SOUTHERN CO
Form 10-Q
November 06, 2013


UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2013
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<br>(A Delaware Corporation)<br>30 Ivan Allen Jr. Boulevard, N.W.<br>Atlanta, Georgia 30308<br>(404) 506-5000 | 58-0690070 |
| 1-3164 | Alabama Power Company<br>(An Alabama Corporation)<br>600 North 18th Street<br>Birmingham, Alabama 35203<br>(205) 257-1000 | 63-0004250 |
| 1-6468 | Georgia Power Company<br>(A Georgia Corporation)<br>241 Ralph McGill Boulevard, N.E.<br>Atlanta, Georgia 30308<br>(404) 506-6526 | 58-0257110 |
| 001-31737 | Gulf Power Company<br>(A Florida Corporation)<br>One Energy Place<br>Pensacola, Florida 32520<br>(850) 444-6111 | 59-0276810 |
| 001-11229 | Mississippi Power Company<br>(A Mississippi Corporation)<br>2992 West Beach Boulevard<br>Gulfport, Mississippi 39501<br>(228) 864-1211 | 64-0205820 |
| 333-98553 | Southern Power Company | 58-2598670 |

(A Delaware Corporation)
30 Ivan Allen Jr. Boulevard, N.W.
Atlanta, Georgia 30308
(404) 506-5000

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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 September 30, 2013 |
|---|---|---|
| The Southern Company | Par Value $5 Per Share | 881,740,546 |
| 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 | 4,942,717 |
| 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.

INDEX TO QUARTERLY REPORT ON FORM 10-Q
September 30, 2013

INDEX TO QUARTERLY REPORT ON FORM 10-Q
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DEFINITIONS

| Term | Meaning |
| --- | --- |
| 2010 ARP | Alternate Rate Plan approved by the Georgia PSC for Georgia Power, which became effective January 1, 2011 and will continue through December 31, 2013 |
| 2011 IRP | Georgia Power's 2011 Integrated Resource Plan update as approved by the Georgia PSC |
| 2013 IRP | Georgia Power's triennial Integrated Resource Plan as approved by the Georgia PSC |
| AFUDC | Allowance for Funds Used During Construction |
| Alabama Power | Alabama Power Company |
| AOCI | Accumulated Other Comprehensive Income |
| 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 |
| Clean Air Act | Clean Air Act Amendments of 1990 |
| Contractor | Westinghouse and Stone & Webster, Inc. |
| 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 |
| Fitch | Fitch Ratings, Inc. |
| Form 10-K | Combined Annual Report on Form 10-K of Southern Company, Alabama Power, Georgia Power, Gulf Power, and Southern Power for the year ended December 31, 2012 |
| Form 10-K/A | Annual Report on Form 10-K of Mississippi Power for the year ended December 31, 2012, as amended by Amendment No. 1 |
| GAAP | Generally Accepted Accounting Principles |
| Georgia Power | Georgia Power Company |
| Gulf Power | Gulf Power Company |
| IIC | Intercompany Interchange Contract |
| Internal Revenue Code | Internal Revenue Code of 1986, as amended |
| IRS | Internal Revenue Service |
| Kemper IGCC | Integrated coal gasification combined cycle facility under construction in Kemper County, Mississippi |
| KWH | Kilowatt-hour |
| LIBOR | London Interbank Offered Rate |
| MATS | Mercury and Air Toxics Standards |
| Mississippi Power | Mississippi Power Company |
| mmBtu | Million British thermal unit |
| Moody's | Moody's Investors Service, Inc. |
| MW | Megawatt |
| MWH | Megawatt-hour |
| NCCR | Nuclear Construction Cost Recovery |
| NDR | Natural Disaster Reserve |
| NRC | Nuclear Regulatory Commission |
| NSR | New Source Review |

| | |
|---|---|
| OCI | Other Comprehensive Income |

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|---|---|
| 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 |
| 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 are subject to joint commitment and dispatch in order to serve their combined load obligations |
| PPA | Power Purchase Agreement |
| PSC | Public Service Commission |
| registrants | Southern Company, Alabama Power, Georgia Power, Gulf Power, Mississippi Power, and Southern Power |
| ROE | Return on Equity |
| SEC | Securities and Exchange Commission |
| SEGCO | Southern Electric Generating Company |
| SMEPA | South Mississippi Electric Power Association |
| $SO_2$ | Sulfur dioxide |
| Southern Company | The Southern Company |
| Southern Company system | Southern Company, the traditional operating companies, Southern Power, and other subsidiaries |
| Southern Nuclear | Southern Nuclear Operating Company, Inc. |
| Southern Power | Southern Power Company and its subsidiaries |
| S&P | Standard and Poor's Ratings Services, a division of The McGraw Hill Companies, Inc. |
| traditional operating companies | Alabama Power, Georgia Power, Gulf Power, and Mississippi Power |
| Westinghouse | Westinghouse Electric Company LLC |
| wholesale revenues | revenues generated from sales for resale |

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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 sales, retail rates, the strategic goals for the wholesale business, customer growth, economic recovery, fuel and environmental cost recovery and other rate actions, current and proposed environmental regulations and related estimated expenditures, access to sources of capital, projections for the qualified pension plan, postretirement benefit plans, and nuclear decommissioning trust fund contributions, financing activities, completion dates of construction projects, completion dates of acquisitions, plans and estimated costs for new generation resources, filings with state and federal regulatory authorities, impact of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 and the American Taxpayer Relief Act of 2012, estimated sales and purchases under power sale and purchase agreements, and estimated construction and other capital 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, coal combustion byproducts, and emissions of sulfur, nitrogen, carbon, 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 the 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 recent recession, population and business growth (and declines), the effects of energy conservation measures, and any potential economic impacts resulting from federal fiscal decisions;
- available sources and costs of fuels;
- effects of inflation;
- ability to control costs and avoid cost overruns during the development and construction of facilities, which include the development and construction of facilities with designs that have not been finalized or previously constructed, including the impact of factors such as labor costs and productivity, adverse weather conditions, shortages and inconsistent quality of equipment, materials, and labor, or contractor or supplier delay or non-performance under construction or other agreements, delays associated with start-up activities, including major equipment failure, system integration, and operations, and/or unforeseen engineering problems;
- ability to construct facilities in accordance with the requirements of permits and licenses and to satisfy any operational and environmental performance standards, including the requirements of tax credits and other incentives;
- 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;
- regulatory approvals and actions related to Plant Vogtle Units 3 and 4, including Georgia PSC approvals, NRC actions, and potential DOE loan guarantees;
- actions related to cost recovery for the Kemper IGCC, including actions relating to proposed securitization, Mississippi PSC approval of Mississippi Power's proposed rate recovery plan, as revised, which includes the ability to complete the proposed sale of an interest in the Kemper IGCC to SMEPA, the ability to utilize bonus depreciation, which currently

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requires that the Kemper IGCC be placed in service in 2014, and satisfaction of requirements to utilize investment tax credits and grants;

- Mississippi PSC review of the prudence of Kemper IGCC costs;
- the outcome of any legal or regulatory proceedings regarding the Mississippi PSC's issuance of the CPCN for the Kemper IGCC, the settlement agreement between Mississippi Power and the Mississippi PSC, or the Baseload Act;
- 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 terrorist incidents and the threat of terrorist incidents, including cyber intrusion;
- interest rate fluctuations and financial market conditions and the results of financing efforts, including Southern Company's and its subsidiaries' credit ratings;
- the impacts of any potential U.S. credit rating downgrade or other 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 availability or benefits of proposed DOE loan guarantees;
- the ability of Southern Company and its subsidiaries to obtain additional generating capacity at competitive prices;
- catastrophic events such as fires, earthquakes, explosions, floods, hurricanes, 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 and the Form 10-K/A) 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 September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | (in millions) | | (in millions) | |
| Operating Revenues: | | | | |
| Retail revenues | $4,319 | $4,379 | $11,237 | $11,068 |
| Wholesale revenues | 520 | 497 | 1,406 | 1,261 |
| Other electric revenues | 166 | 157 | 477 | 459 |
| Other revenues | 12 | 16 | 40 | 46 |
| Total operating revenues | 5,017 | 5,049 | 13,160 | 12,834 |
| Operating Expenses: | | | | |
| Fuel | 1,580 | 1,553 | 4,216 | 3,907 |
| Purchased power | 145 | 164 | 367 | 455 |
| Other operations and maintenance | 928 | 906 | 2,849 | 2,817 |
| MC Asset Recovery insurance settlement | — | — | — | (19) |
| Depreciation and amortization | 480 | 449 | 1,422 | 1,335 |
| Taxes other than income taxes | 243 | 237 | 710 | 690 |
| Estimated loss on Kemper IGCC | 150 | — | 1,140 | — |
| Total operating expenses | 3,526 | 3,309 | 10,704 | 9,185 |
| Operating Income | 1,491 | 1,740 | 2,456 | 3,649 |
| Other Income and (Expense): | | | | |
| Allowance for equity funds used during construction | 53 | 39 | 139 | 102 |
| Leveraged lease income (loss) | 5 | 5 | (11) | 16 |
| Interest expense, net of amounts capitalized | (202) | (218) | (628) | (649) |
| Other income (expense), net | (10) | (4) | (20) | (4) |
| Total other income and (expense) | (154) | (178) | (520) | (535) |
| Earnings Before Income Taxes | 1,337 | 1,562 | 1,936 | 3,114 |
| Income taxes | 468 | 569 | 657 | 1,098 |
| Consolidated Net Income | 869 | 993 | 1,279 | 2,016 |
| Dividends on Preferred and Preference Stock of Subsidiaries | 17 | 17 | 49 | 49 |
| Consolidated Net Income After Dividends on Preferred and Preference Stock of Subsidiaries | $852 | $976 | $1,230 | $1,967 |
| Common Stock Data: | | | | |
| Earnings per share (EPS) - | | | | |
| Basic EPS | $0.97 | $1.11 | $1.41 | $2.26 |
| Diluted EPS | $0.97 | $1.11 | $1.40 | $2.23 |
| Average number of shares of common stock outstanding (in millions) | | | | |
| Basic | 878 | 876 | 874 | 872 |
| Diluted | 881 | 883 | 879 | 880 |
| Cash dividends paid per share of common stock | $0.5075 | $0.4900 | $1.5050 | $1.4525 |

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

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

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | (in millions) | | (in millions) | |
| Consolidated Net Income | $869 | $993 | $1,279 | $2,016 |
| Other comprehensive income (loss): | | | | |
| Qualifying hedges: | | | | |
| Changes in fair value, net of tax of $-, $1, $- and $(4), respectively | — | (4) | — | (11) |
| Reclassification adjustment for amounts included in net income, net of tax of $1, $1, $5 and $4, respectively | 1 | 3 | 7 | 7 |
| Pension and other post retirement benefit plans: | | | | |
| Reclassification adjustment for amounts included in net income, net of tax of $1, $-, $3 and $1, respectively | 1 | 1 | 4 | 3 |
| Total other comprehensive income (loss) | 2 | — | 11 | (1) |
| Dividends on preferred and preference stock of subsidiaries | (17) | (17) | (49) | (49) |
| Comprehensive Income | $854 | $976 | $1,241 | $1,966 |

