligations	148	148
Asset retirement obligations	49	48
Other cost of removal obligations	168	166
Other regulatory liabilities, deferred	65	64
Other deferred credits and liabilities	43	38
Total deferred credits and other liabilities	1,152	1,032
Total Liabilities	4,717	4,640
Redeemable Preferred Stock	33	33
Common Stockholder's Equity:		
Common stock, without par value —		
Authorized — 1,130,000 shares		
Outstanding — 1,121,000 shares	38	38
Paid-in capital	2,690	2,612
Accumulated deficit	(524)	(559)
Accumulated other comprehensive loss	(7)	(7)
Total common stockholder's equity	2,197	2,084
Total Liabilities and Stockholder's Equity	$6,947	$6,757

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

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FIRST QUARTER 2015 vs. FIRST QUARTER 2014

OVERVIEW

Mississippi Power operates as a vertically integrated utility providing electricity to retail customers within its traditional service territory located within the State of Mississippi and to wholesale customers in the Southeast.
Many factors affect the opportunities, challenges, and risks of Mississippi Power's business of selling electricity. These factors include Mississippi Power's ability to maintain and grow energy sales and to maintain a constructive regulatory environment that provides timely recovery of prudently-incurred costs. These costs include those related to the completion and operation of major construction projects, primarily the Kemper IGCC and the Plant Daniel scrubber project, projected long-term demand growth, reliability, fuel, and increasingly stringent environmental standards, as well as ongoing capital expenditures required for maintenance. Appropriately balancing required costs and capital expenditures with customer prices will continue to challenge Mississippi Power for the foreseeable future.
In 2010, the Mississippi PSC issued a CPCN authorizing the acquisition, construction, and operation of the Kemper IGCC. The certificated cost estimate of the Kemper IGCC established by the Mississippi PSC was $2.4 billion with a construction cost cap of $2.88 billion, net of $245 million of grants awarded to the project by the DOE under the Clean Coal Power Initiative Round 2 (DOE Grants) and excluding the cost of the lignite mine and equipment, the cost of the CO_2 pipeline facilities, AFUDC, and certain general exceptions, including change of law, force majeure, and beneficial capital (which exists when Mississippi Power demonstrates that the purpose and effect of the construction cost increase is to produce efficiencies that will result in a neutral or favorable effect on customers relative to the original proposal for the CPCN) (Cost Cap Exceptions).
Mississippi Power's current cost estimate for the Kemper IGCC in total is approximately $6.22 billion, which includes approximately $4.94 billion of costs subject to the construction cost cap. Mississippi Power does not intend to seek any rate recovery or joint owner contributions for any related costs that exceed the $2.88 billion cost cap, net of the DOE Grants and excluding the Cost Cap Exceptions. Mississippi Power recorded pre-tax charges to income for revisions to the cost estimate of $9 million ($6 million after tax) in the first quarter 2015. Since 2012, in the aggregate, Mississippi Power has incurred charges of $2.06 billion ($1.27 billion after tax) as a result of changes in the cost estimate for the Kemper IGCC through March 31, 2015.
Mississippi Power placed the combined cycle and the associated common facilities portion of the Kemper IGCC project in service in August 2014 and continues to focus on completing the remainder of the Kemper IGCC, including the gasifier and the gas clean-up facilities. The in-service date for the remainder of the Kemper IGCC is currently expected to occur in the first half of 2016. The current cost estimate includes costs through March 31, 2016. As a result of the additional factors that have the potential to impact start-up and operational readiness activities for this first-of-a-kind technology as described herein, the risk of further schedule extensions and/or cost increases, which could be material, remains.
For additional information on the Kemper IGCC, see MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Integrated Coal Gasification Combined Cycle" of Mississippi Power in Item 7 and Note 3 to the financial statements of Mississippi Power under "Integrated Coal Gasification Combined Cycle" in Item 8 of the Form 10-K and FUTURE EARNINGS POTENTIAL – "Integrated Coal Gasification Combined Cycle" and Note (B) to the Condensed Financial Statements under "Integrated Coal Gasification Combined Cycle" herein.
On February 12, 2015, the Mississippi Supreme Court (Court) issued its decision in a legal challenge filed by Thomas A. Blanton with respect to the Mississippi PSC's March 2013 order that authorized the collection of $156 million annually (2013 MPSC Rate Order) to be recorded as Mirror CWIP. The Court reversed the 2013 MPSC Rate Order, deemed the 2013 Settlement Agreement (defined below) between Mississippi Power and the