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

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

| | For the Nine Months Ended September 30, | |
|---|---|---|
| | 2013 | 2012 |
| | (in millions) | |
| Operating Activities: | | |
| Consolidated net income | $1,279 | $2,016 |
| Adjustments to reconcile consolidated net income to net cash provided from operating activities — | | |
| Depreciation and amortization, total | 1,725 | 1,602 |
| Deferred income taxes | 263 | 645 |
| Allowance for equity funds used during construction | (139) | (102) |
| Leveraged lease income (loss) | 11 | (16) |
| Pension, postretirement, and other employee benefits | 124 | 78 |
| Stock based compensation expense | 48 | 45 |
| Retail fuel cost recovery — long-term | (123) | 118 |
| Estimated loss on Kemper IGCC | 1,140 | — |
| Other, net | 64 | 34 |
| Changes in certain current assets and liabilities — | | |
| -Receivables | (407) | (157) |
| -Fossil fuel stock | 471 | (232) |
| -Materials and supplies | 33 | (28) |
| -Other current assets | (1) | 22 |
| -Accounts payable | (140) | (240) |
| -Accrued taxes | 268 | 311 |
| -Accrued compensation | (198) | (142) |
| -Retail fuel cost recovery — short-term | (3) | 112 |
| -Other current liabilities | (4) | (22) |
| Net cash provided from operating activities | 4,411 | 4,044 |
| Investing Activities: | | |
| Property additions | (3,978) | (3,558) |
| Investment in restricted cash | (169) | (230) |
| Distribution of restricted cash | 94 | 234 |
| Nuclear decommissioning trust fund purchases | (744) | (758) |
| Nuclear decommissioning trust fund sales | 742 | 756 |
| Cost of removal, net of salvage | (90) | (83) |
| Change in construction payables, net | (8) | (61) |
| Other investing activities | 51 | (58) |
| Net cash used for investing activities | (4,102) | (3,758) |
| Financing Activities: | | |
| Decrease in notes payable, net | (70) | (521) |
| Proceeds — | | |
| Long-term debt issuances | 2,421 | 3,114 |
| Interest-bearing refundable deposit related to asset sale | — | 150 |
| Preference stock | 50 | — |
| Common stock issuances | 479 | 381 |
| Redemptions — | | |
| Long-term debt | (1,767) | (2,098) |

| | | |
|---|---|---|
| Common stock repurchased | (19 ) | (85 ) |
| Payment of common stock dividends | (1,314 ) | (1,267 ) |
| Payment of dividends on preferred and preference stock of subsidiaries | (49 ) | (49 ) |
| Other financing activities | 14 | 30 |
| Net cash used for financing activities | (255 ) | (345 ) |
| Net Change in Cash and Cash Equivalents | 54 | (59 ) |
| Cash and Cash Equivalents at Beginning of Period | 628 | 1,315 |
| Cash and Cash Equivalents at End of Period | $682 | $1,256 |
| Supplemental Cash Flow Information: | | |
| Cash paid (received) during the period for — | | |
| Interest (net of $67 and $62 capitalized for 2013 and 2012, respectively) | $564 | $589 |
| Income taxes, net | 149 | 6 |
| Noncash transactions — accrued property additions at end of period | 539 | 531 |
| Noncash transactions — capital lease obligation | 83 | — |

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

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

| Assets | At September 30, 2013 | At December 31, 2012 |
|---|---|---|
| | (in millions) | |
| Current Assets: | | |
| Cash and cash equivalents | $682 | $628 |
| Restricted cash and cash equivalents | — | 7 |
| Receivables — | | |
| Customer accounts receivable | 1,292 | 961 |
| Unbilled revenues | 473 | 441 |
| Under recovered regulatory clause revenues | 45 | 29 |
| Other accounts and notes receivable | 269 | 235 |
| Accumulated provision for uncollectible accounts | (19) | (17) |
| Fossil fuel stock, at average cost | 1,349 | 1,819 |
| Materials and supplies, at average cost | 959 | 1,000 |
| Vacation pay | 164 | 165 |
| Prepaid expenses | 418 | 657 |
| Other regulatory assets, current | 120 | 163 |
| Other current assets | 33 | 74 |
| Total current assets | 5,785 | 6,162 |
| Property, Plant, and Equipment: | | |
| In service | 64,793 | 63,251 |
| Less accumulated depreciation | 22,821 | 21,964 |
| Plant in service, net of depreciation | 41,972 | 41,287 |
| Other utility plant, net | 252 | 263 |
| Nuclear fuel, at amortized cost | 832 | 851 |
| Construction work in progress | 7,144 | 5,989 |
| Total property, plant, and equipment | 50,200 | 48,390 |
| Other Property and Investments: | | |
| Nuclear decommissioning trusts, at fair value | 1,397 | 1,303 |
| Leveraged leases | 658 | 670 |
| Miscellaneous property and investments | 220 | 216 |
| Total other property and investments | 2,275 | 2,189 |
| Deferred Charges and Other Assets: | | |
| Deferred charges related to income taxes | 1,402 | 1,385 |
| Unamortized debt issuance expense | 146 | 133 |
| Unamortized loss on reacquired debt | 291 | 309 |
| Other regulatory assets, deferred | 4,012 | 4,032 |
| Other deferred charges and assets | 586 | 549 |
| Total deferred charges and other assets | 6,437 | 6,408 |
| Total Assets | $64,697 | $63,149 |

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

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

| Liabilities and Stockholders' Equity | At September 30, 2013 | At December 31, 2012 |
|---|---|---|
| | (in millions) | |
| Current Liabilities: | | |
| Securities due within one year | $1,307 | $2,335 |
| Interest-bearing refundable deposit related to asset sale | 150 | 150 |
| Notes payable | 750 | 825 |
| Accounts payable | 1,281 | 1,387 |
| Customer deposits | 377 | 370 |
| Accrued taxes — | | |
| Accrued income taxes | 87 | 10 |
| Other accrued taxes | 512 | 391 |
| Accrued interest | 262 | 237 |
| Accrued vacation pay | 210 | 212 |
| Accrued compensation | 250 | 433 |
| Other regulatory liabilities, current | 89 | 107 |
| Other current liabilities | 429 | 557 |
| Total current liabilities | 5,704 | 7,014 |
| Long-term Debt | 21,053 | 19,274 |
| Deferred Credits and Other Liabilities: | | |
| Accumulated deferred income taxes | 10,291 | 9,938 |
| Deferred credits related to income taxes | 203 | 211 |
| Accumulated deferred investment tax credits | 819 | 894 |
| Employee benefit obligations | 2,548 | 2,540 |
| Asset retirement obligations | 1,967 | 1,748 |
| Other cost of removal obligations | 1,278 | 1,194 |
| Other regulatory liabilities, deferred | 375 | 289 |
| Other deferred credits and liabilities | 550 | 668 |
| Total deferred credits and other liabilities | 18,031 | 17,482 |
| Total Liabilities | 44,788 | 43,770 |
| Redeemable Preferred Stock of Subsidiaries | 375 | 375 |
| Stockholders' Equity: | | |
| Common Stockholders' Equity: | | |
| Common stock, par value $5 per share — | | |
| Authorized — 1.5 billion shares | | |
| Issued — September 30, 2013: 890 million shares | | |
| — December 31, 2012: 878 million shares | | |
| Treasury — September 30, 2013: 8.1 million shares | | |
| — December 31, 2012: 10.0 million shares | | |
| Par value | 4,447 | 4,389 |
| Paid-in capital | 5,262 | 4,855 |
| Treasury, at cost | (363) | (450) |
| Retained earnings | 9,543 | 9,626 |
| Accumulated other comprehensive loss | (111) | (123) |
| Total Common Stockholders' Equity | 18,778 | 18,297 |
| Preferred and Preference Stock of Subsidiaries | 756 | 707 |

| | | |
|---|---|---|
| Total Stockholders' Equity | 19,534 | 19,004 |
| Total Liabilities and Stockholders' Equity | $64,697 | $63,149 |

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

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

THIRD QUARTER 2013 vs. THIRD QUARTER 2012
AND
YEAR-TO-DATE 2013 vs. YEAR-TO-DATE 2012

OVERVIEW

Southern Company is a holding company that owns all of the common stock of the traditional operating companies – Alabama Power, Georgia Power, Gulf Power, and Mississippi Power – and Southern Power and 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 (45.7% ownership interest by Georgia Power in two units, each with approximately 1,100 MWs) and the Kemper IGCC (in which Mississippi Power is ultimately expected to hold an 85% ownership interest in the 582-MW facility). 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.

In accordance with the 2010 ARP, Georgia Power filed a base rate case with the Georgia PSC on June 28, 2013, requesting a base rate increase effective January 1, 2014. See FUTURE EARNINGS POTENTIAL – "PSC Matters – Georgia Power – Rate Plans" herein for additional information.

Southern Company continues to focus on several key performance indicators. These indicators include customer satisfaction, plant availability, system reliability, 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. See FUTURE EARNINGS POTENTIAL – "Other Matters" herein for information regarding an explosion at Plant Bowen in April 2013 that has negatively impacted the Southern Company system's 2013 actual performance on its peak season equivalent forced outage rate, one of its key performance indicators, as compared to the target. See also Note (B) to the Condensed Financial Statements under "Integrated Coal Gasification Combined Cycle" herein for information regarding the revisions to the cost estimate for the Kemper IGCC that have negatively impacted Southern Company's earnings per share, one of its key performance indicators, for 2013, as compared to the target.

RESULTS OF OPERATIONS

Net Income

| Third Quarter 2013 vs. Third Quarter 2012 | | Year-to-Date 2013 vs. Year-to-Date 2012 | |
|---|---|---|---|
| (change in millions) | (% change) | (change in millions) | (% change) |
| $(124) | (12.7) | $(737) | (37.5) |

Southern Company's third quarter 2013 net income after dividends on preferred and preference stock of subsidiaries was $852 million ($0.97 per share) compared to $976 million ($1.11 per share) for the third quarter 2012. The decrease was primarily related to a $150 million pre-tax charge ($93 million after-tax) for a revision 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 $245 million of grants awarded to the project by the DOE under the

Clean Coal Power Initiative Round 2 (DOE Grants) and the cost of the lignite mine and equipment, the cost of the carbon dioxide 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). Also contributing to the decrease was a decrease in revenues due to less favorable weather in the third quarter 2013 as compared to the corresponding period in 2012, partially offset by an increase related to retail revenue rate effects at Georgia Power. In addition, depreciation increased related to new generating plants in service and operations and maintenance expenses increased.

Southern Company's year-to-date 2013 net income after dividends on preferred and preference stock of subsidiaries was $1.2 billion ($1.41 per share) compared to $2.0 billion ($2.26 per share) for year-to-date 2012. The decrease was primarily related to $1.1 billion in pre-tax charges ($704 million 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 $245 million of DOE Grants and the 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.

Retail Revenues

| Third Quarter 2013 vs. Third Quarter 2012 | | Year-to-Date 2013 vs. Year-to-Date 2012 | |
|---|---|---|---|
| (change in millions) | (% change) | (change in millions) | (% change) |
| $(60) | (1.4) | $169 | 1.5 |

In the third quarter 2013, retail revenues were $4.3 billion compared to $4.4 billion for the corresponding period in 2012. For year-to-date 2013, retail revenues were $11.2 billion compared to $11.1 billion for the corresponding period in 2012.

Details of the changes in retail revenues were as follows:

| | Third Quarter 2013 (in millions) | (% change) | Year-to-Date 2013 (in millions) | (% change) |
|---|---|---|---|---|
| Retail – prior year | $4,379 | | $11,068 | |
| Estimated change in – | | | | |
| Rates and pricing | 34 | 0.8 | 139 | 1.2 |
| Sales growth (decline) | 9 | 0.2 | (16) | (0.1) |
| Weather | (94) | (2.2) | (84) | (0.8) |
| Fuel and other cost recovery | (9) | (0.2) | 130 | 1.2 |
| Retail – current year | $4,319 | (1.4)% | $11,237 | 1.5% |

Revenues associated with changes in rates and pricing increased in the third quarter 2013 when compared to the corresponding period in 2012 primarily due to base tariff increases at Georgia Power effective January 1, 2013, as approved by the Georgia PSC, related to placing a new generating unit at Plant McDonough-Atkinson in service and the financing costs related to the construction of Plant Vogtle Units 3 and 4, partially offset by lower contributions from market-driven rates from commercial and industrial customers.

Revenues associated with changes in rates and pricing increased for year-to-date 2013 when compared to the corresponding period in 2012 primarily due to base tariff increases at Georgia Power effective April 2012 and January 1, 2013, as approved by the Georgia PSC, related to placing new generating units at Plant McDonough-Atkinson in service and the financing costs related to the construction of Plant Vogtle Units 3 and 4, as well as higher contributions from market-driven rates from commercial and industrial customers.

Revenues attributable to changes in sales increased in the third quarter 2013 when compared to the corresponding period in 2012. The increase was due to a 2.6% increase in industrial KWH sales and a 1.1% increase in weather-adjusted commercial KWH sales, partially offset by a 0.3% decrease in weather-adjusted residential KWH sales. The increase in industrial KWH sales for the third quarter 2013 was primarily due to increases in the paper, primary metals, and stone, clay, and glass sectors, partially offset by decreases in the pipeline and military sectors. The increase in weather-adjusted commercial KWH sales for the third quarter 2013 was primarily due to increased customer usage and customer growth. The decrease in weather-adjusted residential KWH sales for the third quarter 2013 was primarily due to decreased customer usage, partially offset by customer growth.

Revenues attributable to changes in sales decreased for year-to-date 2013 when compared to the corresponding period in 2012. The decrease was due to a 0.5% decrease in weather-adjusted residential KWH sales, partially offset by a 0.4% increase in industrial KWH sales. Weather-adjusted commercial KWH sales were flat. The decrease in weather-adjusted residential KWH sales for year-to-date 2013 was primarily due to decreased customer usage, partially offset by customer growth. The increase in industrial KWH sales for year-to-date 2013 was primarily due to increases in the primary metals, paper, and stone, clay, and glass sectors, partially offset by decreases in the chemicals and military sectors.

In the first quarter 2012, Georgia Power began using new actual advanced meter data to compute unbilled revenues. The year-to-date weather-adjusted KWH sales variances shown above reflect an adjustment to the estimated allocation of Georgia Power's unbilled January 2012 KWH sales among customer classes that is consistent with the actual allocation in 2013. Without this adjustment, year-to-date 2013 weather-adjusted residential KWH sales decreased 0.8% as compared to the corresponding period in 2012 while weather-adjusted commercial KWH sales increased 0.3% as compared to the corresponding period in 2012.

Fuel and other cost recovery revenues decreased $9 million in the third quarter 2013 when compared to the corresponding period in 2012 primarily due to an increase in hydro generation resulting from greater rainfall. Fuel and other cost recovery revenues increased $130 million for year-to-date 2013 when compared to the corresponding period in 2012 primarily due to higher fuel costs, partially offset by an increase in hydro generation resulting from greater rainfall. 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, storm damage, new plants, and PPAs.

Wholesale Revenues

| Third Quarter 2013 vs. Third Quarter 2012 | | Year-to-Date 2013 vs. Year-to-Date 2012 | |
|---|---|---|---|
| (change in millions) | (% change) | (change in millions) | (% change) |
| $23 | 4.6 | $145 | 11.5 |

Wholesale revenues consist of PPAs with investor-owned utilities and electric cooperatives, unit power sales contracts, and short-term opportunity sales. Wholesale revenues from PPAs and unit power sales contracts 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. Short-term opportunity sales are made at market-based rates that generally provide a margin above the Southern Company system's variable cost to produce the energy.

In the third quarter 2013, wholesale revenues were $520 million compared to $497 million for the corresponding period in 2012, reflecting a $14 million increase in capacity revenues and a $9 million increase in energy revenues. The increase in capacity revenues was primarily due to an increase in capacity amounts under existing PPAs. The increase in energy revenues was primarily related to an increase in the average cost of natural gas, partially offset

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by a decrease in volume related to less favorable weather in the third quarter 2013 as compared to the corresponding period in 2012.

For year-to-date 2013, wholesale revenues were $1.4 billion compared to $1.3 billion for the corresponding period in 2012, reflecting an $86 million increase in energy revenues and a $59 million increase in capacity revenues. The increase in capacity revenues was primarily due to the commencement of a new PPA at Southern Power's Plant Nacogdoches, which was placed in service in June 2012 and an increase in capacity amounts under existing PPAs. The increase in energy revenues was primarily related to an increase in the average cost of natural gas, partially offset by a decrease in volume related to less favorable weather in the third quarter 2013 as compared to the corresponding period in 2012.

Fuel and Purchased Power Expenses

| | Third Quarter 2013 vs. Third Quarter 2012 | | Year-to-Date 2013 vs. Year-to-Date 2012 | |
|---|---|---|---|---|
| | (change in millions) | (% change) | (change in millions) | (% change) |
| Fuel | $27 | 1.7 | $309 | 7.9 |
| Purchased power | (19) | (11.6) | (88) | (19.3) |
| Total fuel and purchased power expenses | $8 | | $221 | |

In the third quarter 2013, total fuel and purchased power expenses were $1.73 billion compared to $1.72 billion for the corresponding period in 2012. The increase was primarily the result of an $86 million increase in the average cost of fuel and purchased power primarily due to higher natural gas prices, partially offset by a $63 million decrease in the volume of KWHs purchased and a $15 million decrease in the volume of KWHs generated as a result of less favorable weather compared to the corresponding period in 2012 reducing total demand.

For year-to-date 2013, total fuel and purchased power expenses were $4.6 billion compared to $4.4 billion for the corresponding period in 2012. The increase was primarily the result of a $364 million increase in the average cost of fuel and purchased power primarily due to higher natural gas prices and a $46 million increase in the volume of KWHs generated, partially offset by a $189 million decrease in the volume of KWHs purchased as a result of less favorable weather compared to the corresponding period in 2012 reducing total demand.

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 – "PSC 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:

| | Third Quarter 2013 | Third Quarter 2012 | Year-to-Date 2013 | Year-to-Date 2012 |
|---|---|---|---|---|
| Total generation (billions of KWHs) | 50 | 50 | 136 | 133 |
| Total purchased power (billions of KWHs) | 3 | 5 | 10 | 14 |
| Sources of generation (percent) — | | | | |
| Coal | 44 | 43 | 40 | 40 |
| Nuclear | 16 | 16 | 17 | 17 |
| Gas | 37 | 40 | 39 | 41 |
| Hydro | 3 | 1 | 4 | 2 |
| Cost of fuel, generated (cents per net KWH) — | | | | |
| Coal | 4.06 | 4.01 | 4.08 | 4.09 |
| Nuclear | 0.87 | 0.86 | 0.87 | 0.83 |
| Gas | 3.27 | 2.94 | 3.30 | 2.76 |
| Average cost of fuel, generated (cents per net KWH) | 3.24 | 3.09 | 3.21 | 2.97 |
| Average cost of purchased power (cents per net KWH)[(a)] | 5.66 | 4.98 | 5.22 | 4.32 |

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

Fuel

In the third quarter 2013, fuel expense was $1.58 billion compared to $1.55 billion for the corresponding period in 2012. The increase was primarily due to an 11.2% increase in the average cost of natural gas per KWH generated, partially offset by a 4.6% decrease in KWHs generated by natural gas and a 292.5% increase in the volume of KWHs generated by hydro facilities resulting from greater rainfall.

For year-to-date 2013, fuel expense was $4.2 billion compared to $3.9 billion for the corresponding period in 2012. The increase was primarily due to a 19.6% increase in the average cost of natural gas per KWH generated, partially offset by a 138.9% increase in the volume of KWHs generated by hydro facilities resulting from greater rainfall.

Purchased Power

In the third quarter 2013, purchased power expense was $145 million compared to $164 million for the corresponding period in 2012. The decrease was primarily due to a 27.3% decrease in the volume of KWHs purchased as the marginal cost of generation available was lower than the market cost of available energy, partially offset by a 13.7% increase in the average cost per KWH purchased.

For year-to-date 2013, purchased power expense was $367 million compared to $455 million for the corresponding period in 2012. The decrease was primarily due to a 31.5% decrease in the volume of KWHs purchased as the marginal cost of generation available was lower than the market cost of available energy, partially offset by a 20.8% increase in the average cost per KWH purchased.

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.

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Other Operations and Maintenance Expenses

| Third Quarter 2013 vs. Third Quarter 2012 | | Year-to-Date 2013 vs. Year-to-Date 2012 | |
|---|---|---|---|
| (change in millions) | (% change) | (change in millions) | (% change) |
| $22 | 2.4 | $32 | 1.1 |

In the third quarter 2013, other operations and maintenance expenses were $928 million compared to $906 million for the corresponding period in 2012. The increase was primarily due to a $12 million increase in pension costs, a $12 million increase in transmission and distribution costs, and a $5 million increase in customer service expenses, partially offset by a $9 million decrease in other production expenses primarily related to outage and maintenance costs and commodity and labor costs.