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Mississippi PSC unenforceable due to a lack of public notice for the related proceedings, and directed the Mississippi PSC to enter an order requiring Mississippi Power to refund the Mirror CWIP amounts collected pursuant to the 2013 MPSC Rate Order. As of March 31, 2015, $294 million had been collected by Mississippi Power. On March 12, 2015, Mississippi Power and the Mississippi PSC filed motions for rehearing. See FUTURE EARNINGS POTENTIAL – "Integrated Coal Gasification Combined Cycle – Rate Recovery of Kemper IGCC Costs – 2015 Mississippi Supreme Court Decision" herein for additional information.

Mississippi Power also expects to seek rate recovery through alternate means, which could include a traditional rate case. On May 1, 2015, Mississippi Power notified the Mississippi PSC of its plans to file a rate request in May 2015.

As of March 31, 2015, Mississippi Power's current liabilities exceeded current assets by approximately $578 million primarily due to $275 million of refundable deposits from SMEPA and the potential refund of approximately $311 million in Mirror CWIP, which includes associated carrying costs. See FUTURE EARNINGS POTENTIAL – "Integrated Coal Gasification Combined Cycle – Proposed Sale of Undivided Interest to SMEPA" and " – Rate Recovery of Kemper IGCC Costs – 2015 Mississippi Supreme Court Decision" herein for additional information. In addition, Mississippi Power has $900 million in bank term loans that mature on April 1, 2016. Mississippi Power intends to utilize operating cash flows and lines of credit, bank term loans, and commercial paper, as market conditions permit, as well as, under certain circumstances, equity contributions and/or loans from Southern Company, to fund Mississippi Power's short-term capital needs.

Mississippi Power continues to focus on several key performance indicators, including the construction and start-up of the Kemper IGCC. In recognition that Mississippi Power's long-term financial success is dependent upon how well it satisfies its customers' needs, Mississippi Power's retail base rate mechanism, PEP, includes performance indicators that directly tie customer service indicators to Mississippi Power's allowed return. In addition to the PEP performance indicators, Mississippi Power focuses on other performance measures, including broader measures of customer satisfaction, plant availability, system reliability, and net income after dividends on preferred stock. For additional information on these indicators, see MANAGEMENT'S DISCUSSION AND ANALYSIS – OVERVIEW – "Key Performance Indicators" of Mississippi Power in Item 7 of the Form 10-K. See FUTURE EARNINGS POTENTIAL – "Integrated Coal Gasification Combined Cycle" and Note (B) to the Condensed Financial Statements under "Integrated Coal Gasification Combined Cycle" herein for information regarding revisions to the cost estimate for the Kemper IGCC and the Court's decision that have negatively impacted Mississippi Power's actual performance on net income after dividends on preferred stock, one of its key performance indicators, for 2015, as compared to the target.

RESULTS OF OPERATIONS

Net Income (Loss)

First Quarter 2015 vs. First Quarter 2014	
(change in millions)	(% change)
$207	N/M

N/M – Not meaningful

Mississippi Power's net income after dividends on preferred stock for the first quarter 2015 was $35 million compared to a net loss after dividends on preferred stock of $172 million for the corresponding period in 2014. The increase was primarily related to a lower pre-tax charge of $9 million ($6 million after tax) in the first quarter 2015 compared to a pre-tax charge of $380 million ($235 million after tax) in the first quarter 2014 for revisions of the estimated costs expected to be incurred on Mississippi Power's construction of the Kemper IGCC above the $2.88 billion cost cap established by the Mississippi PSC, net of the DOE Grants and excluding the Cost Cap Exceptions. The increase was partially offset by a decrease in AFUDC equity, increases in non-fuel operations and maintenance expenses, and a decrease in retail revenues primarily resulting from the Court's decision.

See Note 3 to the financial statements of Mississippi Power under "Integrated Coal Gasification Combined Cycle" in Item 8 of the Form 10-K and FUTURE EARNINGS POTENTIAL – "Integrated Coal Gasification Combined Cycle" and Note (B) to the Condensed Financial Statements under "Integrated Coal Gasification Combined Cycle" herein for additional information.

Retail Revenues

First Quarter 2015 vs. First Quarter 2014

(change in millions)	(% change)
$(40)	(19.3)

In the first quarter 2015, retail revenues were $167 million compared to $207 million for the corresponding period in 2014.