For year-to-date 2013, other operations and maintenance expenses were $2.85 billion compared to $2.82 billion for the corresponding period in 2012. The increase was primarily the result of a $37 million increase in pension costs, a $9 million increase in amortization of Alabama Power's nuclear outage expenses, and a $9 million increase in transmission and distribution costs. These increases were partially offset by a $16 million decrease in other production expenses primarily related to outage and maintenance costs and commodity and labor costs. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "PSC Matters – Alabama Power – Nuclear Outage Accounting Order" of Southern Company in Item 7 of the Form 10-K for additional information on the amortization of Alabama Power's nuclear outage expenses.

See Note (F) to the Condensed Financial Statements herein for additional information related to pension costs.

MC Asset Recovery Insurance Settlement

| Third Quarter 2013 vs. Third Quarter 2012 | | Year-to-Date 2013 vs. Year-to-Date 2012 | |
|---|---|---|---|
| (change in millions) | (% change) | (change in millions) | (% change) |
| $— | — | $19 | N/M |

N/M – Not meaningful

In the second quarter 2012, Southern Company received an insurance recovery related to a litigation settlement with MC Asset Recovery, LLC, which resulted in income of $19 million. See Note 3 to the financial statements of Southern Company under "Insurance Recovery" in Item 8 of the Form 10-K for additional information.

Depreciation and Amortization

| Third Quarter 2013 vs. Third Quarter 2012 | | Year-to-Date 2013 vs. Year-to-Date 2012 | |
|---|---|---|---|
| (change in millions) | (% change) | (change in millions) | (% change) |
| $31 | 6.9 | $87 | 6.5 |

In the third quarter 2013, depreciation and amortization was $480 million compared to $449 million for the corresponding period in 2012. The increase was primarily due to additional plant in service related to the completion of Georgia Power's Plant McDonough-Atkinson Unit 6 in October 2012 and Southern Power's Plants Apex and Cleveland in July 2012 and December 2012, respectively, certain unit retirement decisions (with respect to the portion of such units dedicated to wholesale service) at Georgia Power, and additional transmission and distribution projects.

For year-to-date 2013, depreciation and amortization was $1.4 billion compared to $1.3 billion for the corresponding period in 2012. The increase was primarily due to additional plant in service related to the completion of Georgia Power's Plant McDonough-Atkinson Units 5 and 6 in April 2012 and October 2012, respectively, and Southern Power's Plant Nacogdoches in June 2012, Plant Apex in July 2012, and Plant Cleveland in December 2012, certain unit retirement decisions (with respect to the portion of such units dedicated to wholesale service) at Georgia Power, and additional transmission and distribution projects. These increases were partially offset by a net reduction in amortization primarily related to amortization of a regulatory liability for state income

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tax credits at Georgia Power and by the deferral of certain expenses under an accounting order at Alabama Power. See Note 1 to the financial statements of Southern Company under "Regulatory Assets and Liabilities" in Item 8 of the Form 10-K for additional information on the state income tax credits regulatory liability.

Taxes Other Than Income Taxes

| Third Quarter 2013 vs. Third Quarter 2012 | | Year-to-Date 2013 vs. Year-to-Date 2012 | |
|---|---|---|---|
| (change in millions) | (% change) | (change in millions) | (% change) |
| $6 | 2.5 | $20 | 2.9 |

In the third quarter 2013, taxes other than income taxes were $243 million compared to $237 million for the corresponding period in 2012. The increase was the result of an increase in property taxes.

For year-to-date 2013, taxes other than income taxes were $710 million compared to $690 million for the corresponding period in 2012. The increase was primarily the result of increases in property taxes and municipal franchise fees.

Estimated Loss on Kemper IGCC

| Third Quarter 2013 vs. Third Quarter 2012 | | Year-to-Date 2013 vs. Year-to-Date 2012 | |
|---|---|---|---|
| (change in millions) | (% change) | (change in millions) | (% change) |
| $150 | N/M | $1,140 | N/M |

N/M – Not meaningful

In the third quarter 2013 and year-to-date 2013, estimated probable losses on the Kemper IGCC of $150 million and $1.1 billion, respectively, were recorded at Southern Company to 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 the DOE Grants and the 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

| Third Quarter 2013 vs. Third Quarter 2012 | | Year-to-Date 2013 vs. Year-to-Date 2012 | |
|---|---|---|---|
| (change in millions) | (% change) | (change in millions) | (% change) |
| $14 | 35.9 | $37 | 36.3 |

In the third quarter 2013, AFUDC equity was $53 million compared to $39 million for the corresponding period in 2012. For year-to-date 2013, AFUDC equity was $139 million compared to $102 million for the corresponding period in 2012. The increases were primarily due to an increase in CWIP related to Mississippi Power's Kemper IGCC, partially offset by the completion of Georgia Power's Plant McDonough-Atkinson Units 5 and 6 in April 2012 and October 2012, respectively. See Note (B) to the Condensed Financial Statements under "Integrated Coal Gasification Combined Cycle" herein for additional information regarding the Kemper IGCC.

Leveraged Lease Income (Loss)

| Third Quarter 2013 vs. Third Quarter 2012 | | Year-to-Date 2013 vs. Year-to-Date 2012 | |
|---|---|---|---|
| (change in millions) | (% change) | (change in millions) | (% change) |
| $— | — | $(27) | N/M |

N/M – Not meaningful

For year-to-date 2013, leveraged lease income (loss) was $(11) million compared to $16 million for the corresponding period in 2012. The decrease was primarily due to the restructuring of a leveraged lease investment. See Note (J) to the Condensed Financial Statements herein for additional information.

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Interest Expense, Net of Amounts Capitalized

| Third Quarter 2013 vs. Third Quarter 2012 | | Year-to-Date 2013 vs. Year-to-Date 2012 | |
|---|---|---|---|
| (change in millions) | (% change) | (change in millions) | (% change) |
| $(16) | (7.3) | $(21) | (3.2) |

In the third quarter 2013, interest expense, net of amounts capitalized was $202 million compared to $218 million for the corresponding period in 2012. For year-to-date 2013, interest expense, net of amounts capitalized was $628 million compared to $649 million for the corresponding period in 2012. These decreases were primarily due to lower interest rates, the timing of issuances and redemptions of long term-debt, an increase in capitalized interest primarily resulting from AFUDC debt associated with Mississippi Power's Kemper IGCC, and an increase in capitalized interest associated with the construction of Southern Power's Plants Campo Verde and Spectrum. For year-to-date 2013, these decreases were partially offset by a decrease in capitalized interest resulting from the completion of Southern Power's Plants Nacogdoches and Cleveland, a reduction in AFUDC debt due to the completion of Georgia Power's Plant McDonough-Atkinson Units 5 and 6, and the conclusion of certain state and federal tax audits in 2012.

Other Income (Expense), Net

| Third Quarter 2013 vs. Third Quarter 2012 | | Year-to-Date 2013 vs. Year-to-Date 2012 | |
|---|---|---|---|
| (change in millions) | (% change) | (change in millions) | (% change) |
| $(6) | N/M | $(16) | N/M |

N/M – Not meaningful

In the third quarter 2013, other income (expense), net was $(10) million compared to $(4) million for the corresponding period in 2012. The change was primarily related to charitable contributions, partially offset by gains on sales of non-utility property at Alabama Power.

For year-to-date 2013, other income (expense), net was $(20) million compared to $(4) million for the corresponding period in 2012. The change was primarily related to the conclusion of certain federal income tax audits in 2012 and charitable contributions, partially offset by gains on sales of non-utility property at Alabama Power.

Income Taxes

| Third Quarter 2013 vs. Third Quarter 2012 | | Year-to-Date 2013 vs. Year-to-Date 2012 | |
|---|---|---|---|
| (change in millions) | (% change) | (change in millions) | (% change) |
| $(101) | (17.8) | $(441) | (40.2) |

In the third quarter 2013, income taxes were $468 million compared to $569 million for the corresponding period in 2012. The decrease was primarily due to lower pre-tax earnings, an increase in tax benefits recognized from investment tax credits (ITCs) at Southern Power, and a net increase in non-taxable AFUDC equity.

For year-to-date 2013, income taxes were $657 million compared to $1.1 billion for the corresponding period in 2012. The decrease was primarily due to lower pre-tax earnings, a net increase in tax benefits recognized from ITCs, primarily at Southern Power, and a net increase in non-taxable AFUDC equity, partially offset by a decrease in state income tax credits, primarily at Georgia Power.

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 successful completion of ongoing construction projects, including construction of generating facilities. Another major factor is the profitability of the competitive wholesale supply business. Future earnings for the electricity business in the near term will depend, in part, upon maintaining energy sales which is subject to a number of factors. These factors include weather, competition, new energy contracts with neighboring utilities and other wholesale customers, energy conservation practiced 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 supply business also depends on numerous factors including creditworthiness of customers, total generating capacity available and related costs, future acquisitions and construction of generating facilities, 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. 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.

#### New Source Review Actions

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – New Source Review Actions" of Southern Company in Item 7 and Note 3 to the financial statements of Southern Company under "Environmental Matters – New Source Review Actions" in Item 8 of the Form 10-K for additional information. On September 19, 2013, a three-judge panel of the U.S. Court of Appeals for the Eleventh Circuit affirmed in part and reversed in part the 2011 judgment of the U.S. District Court for the Northern District of Alabama in favor of Alabama Power, which was based on the exclusion of the testimony of certain of the EPA's experts, and remanded the case back to the U.S. District Court for the Northern District of Alabama for further proceedings. On October 31, 2013, Alabama Power filed with the U.S. Court of Appeals for the Eleventh Circuit a petition for rehearing. In February 2012, the EPA filed a motion in the U.S. District Court for the Northern District of Alabama seeking vacatur of the 2011 judgment and recusal of the judge in the case involving Alabama Power (including claims related to the unit co-owned by Mississippi Power), which remains pending. The ultimate outcome of these matters cannot be determined at this time.

#### Climate Change Litigation

##### Kivalina Case

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Climate Change Litigation – Kivalina Case" of Southern Company in Item 7 and Note 3 to the financial statements of Southern Company under "Environmental Matters – Climate Change Litigation – Kivalina Case" in Item 8 of the Form 10-K for additional information. On May 20, 2013, the U.S. Supreme Court denied the plaintiffs' petition for review. The case is now concluded.

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Hurricane Katrina Case
See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Climate Change Litigation – Hurricane Katrina Case" of Southern Company in Item 7 and Note 3 to the financial statements of Southern Company under "Environmental Matters – Climate Change Litigation – Hurricane Katrina Case" in Item 8 of the Form 10-K for additional information. On May 14, 2013, the U.S. Court of Appeals for the Fifth Circuit upheld the U.S. District Court for the Southern District of Mississippi's dismissal of the case. The case is now concluded.
Environmental Statutes and Regulations
Air Quality
See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Statutes and Regulations – Air Quality" of Southern Company in Item 7 of the Form 10-K for additional information regarding Alabama's State Implementation Plan requirements related to opacity, the EPA's MATS rule, the 2007 State of Georgia Multi-Pollutant Rule, the Cross State Air Pollution Rule, and the EPA's $SO_2$ rule.
On March 6, 2013, the U.S. Court of Appeals for the Eleventh Circuit upheld the EPA's 2008 approval of the State of Alabama's opacity requirements and vacated the EPA's 2011 attempt to rescind its approval, thereby resolving Alabama Power's appeal in Alabama Power's favor.
On April 24, 2013, the EPA published a final reconsideration rule addressing new source standards within the MATS rule. Although the EPA had considered revisions to the startup and shutdown provisions of the MATS rule, a final decision on these provisions was deferred. The ultimate impact of this rulemaking will depend on the outcome of any additional rulemaking and/or legal challenges and, therefore, cannot be determined at this time.
On April 30, 2013, the State of Georgia finalized revisions to the 2007 State of Georgia Multi-Pollutant Rule and a companion rule requiring a 95% reduction in $SO_2$ emissions from certain coal-fired generating units. The revisions modify the compliance dates under those two rules for units yet to be controlled to synchronize them with the MATS rule compliance deadline. The revisions also allow natural gas to be used as a compliance alternative at Plant Yates. See Note 3 to the financial statements of Southern Company under "Retail Regulatory Matters – Georgia Power – Integrated Resource Plans" in Item 8 of the Form 10-K and Note (B) to the Condensed Financial Statements under "Retail Regulatory Matters – Georgia Power – Integrated Resource Plans" herein for additional information regarding the conversion of Plant Yates Units 6 and 7.
On June 24, 2013, the U.S. Supreme Court issued an order granting petitions by the EPA and other parties requesting review of the U.S. Court of Appeals for the District of Columbia Circuit's decision to vacate and remand the Cross State Air Pollution Rule to the EPA. The ultimate outcome of this matter cannot be determined at this time.
On July 25, 2013, the EPA issued initial nonattainment area designations under the one-hour National Ambient Air Quality Standard for $SO_2$ based on ambient air quality monitoring data. No areas within the Southern Company system's service territory were designated as nonattainment under this rule. The EPA has deferred designation of attainment and unclassifiable areas and may designate additional areas as nonattainment in the future, which could include areas within the Southern Company system's service territory. The ultimate outcome of this matter cannot be determined at this time.
Water Quality
See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Statutes and Regulations – Water Quality" of Southern Company in Item 7 of the Form 10-K for additional information regarding the EPA's proposed revision of the current steam electric effluent guidelines and rule for cooling water intake structures.

On June 7, 2013, the EPA published a proposed rule which requests comments on a range of potential regulatory options for addressing certain wastestreams from steam electric power plants. These regulations could result in the installation of additional controls at certain of the facilities of the traditional operating companies and Southern Power, which could result in significant capital expenditures and compliance costs that could affect future unit retirement and replacement decisions.

On June 27, 2013, the EPA entered into an amended settlement agreement to extend the deadline for issuing a final rule for cooling water intake structures until November 4, 2013 and, on October 31, 2013, further extended the deadline until November 20, 2013.

The ultimate impact of these proposed regulations will depend on the specific requirements of the final rule and the outcome of any legal challenges and cannot be determined at this time.

Coal Combustion Byproducts

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Statutes and Regulations – Coal Combustion Byproducts" of Southern Company in Item 7 of the Form 10-K for additional information regarding the EPA's proposed regulation of the management and disposal of coal combustion byproducts. On September 30, 2013, the U.S. District Court for the District of Columbia issued an order granting partial summary judgment to the environmental groups and other parties, ruling that the EPA has a statutory obligation to review and revise, as necessary, the federal solid waste regulations applicable to coal combustion byproducts and, on October 29, 2013, directed the EPA to provide a proposed schedule to complete the rulemaking. The impact of this order depends on further judicial and regulatory action and, therefore, the ultimate outcome of this matter cannot be determined at this time.

Global Climate Issues

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Global Climate Issues" of Southern Company in Item 7 of the Form 10-K for additional information regarding the proposed regulation of greenhouse gas emissions through establishment of new source performance standards.

On September 20, 2013, the EPA proposed revised regulations to establish standards of performance for greenhouse gas emissions from new fossil fuel-fired steam electric generating units. A Presidential memorandum issued on June 25, 2013 also directed the EPA to propose standards, regulations, or guidelines for addressing modified, reconstructed, and existing steam electric generating units by June 1, 2014. The ultimate impact of these proposed regulations and guidelines will depend on the scope and specific requirements of the proposed and final rules and the outcome of any legal challenges.

Although the outcome of the proposed regulations and guidelines cannot be determined at this time, additional restrictions on the Southern Company system's greenhouse gas emissions at the federal or state level could result in significant additional compliance costs, including capital expenditures. These costs could affect future unit retirement and replacement decisions. Also, additional compliance costs and costs related to unit retirements could affect results of operations, cash flows, and financial condition if such costs are not recovered through regulated rates or through market-based contracts. Further, higher costs that are recovered through regulated rates could contribute to reduced demand for electricity, which could negatively impact results of operations, cash flows, and financial condition.

PSC 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 as recorded on the financial statements are adjusted for differences in actual recoverable fuel costs and amounts billed in current regulated rates. Accordingly, any 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. The total over recovered fuel balance at Alabama Power, Georgia Power, and Mississippi Power included on Southern Company's Condensed Balance Sheets herein was approximately $178 million at September 30, 2013 compared to the total over recovered fuel balance at Georgia Power, Gulf Power, and Mississippi Power at December 31, 2012 of approximately $303 million. At September 30, 2013, Gulf Power had under recovered fuel costs included on Southern Company's Condensed Balance Sheet herein of approximately $10 million. At December 31, 2012, Alabama Power had under recovered fuel costs included on Southern Company's Condensed Balance Sheet herein of approximately $4 million. See Note 3 to the financial statements of Southern Company under "Retail Regulatory Matters – Alabama Power – Energy Cost Recovery" and "Retail Regulatory Matters – Georgia Power – Fuel Cost Recovery" in Item 8 of the Form 10-K for additional information.

Alabama Power

Rate RSE

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "PSC Matters – Alabama Power – Rate RSE" of Southern Company in Item 7 and Note 3 to the financial statements of Southern Company under "Retail Regulatory Matters – Alabama Power – Rate RSE" in Item 8 of the Form 10-K for additional information regarding Alabama Power's Rate Stabilization and Equalization (Rate RSE). In May, June, and July 2013, the Alabama PSC held public proceedings regarding the operation and utilization of Rate RSE. On August 13, 2013, the Alabama PSC voted to issue a report on Rate RSE that found that Alabama Power's Rate RSE mechanism continues to be just and reasonable to customers and Alabama Power, but recommended Alabama Power modify Rate RSE as follows:

- Eliminate the provision of Rate RSE establishing an allowed range of ROE, which is currently 13.0% to 14.5%, with an adjusting point of 13.75%.
- Eliminate the provision of Rate RSE limiting Alabama Power's capital structure to an allowed equity ratio of 45%.
- Replace these two provisions with a provision that establishes rates based upon an allowed weighted cost of equity (WCE) range of 5.75% to 6.21%, with an adjusting point of 5.98%. If calculated under the current Rate RSE provisions, the resulting WCE would range from 5.85% to 6.53%, with an adjusting point of 6.19%.
- Provide eligibility for a performance-based adder of seven basis points, or 0.07%, to the WCE adjusting point if Alabama Power (i) has an "A" credit rating equivalent with at least one of the recognized rating agencies or (ii) is in the top one-third of a designated customer value benchmark survey.

Substantially all other provisions of Rate RSE would remain unchanged.

On August 21, 2013, Alabama Power filed its consent to these recommendations with the Alabama PSC. The changes are effective for calendar year 2014.

Rate CNP

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "PSC Matters – Alabama Power – Rate CNP" of Southern Company in Item 7 and Note 3 to the financial statements of Southern Company under "Retail Regulatory Matters – Alabama Power – Rate CNP" in Item 8 of the Form 10-K for additional information regarding Alabama Power's recovery of retail costs through Rate Certificated New Plant Environmental (Rate CNP Environmental).

On August 13, 2013, the Alabama PSC approved Alabama Power's petition requesting a revision to Rate CNP Environmental that allows recovery of costs related to pre-2005 environmental assets currently being recovered through Rate RSE. The revenue impact as a result of this revision is estimated to be $50 million in 2014; however, this petition was made in accordance with Alabama Power's agreement with the Alabama PSC to develop a plan to keep Rate RSE and Rate CNP Environmental factors unchanged in 2014. Any unrecovered amounts associated with

2014 environmental compliance costs will be reflected in the 2015 Rate CNP Environmental filing. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "PSC Matters – Alabama Power – Rate RSE" in Item 7 and Note 3 to the financial statements of Southern Company under "Retail Regulatory Matters – Alabama Power – Rate RSE" in Item 8 of the Form 10-K for additional information.

Natural Disaster Cost Recovery

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "PSC Matters – Alabama Power – Natural Disaster Reserve" of Southern Company in Item 7 and Note 3 to the financial statements of Southern Company under "Retail Regulatory Matters – Alabama Power – Natural Disaster Reserve" in Item 8 of the Form 10-K for additional information regarding natural disaster cost recovery. At September 30, 2013, the NDR had an accumulated balance of $95 million as compared to $103 million at December 31, 2012, which is included on Southern Company's Condensed Balance Sheet herein under other regulatory liabilities, deferred. The decrease in the NDR is a result of storm activity. The related accruals are reflected as operations and maintenance expenses on Southern Company's Condensed Statement of Income herein.

Non-Nuclear Outage Accounting Order

On August 13, 2013, the Alabama PSC approved Alabama Power's petition requesting authorization to defer to a regulatory asset account certain operations and maintenance expenses associated with planned outages at non-nuclear generation facilities in 2014 and to amortize those expenses over a three-year period beginning in 2015. The 2014 outage expenditures to be deferred and amortized are estimated to total approximately $70 million. This petition was made in accordance with Alabama Power's agreement with the Alabama PSC to develop a plan to keep Rate RSE factors unchanged in 2014. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "PSC Matters – Alabama Power – Rate RSE" in Item 7 and Note 3 to the financial statements of Southern Company under "Retail Regulatory Matters – Alabama Power – Rate RSE" in Item 8 of the Form 10-K for additional information.

Georgia Power

Rate Plans

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "PSC Matters – Georgia Power – Rate Plans" of Southern Company in Item 7 of the Form 10-K and Note 3 to the financial statements of Southern Company under "Retail Regulatory Matters – Georgia Power – Rate Plans" in Item 8 of the Form 10-K for information regarding Georgia Power's current retail rate plan.