Details of the changes in retail revenues were as follows:

	First Quarter 2015 (in millions)	(% change)
Retail – prior year	$207	
Estimated change resulting from –		
Rates and pricing	(4)	(1.9)
Sales decline	(4)	(1.9)
Weather	(1)	(0.5)
Fuel and other cost recovery	(31)	(15.0)
Retail – current year	$167	(19.3)%

Revenues associated with changes in rates and pricing decreased in the first quarter 2015 when compared to the corresponding period in 2014 primarily due to not recognizing revenues associated with the Kemper IGCC cost recovery in 2015 as a result of the Court's decision, partially offset by $1 million in net revenues for the new energy efficiency cost recovery rate, which began in the fourth quarter 2014.

See Note 3 to the financial statements of Mississippi Power under "Integrated Coal Gasification Combined Cycle – Rate Recovery of Kemper IGCC Costs" and "Retail Regulatory Matters – Performance Evaluation Plan" in Item 8 of the Form 10-K and Note (B) to the Condensed Financial Statements under "Integrated Coal Gasification Combined Cycle" herein for additional information.

Revenues attributable to changes in sales decreased in the first quarter 2015 when compared to the corresponding period in 2014. Weather-adjusted KWH sales to residential and commercial customers decreased 1.9% and 3.5%, respectively, in the first quarter 2015 due to lower customer usage. KWH sales to industrial customers increased 3.5% in the first quarter 2015 due to increased usage by larger customers.

In the first quarter 2015, Mississippi Power updated its methodology to estimate the unbilled revenue allocation among customer classes. This change did not have a significant impact on net income. The KWH sales variances discussed above reflect an adjustment to the estimated allocation of Mississippi Power's unbilled first quarter 2014 KWH sales among customer classes that is consistent with the actual allocation in 2015. Without this adjustment, first quarter 2015 weather-adjusted residential KWH sales decreased 9.9%, weather-adjusted commercial KWH sales decreased 9.3%, and industrial KWH sales increased 2.3% as compared to the corresponding period in 2014.

Fuel and other cost recovery revenues decreased in the first quarter 2015 when compared to the corresponding period in 2014, primarily as a result of lower recoverable fuel costs. See "Fuel and Purchased Power Expenses" herein for additional information. Recoverable fuel costs include fuel and purchased power expenses reduced by the fuel portion of wholesale revenues from energy sold to customers outside Mississippi Power's service territory. Electric rates include provisions to adjust billings for fluctuations in fuel costs, including the energy component of

purchased power costs. Under these provisions, fuel revenues generally equal fuel expenses, including the energy component of purchased power costs, and do not affect net income.

Wholesale Revenues – Non-Affiliates

First Quarter 2015 vs. First Quarter 2014	
(change in millions)	(% change)
$(20)	(20.6)

Wholesale revenues from sales to non-affiliates will vary depending on fuel prices, the market prices of wholesale energy compared to the cost of Mississippi Power's and the Southern Company system's generation, demand for energy within the Southern Company system's service territory, and the availability of the Southern Company system's generation. Increases and decreases in revenues that are driven by fuel prices are accompanied by an increase or decrease in fuel costs and do not have a significant impact on net income. Mississippi Power serves long-term contracts with rural electric cooperative associations and municipalities located in southeastern Mississippi under cost-based electric tariffs which are subject to regulation by the FERC. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "FERC Matters" of Mississippi Power in Item 7 of the Form 10-K for additional information.

In the first quarter 2015, wholesale revenues from sales to non-affiliates were $77 million compared to $97 million for the corresponding period in 2014. The decrease was primarily due to a decrease in energy revenues resulting from lower market prices.

Wholesale Revenues – Affiliates

First Quarter 2015 vs. First Quarter 2014	
(change in millions)	(% change)
$4	17.4

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

In the first quarter 2015, wholesale revenues from sales to affiliates were $27 million compared to $23 million for the corresponding period in 2014. The increase was due to a $4 million increase in energy revenues primarily due to a $14 million increase associated with higher natural gas generation, partially offset by a $10 million decrease associated with lower natural gas prices.

Fuel and Purchased Power Expenses

	First Quarter 2015 vs. First Quarter 2014 (change in millions)		(% change)
Fuel	$(33	)	(22.4)
Purchased power – non-affiliates			