In accordance with the 2010 ARP, Georgia Power filed a base rate case with the Georgia PSC on June 28, 2013 (2013 Rate Case). The filing includes a requested rate increase totaling $482 million, or 6.1% of retail revenues, to be effective January 1, 2014 based on a proposed retail ROE of 11.50%. The requested increase will be recovered through Georgia Power's existing base rate tariffs as follows: $334 million through the traditional base rate tariffs, $132 million through the Environmental Compliance Cost Recovery (ECCR) tariff, $5 million through the Demand Side Management tariffs, and $11 million through the Municipal Franchise Fee tariff. The filing reflects revenue requirements that have been levelized over the three-year period ending December 31, 2016 to provide stable rates to customers during a period of rising costs. The request was made to allow Georgia Power to recover the costs of recent and future investments in infrastructure including environmental controls, transmission and distribution, generation, and smart grid technologies in order to maintain high levels of reliability and superior customer service.

The primary points of the 2013 Rate Case are:

- Continuation of the traditional base rate tariffs through December 31, 2016 based on a test year ending July 31, 2014 with a modification for an appropriate three-year levelization adjustment.
- Continuation of the ECCR tariff through December 31, 2016 with a modification for an appropriate three-year levelization adjustment.
- Continuation of an allowed retail ROE range of 10.25% to 12.25%.

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- Continuation of the process whereby two-thirds of any earnings above the top of the allowed ROE range will be shared with Georgia Power's customers and the remaining one-third will be retained by Georgia Power.
- Continuation of the option to file an Interim Cost Recovery tariff in the event earnings are projected to fall below the bottom of the ROE range during the three-year term of the plan.

Hearings on Georgia Power’s testimony were held in October 2013. In testimony filed on October 18, 2013 and October 22, 2013, the Georgia PSC Staff proposed various adjustments based on a traditional one-year test period and a 10.0% ROE that would result in excess revenues of $165 million. However, the Georgia PSC Staff also proposed no change to Georgia Power’s current retail base rates through 2014. The excess earnings in 2014 would be used to reduce rate increases in 2015 and 2016. The Georgia PSC Staff further proposed reducing the allowed ROE range to 50 basis points above and below the authorized ROE with one-third of any earnings above the range used to reduce future ECCR tariff increases and the remaining two-thirds applied to rate reductions. Georgia Power disagrees with the Georgia PSC Staff's positions. Hearings on the Georgia PSC Staff and intervenor testimony and Georgia Power's rebuttal hearings will be held in November 2013.

The Georgia PSC is scheduled to issue a final order in this matter in December 2013. The ultimate outcome of this matter cannot be determined at this time.

Integrated Resource Plans

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Statutes and Regulations – Air Quality," " – Water Quality," and " – Coal Combustion Byproducts" of Southern Company in Item 7 and Note 3 to the financial statements of Southern Company under "Retail Regulatory Matters – Georgia Power – Rate Plans" and " – Integrated Resource Plans" in Item 8 of the Form 10-K for additional information regarding proposed and final EPA rules and regulations, including the MATS rule for coal- and oil-fired electric utility steam generating units, proposed cooling water intake structure rules, revisions to effluent guidelines for steam electric power plants, and additional regulation of coal combustion byproducts; the State of Georgia's Multi-Pollutant Rule; Georgia Power's analysis of the potential costs and benefits of installing the required controls on its fossil generating units in light of these regulations; the 2010 ARP; the 2011 IRP; and the 2013 IRP.

On April 17, 2013, the Georgia PSC approved the decertification of Plant Bowen Unit 6 (32 MWs), which was retired on April 25, 2013. On September 30, 2013, Plant Branch Unit 2 (319 MWs) was retired as approved by the Georgia PSC in the 2011 IRP in order to comply with the State of Georgia's Multi-Pollutant Rule.

On July 11, 2013, the Georgia PSC approved Georgia Power's request to decertify and retire Plant Boulevard Units 2 and 3 (28 MWs) effective July 17, 2013. Plant Branch Units 3 and 4 (1,016 MWs), Plant Yates Units 1 through 5 (579 MWs), and Plant McManus Units 1 and 2 (122 MWs) will be decertified and retired by April 16, 2015, the compliance date of the MATS rule. The decertification date of Plant Branch Unit 1 was extended from December 31, 2013 as specified in the final order in the 2011 IRP to coincide with the decertification date of Plant Branch Units 3 and 4. The decertification and retirement of Plant Kraft Units 1 through 4 (316 MWs) was also approved and will be effective by April 16, 2016, based on a one-year extension of the MATS rule compliance date that was approved by the State of Georgia Environmental Protection Division on September 10, 2013 to allow for necessary transmission system reliability improvements.

Additionally, the Georgia PSC approved Georgia Power's proposed MATS rule compliance plan for emissions controls necessary for the continued operation of Plants Bowen Units 1 through 4, Wansley Units 1 and 2, Scherer Units 1 through 3, and Hammond Units 1 through 4, the switch to natural gas as the primary fuel at Plants Yates Units 6 and 7 and SEGCO's Plant Gaston Units 1 through 4, as well as the fuel switch at Plant McIntosh Unit 1 to operate on Powder River Basin coal.

The Georgia PSC also deferred decisions regarding the appropriate recovery periods for the net book values of Plant Branch Units 3 and 4 and Plant Boulevard Units 2 and 3, deferred environmental construction work in progress for Plant Branch Units 3 and 4 and Plant Yates Units 6 and 7, costs associated with unusable material and supplies, and

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any over or under recovered cost of removal balances remaining at the unit retirement dates for each retirement unit until the 2013 Rate Case. The Georgia PSC also deferred decisions regarding the recovery of any fuel related costs that could be incurred in connection with the retirement units to be addressed in future fuel cases.

The Georgia PSC also approved an additional 525 MWs of solar generation to be purchased by Georgia Power. The 525 MWs will be subdivided into 425 MWs of utility scale projects and 100 MWs of distributed generation. The 425 MWs of the utility scale projects will be purchased through a competitive request for proposal process which will be open to all qualified market participants, including Georgia Power and its affiliates. The purchases resulting from both programs will be for energy only and recovered through Georgia Power's fuel cost recovery mechanism.

The decertification of these units, fuel conversions, and procurement of additional solar generation are not expected to have a material impact on Southern Company's financial statements; however, the ultimate outcome depends on the Georgia PSC's order in the 2013 Rate Case and future fuel cases and cannot be determined at this time.

On April 22, 2013, Georgia Power executed two PPAs to purchase energy from two wind farms in Oklahoma with capacity totaling 250 MWs that will commence in 2016 and end in 2035, and subsequently has requested Georgia PSC approval. During 2013, Georgia Power has executed four PPAs to purchase a total of 169 MWs of biomass capacity and energy from four facilities in Georgia that will commence in 2015 and end in 2035. On May 21, 2013, the Georgia PSC approved two of the biomass PPAs. The two wind PPAs and the two Georgia PSC-approved biomass PPAs result in contractual obligations of approximately $13 million in 2015, $47 million in 2016, $49 million in 2017, and $1.29 billion thereafter. If approved by the Georgia PSC, the additional biomass PPAs will result in contractual obligations of approximately $1 million in 2015, $11 million in 2016, $12 million in 2017, and $249 million thereafter. The four biomass PPAs are contingent upon the counterparty meeting specified contract dates for posting collateral and commercial operation.

Income Tax Matters

Bonus Depreciation

In 2010, the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (Tax Relief Act) was signed into law. Major tax incentives in the Tax Relief Act include 100% bonus depreciation for property placed in service after September 8, 2010 and through 2011 (and for certain long-term production-period projects placed in service in 2012) and 50% bonus depreciation for property placed in service in 2012 (and for certain long-term production-period projects to be placed in service in 2013), which will have a positive impact on the future cash flows of Southern Company through 2013.

On January 2, 2013, the American Taxpayer Relief Act of 2012 (ATRA) was signed into law. The ATRA retroactively extended several tax credits through 2013 and extended 50% bonus depreciation for property to be placed in service in 2013 (and for certain long-term production-period projects to be placed in service in 2014). The extension of 50% bonus depreciation will have a positive impact on the future cash flows of Southern Company through 2014.

Consequently, Southern Company's positive cash flow benefit is estimated to be between $490 million and $540 million in 2013.

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, including the ongoing construction of Plant Vogtle Units 3 and 4 at Georgia Power, the Kemper IGCC at Mississippi Power, and solar units at Southern Power, 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 approvals 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.

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The two largest construction projects currently underway in the Southern Company system are Plant Vogtle Units 3 and 4 (45.7% ownership interest by Georgia Power in two units, each with approximately 1,100 MWs) and the Kemper IGCC (in which Mississippi Power is ultimately expected to hold an 85% ownership interest in the 582-MW facility). See FINANCIAL CONDITION AND LIQUIDITY – "Capital Requirements and Contractual Obligations" herein for the cost estimate of the Southern Company system's construction program, which includes the current construction cost estimate to complete the Kemper IGCC. Also 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.

Investments in Leveraged Leases

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Investments in Leveraged Leases" of Southern Company in Item 7 and Note 1 to the financial statements of Southern Company under "Leveraged Leases" in Item 8 of the Form 10-K for additional information.

On March 1, 2013, Southern Company completed the restructuring of the nonrecourse debt and the related rental payments associated with its leveraged lease investment in a 440-MW generation facility located in Choctaw County, Mississippi. In connection with the restructuring, Southern Company has committed, as owner/lessor, to invest approximately $60 million in capital through 2015 to improve the operational performance of the facility and upgrade environmental controls. As part of the restructuring, the interest rate on the nonrecourse debt was significantly reduced, resulting in lower debt payments for Southern Company and lower rental payments for the lessee over the remaining 19-year term of the nonrecourse debt and the lease. As a consequence of the restructuring, Southern Company recalculated its net investment in the lease to reflect changes in the future cash flows to Southern Company as owner/lessor. As a result of the recalculation, Southern Company recorded an after-tax charge to income during the first quarter 2013 of approximately $16 million. This noncash charge reflects a reallocation of previously recognized lease income that will be reflected in income over the remaining term of the lease.

Nuclear Decommissioning

See Note 1 to the financial statements of Southern Company under "Nuclear Decommissioning" in Item 8 of the Form 10-K and Note (A) to the Condensed Financial Statements under "Nuclear Decommissioning" and "Asset Retirement Obligations" herein for additional information. In September 2013, Alabama Power received a 2013 decommissioning cost site study for Plant Farley. The estimated cost of decommissioning based on the study resulted in an increase in the asset retirement obligation liability of approximately $102 million.

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 increased generally throughout the U.S. In particular, personal injury, property damage, and other claims for damages alleged to have been caused by carbon dioxide and other emissions, coal combustion byproducts, and alleged exposure to hazardous materials, and/or requests for injunctive relief in connection with such matters, have become more frequent.

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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 the Notes 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.

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Other Matters" of Southern Company in Item 7 of the Form 10-K for additional information regarding the NRC's performance of additional operational and safety reviews of nuclear facilities in the U.S. following the major earthquake and tsunami that struck Japan in 2011. On March 19, 2013 and June 6, 2013, the NRC issued orders relating to hardened vents for certain classes of containment structures, including the ones in use at Plant Hatch. Southern Company is continuing to analyze the impact of these orders. The ultimate outcome of this matter cannot be determined at this time; however, management does not currently anticipate that the compliance costs associated with these orders would have a material impact on Southern Company's financial statements.

On April 4, 2013, an explosion occurred at Plant Bowen Unit 2 that resulted in substantial damage to the Plant Bowen Unit 2 generator, Plant Bowen's Units 1 and 2 control room and surrounding areas, as well as Plant Bowen's switchyard. Plant Bowen Unit 1 (approximately 700 MWs) was returned to service on August 4, 2013. Plant Bowen Unit 2 (approximately 700 MWs) remains offline pending completion of the repairs. Georgia Power expects that any material repair costs related to the damage will be covered by property insurance. The ultimate outcome of this matter cannot be determined at this time.

ACCOUNTING POLICIES

Application of Critical Accounting Policies and Estimates

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

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

Mississippi Power has extended the scheduled in-service date for the Kemper IGCC to the fourth quarter 2014 and revised its cost estimate to complete construction to an amount that exceeds the $2.88 billion cost cap, net of the DOE Grants and the Cost Cap Exceptions. Mississippi Power does not intend to seek any joint owner contributions or rate recovery for any costs related to the construction of the Kemper IGCC that exceed the $2.88 billion cost cap, excluding the Cost Cap Exceptions and net of the DOE Grants. As a result of the revisions to the cost estimate, Southern Company recorded pretax charges of $540 million, $450 million, and $150 million in the first, second, and third quarters of 2013, respectively. 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 will be reflected in Southern Company's statements of income and these changes could be material. Mississippi Power could experience further construction cost increases and/or schedule extensions with respect to the Kemper IGCC as a result of factors including, but not limited to, labor costs and productivity, adverse weather conditions, shortages and inconsistent quality of equipment, materials, and labor, or contractor or supplier delay or non-performance under construction or other agreements. Furthermore, Mississippi Power could also experience further schedule extensions associated with

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start-up activities for this "first-of-a-kind" technology, including major equipment failure, system integration, and operations, and/or unforeseen engineering problems, which would result in further cost increases.

Given the significant judgment involved in estimating the future costs to complete construction, 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 MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Construction Program" of Southern Company in Item 7 of the Form 10-K, 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.

## 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. Although earnings for the nine months ended September 30, 2013 were negatively affected by the estimated probable losses relating to the Kemper IGCC, Southern Company's financial condition remained stable at September 30, 2013. These charges for the nine months ended September 30, 2013 have resulted in cash expenditures of $57 million with no recovery as of September 30, 2013 and are expected to result in future cash expenditures of $1.1 billion with no recovery. Southern Company 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 $4.4 billion for the first nine months of 2013, an increase of $367 million from the corresponding period in 2012. The increase in net cash provided from operating activities was primarily due to a reduction in fossil fuel stock. Net cash used for investing activities totaled $4.1 billion for the first nine months of 2013 primarily due to property additions to utility plant. Net cash used for financing activities totaled $255 million for the first nine months of 2013. This was primarily due to redemptions of long-term debt and payments of common stock dividends, partially offset by issuances of long-term debt and common stock. Fluctuations in cash flow from financing activities vary from year to year based on capital needs and the maturity or redemption of securities.

Significant balance sheet changes for the first nine months of 2013 include an increase of $1.8 billion in total property, plant, and equipment for construction of generation, transmission, and distribution facilities and a $1.8 billion increase in long-term debt (excluding amounts due within a year) to repay maturing debt and to fund the Southern Company subsidiaries' continuous construction programs.

The market price of Southern Company's common stock at the end of the third quarter 2013 was $41.18 per share (based on the closing price as reported on the New York Stock Exchange) and the book value was $21.30 per share, representing a market-to-book ratio of 193%, compared to $42.81, $21.09, and 203%, respectively, at the end of 2012. The dividend for the third quarter 2013 was $0.5075 per share compared to $0.49 per share in the third quarter 2012.

### 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, and other funding requirements associated with scheduled maturities of long-term debt, as well as the related interest, preferred and preference stock dividends, leases, trust funding requirements, other purchase commitments, unrecognized tax benefits and interest, and derivative obligations.

Approximately $1.3 billion will be required through September 30, 2014 to fund maturities and announced redemptions of long-term debt. See FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Statutes and Regulations" herein for additional information.

The Southern Company system's construction program is estimated to be $6.6 billion for 2013, $6.1 billion for 2014, and $5.2 billion for 2015. Included in these estimated amounts are expenditures related to construction of the Kemper IGCC of $1.6 billion in 2013 and $260 million in 2014, which is net of SMEPA's 15% proposed ownership share of the Kemper IGCC, which reflects costs of approximately $545 million in 2014. The estimated share for SMEPA reflects estimated construction costs relating to SMEPA's proposed ownership interest (including construction costs for all prior years relating to its proposed ownership interest).

Southern Company anticipates that the Southern Company system's capital expenditure requirements will continue to decline through the middle of the decade, before rising again to meet additional requirements for environmental compliance and new generation.

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 the expected environmental compliance program; 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 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 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 "PSC Matters – Georgia Power – Nuclear Construction" and "Integrated Coal Gasification Combined Cycle" herein for additional information.

Sources of Capital

Southern Company intends to meet its future capital needs through internal cash flow 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 2013, as well as in subsequent years, will be contingent on Southern Company's investment opportunities and capital requirements.

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

In 2010, Georgia Power reached an agreement with the DOE to accept terms for a conditional commitment for federal loan guarantees that would apply to future Georgia Power borrowings related to the construction of Plant Vogtle Units 3 and 4. Any borrowings guaranteed by the DOE would be full recourse to Georgia Power and secured by a first priority lien on Georgia Power's 45.7% undivided ownership interest in Plant Vogtle Units 3 and 4. Total guaranteed borrowings would not exceed the lesser of 70% of eligible project costs or approximately $3.46 billion and are expected to be funded by the Federal Financing Bank. Final approval and issuance of loan guarantees by the DOE are subject to negotiation of definitive agreements, completion of due diligence by the DOE, and satisfaction of other conditions. In the event that the DOE does not issue a loan guarantee or Georgia Power determines that the final terms and conditions of the loan guarantee by the DOE are not in the best interest of its customers, Georgia Power expects to finance the construction of Plant Vogtle Units 3 and 4 through traditional capital markets. There can be no assurance that the DOE will issue loan guarantees for Georgia Power. The conditional commitment will expire on December 31, 2013, unless further extended by the DOE. See 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.

Mississippi Power has received DOE Grants of $245 million that have been used for the construction of the Kemper IGCC. An additional $25 million in DOE Grants is expected to be received for the initial operation of the Kemper IGCC. 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.

Southern Company'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 of the Southern Company system. To meet short-term cash needs and contingencies, Southern Company has substantial cash flow from operating activities and access to capital markets, including commercial paper programs which are backed by bank credit facilities.

At September 30, 2013, Southern Company and its subsidiaries had approximately $682 million of cash and cash equivalents. Committed credit arrangements with banks at September 30, 2013 were as follows:

| | Expires[(a)] | | | | | | | Executable Term Loans | | Due Within One Year | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Company | 2013 | 2014 | 2015 | 2016 | 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 | 1 | 268 | 35 | — | 1,000 | 1,304 | 1,304 | 53 | — | 53 | 146 |
| Georgia Power | — | — | — | 150 | 1,600 | 1,750 | 1,736 | — | — | — | — |
| Gulf Power | 20 | 90 | — | 165 | — | 275 | 275 | 45 | — | 45 | 65 |
| Mississippi Power | 15 | 120 | — | 165 | — | 300 | 300 | 25 | 40 | 65 | 70 |
| Southern Power | — | — | — | — | 500 | 500 | 486 | — | — | — | — |
| Other | — | 75 | 25 | — | — | 100 | 100 | 25 | — | 25 | 50 |
| Total | $36 | $553 | $60 | $480 | $4,100 | $5,229 | $5,201 | $148 | $40 | $188 | $331 |

(a) No credit arrangements expire in 2017.

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 September 30, 2013 was approximately $1.8 billion. In addition, at September 30, 2013, the traditional operating companies had $455 million of fixed rate pollution control revenue bonds that will be required to be remarketed within the next 12 months.

As reflected in the table above, during the first nine months of 2013, Southern Company and certain of its subsidiaries entered into, amended, or renewed certain of their credit arrangements. In February 2013, Southern Company, Alabama Power, Georgia Power, and Southern Power each amended their multi-year credit arrangements, which extended the maturity dates from 2016 to 2018. In March 2013, Gulf Power and Mississippi Power each amended certain of their credit arrangements, which extended the maturity dates from 2014 to 2016 and, in the case of Mississippi Power, also revised the definition of debt to exclude securitized debt relating to the Kemper IGCC for purposes of calculating the debt to capitalization covenant under these credit arrangements. 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.

Southern Company and its subsidiaries expect to renew their credit arrangements as needed, prior to expiration.
Most of these arrangements contain covenants that limit debt levels and typically contain cross default provisions that are restricted only to the indebtedness of the individual company. Southern Company and its subsidiaries are currently in compliance with all such covenants.
The traditional operating companies 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 each of the traditional operating companies.
Details of short-term borrowings were as follows:

| | Short-term Debt at September 30, 2013 | | Short-term Debt During the Period[a] | | |
|---|---|---|---|---|---|
| | Amount Outstanding | Weighted Average Interest Rate | Average Outstanding | Weighted Average Interest Rate | Maximum Amount Outstanding |
| | (in millions) | | (in millions) | | (in millions) |
| Commercial paper | $760 | 0.2% | $971 | 0.2% | $1,431 |
| Short-term bank debt | — | —% | 5 | 1.2% | 125 |
| Total | $760 | 0.2% | $976 | 0.2% | |

(a) Average and maximum amounts are based upon daily balances during the three-month period ended September 30, 2013.

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

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, emissions allowances, energy price risk management, and construction of new generation.
The maximum potential collateral requirements under these contracts at September 30, 2013 were as follows:

| Credit Ratings | Maximum Potential Collateral Requirements |
|---|---|
| | (in millions) |
| At BBB and Baa2 | $9 |
| At BBB- and/or Baa3 | 656 |
| Below BBB- and/or Baa3 | 2,591 |

In March 2012, Mississippi Power received a $150 million interest-bearing refundable deposit from SMEPA to be applied to the sale price for the pending sale of an undivided interest in the Kemper IGCC. Until the acquisition is closed, the deposit bears interest at Mississippi Power's AFUDC rate adjusted for income taxes, which was 9.967% per annum for 2012 and 9.962% per annum at September 30, 2013, and is refundable to SMEPA upon termination of the asset purchase agreement related to such purchase, within 60 days of a request by SMEPA for a full or partial refund, or within 15 days at SMEPA's discretion in the event that Mississippi Power is assigned a senior unsecured credit rating of BBB+ or lower by S&P or Baa1 or lower by Moody's or ceases to be rated by either of these rating agencies. On July 18, 2013, Southern Company entered into an agreement with SMEPA under

which Southern Company has agreed to guarantee the obligations of Mississippi Power with respect to any required refund of the deposit.

On May 24, 2013, S&P revised the ratings outlook for Southern Company and the traditional operating companies from stable to negative.

On August 6, 2013, Moody's downgraded the senior unsecured debt and preferred stock ratings of Mississippi Power to Baa1 from A3 and to Baa3 from Baa2, respectively. Moody's maintained the stable ratings outlook for Mississippi Power.

On August 6, 2013, Fitch affirmed the senior unsecured debt and preferred stock ratings of Mississippi Power and revised the ratings outlook for Mississippi Power from stable to negative.

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.

Market Price Risk

The Southern Company system is exposed to market risks, primarily commodity price risk and interest rate risk. The Southern Company system may also occasionally have limited exposure to foreign currency exchange rates. To manage the volatility attributable to these exposures, the applicable company nets the exposures, where possible, to take advantage of natural offsets and enters into various derivative transactions for the remaining exposures pursuant to the applicable company's policies in areas such as counterparty exposure and risk management practices. The Southern Company system's policy is that derivatives are to be used primarily for hedging purposes and mandates strict adherence to all applicable risk management policies. Derivative positions are monitored using techniques including, but not limited to, market valuation, value at risk, stress testing, and sensitivity analysis.

Due to cost-based rate regulation and other various cost recovery mechanisms, the traditional operating companies continue to have limited exposure to market volatility in interest rates, foreign currency, commodity fuel prices, and prices of electricity. In addition, Southern Power's exposure to market volatility in commodity fuel prices and prices of electricity is limited because its long-term sales contracts shift substantially all fuel cost responsibility to the purchaser. However, Southern Power has been and may continue to be exposed to market volatility in energy-related commodity prices as a result of sales of uncontracted generating capacity. To mitigate residual risks relative to movements in electricity prices, the traditional operating companies enter into physical fixed-price contracts for the purchase and sale of electricity through the wholesale electricity market and, to a lesser extent, financial hedge contracts for natural gas purchases. The traditional operating companies continue to manage fuel-hedging programs implemented per the guidelines of their respective state PSCs. Southern Company had no material change in market risk exposure for the third quarter 2013 when compared to the December 31, 2012 reporting period.

The changes in fair value of energy-related derivative contracts, the majority of which are composed of regulatory hedges, for the three and nine months ended September 30, 2013 were as follows:

| | Third Quarter 2013 Changes | Year-to-Date 2013 Changes |
|---|---|---|
| | Fair Value (in millions) | |
| Contracts outstanding at the beginning of the period, assets (liabilities), net | $(73) | $(85) |
| Contracts realized or settled | 21 | 50 |
| Current period changes[(a)] | (21) | (38) |
| Contracts outstanding at the end of the period, assets (liabilities), net | $(73) | $(73) |

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

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The changes in the fair value positions of the energy-related derivative contracts, which are substantially all attributable to both the volume and the price of natural gas, for the three and nine months ended September 30, 2013 were as follows:

| | Third Quarter 2013 Changes | Year-to-Date 2013 Changes |
|---|---|---|
| | Fair Value (in millions) | |
| Natural gas swaps | $(1) | $11 |
| Natural gas options | 1 | 1 |
| Total changes | $— | $12 |

The net hedge volumes of energy-related derivative contracts were as follows:

| | September 30, 2013 | June 30, 2013 | December 31, 2012 |
|---|---|---|---|
| | mmBtu Volume (in millions) | | |
| Commodity – Natural gas swaps | 203 | 194 | 171 |
| Commodity – Natural gas options | 64 | 76 | 105 |
| Total hedge volume | 267 | 270 | 276 |

The weighted average swap contract cost above market prices was approximately $0.27 per mmBtu as of September 30, 2013, $0.28 per mmBtu as of June 30, 2013, and $0.39 per mmBtu as of December 31, 2012. The change in option fair value is primarily attributable to the volatility of the market and the underlying change in the natural gas price. The majority of the natural gas hedge gains and losses are recovered through the traditional operating companies' fuel cost recovery clauses.

The net fair value of energy-related derivative contracts by hedge designation was reflected in the financial statements as follows:

| Asset (Liability) Derivatives | September 30, 2013 | December 31, 2012 |
|---|---|---|
| | (in millions) | |
| Regulatory hedges | $(74) | $(86) |
| Cash flow hedges | — | — |
| Not designated | 1 | 1 |
| Total fair value | $(73) | $(85) |

Energy-related derivative contracts which are designated as regulatory hedges relate to the traditional operating companies' fuel-hedging programs, where gains and losses are initially recorded as regulatory liabilities and assets, respectively, and then are included in fuel expense as they are recovered through the fuel cost recovery clauses. Gains and losses on energy-related derivatives that are designated as cash flow hedges are mainly used by Southern Power to hedge anticipated purchases and sales and are initially deferred in OCI before being recognized in income in the same period as the hedged transaction. Gains and losses on energy-related derivative contracts that are not designated or fail to qualify as hedges are recognized in the statements of income as incurred.

Total net unrealized pre-tax gains (losses) recognized in the statements of income for the three and nine months ended September 30, 2013 and 2012 were not material.

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

Southern Company uses over-the-counter contracts that are not exchange traded but are fair valued using prices which are market observable, and thus fall into Level 2. See Note (C) to the Condensed Financial Statements herein for further discussion on fair value measurements. The maturities of the energy-related derivative contracts, which are all Level 2 of the fair value hierarchy, at September 30, 2013 were as follows:

| | September 30, 2013 Fair Value Measurements | | | |
|---|---|---|---|---|
| | Total Fair Value | Maturity Year 1 | Years 2&3 | Years 4&5 |
| | (in millions) | | | |
| Level 1 | $— | $— | $— | $— |
| Level 2 | (73) | (43) | (28) | (2) |
| Level 3 | — | — | — | — |
| Fair value of contracts outstanding at end of period | $(73) | $(43) | $(28) | $(2) |

For additional information, see MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Market Price Risk" of Southern Company in Item 7 and Note 1 under "Financial Instruments" and Note 11 to the financial statements of Southern Company in Item 8 of the Form 10-K and Note (H) to the Condensed Financial Statements herein.

Financing Activities

During the first nine months of 2013, Southern Company issued approximately 6.6 million shares of common stock for approximately $206 million through the employee and director stock plans, of which 0.7 million shares related to Southern Company's performance share plan. In July 2012, Southern Company announced a program to repurchase shares to partially offset the incremental shares issued under its employee and director stock plans. There were no repurchases under this program in the first nine months of 2013 and no further repurchases under the program are anticipated.

During the first seven months of 2013, all sales under the Southern Investment Plan and the employee savings plan were funded with shares acquired on the open market by the independent plan administrators. Beginning in August 2013, Southern Company began using shares held in treasury to satisfy the requirements under the Southern Investment Plan and the employee savings plan. During the third quarter 2013, Southern Company issued approximately 2.0 million shares of common stock previously held in treasury for approximately $80.9 million to satisfy the requirements under the Southern Investment Plan and the employee savings plan.

In addition, during the three months ended September 30, 2013, Southern Company issued approximately 5.4 million shares of common stock through at-the-market issuances pursuant to sales agency agreements related to Southern Company’s continuous equity offering program and received cash proceeds of approximately $222.2 million, net of $1.9 million in fees and commissions.

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

The following table outlines the long-term debt financing activities for Southern Company and its subsidiaries for the first nine months of 2013:

| Company[(a)] | Senior Note Issuances | Senior Note Redemptions and Maturities | Revenue Bond Issuances | Revenue Bond Redemptions and Maturities | Other Long-Term Debt Issuances | Other Long-Term Debt Redemptions |
|---|---|---|---|---|---|---|
| | | | (in millions) | | | |
| Southern Company | $500 | $— | $— | $— | $— | $— |
| Georgia Power | 850 | 1,250 | 89 | 89 | — | — |
| Gulf Power | 90 | 90 | — | — | — | — |
| Mississippi Power | — | — | 31 | 83 | 475 | 125 |
| Southern Power | 300 | — | — | — | 23 | — |
| Other | — | 50 | — | — | — | — |
| Total | $1,740 | $1,390 | $120 | $172 | $498 | $125 |

(a) Alabama Power did not issue or redeem any long-term debt during the first nine months of 2013.

In August 2013, Southern Company issued $500 million aggregate principal amount of Series 2013A 2.45% Senior Notes due September 1, 2018. The proceeds were used to pay a portion of Southern Company’s outstanding short-term indebtedness and for other general corporate purposes.

Southern Company's subsidiaries used the proceeds of the debt issuances shown in the table above for their respective redemptions and maturities shown in the table above, to repay short-term indebtedness, and for general corporate purposes, including their respective continuous construction programs.

In March 2013, Georgia Power entered into three 60-day floating rate bank loans bearing interest based on one-month LIBOR. Each of these short-term loans was for $100 million aggregate principal amount and the proceeds were used for working capital and other general corporate purposes, including Georgia Power's continuous construction program. These bank loans were repaid at maturity.

In June 2013, Gulf Power entered into a 90-day floating rate bank loan bearing interest based on one-month LIBOR. This short-term loan was for $125 million aggregate principal amount and the proceeds were used for working capital and other general corporate purposes, including Gulf Power’s continuous construction program. This bank loan was repaid in July 2013.

Gulf Power purchased and held $42 million aggregate principal amount of Development Authority of Monroe County (Georgia) Pollution Control Revenue Bonds (Gulf Power Company Plant Scherer Project), First Series 2002 (First Series 2002 Bonds) and $21 million aggregate principal amount of Development Authority of Monroe County (Georgia) Pollution Control Revenue Bonds (Gulf Power Company Plant Scherer Project), First Series 2010 (First Series 2010 Bonds) in May 2013 and June 2013, respectively. In June 2013, Gulf Power reoffered the First Series 2002 Bonds and the First Series 2010 Bonds to the public.

In June 2013, Gulf Power issued 500,000 shares of Series 2013A 5.60% Preference Stock and realized proceeds of $50 million. The proceeds from the sale of the Preference Stock, together with the proceeds from the issuance of the $90 million aggregate principal amount of Gulf Power's Series 2013A 5.00% Senior Notes reflected in the table above, were used to repay at maturity $60 million aggregate principal amount of Gulf Power's Series G 4.35% Senior Notes due July 15, 2013, to repay a portion of a 90-day floating rate bank loan in an aggregate principal amount outstanding of $125 million, for a portion of the redemption in July 2013 of $30 million aggregate principal amount outstanding of Gulf Power’s Series H 5.25% Senior Notes due July 15, 2033, and for general corporate purposes, including Gulf Power’s continuous construction program.

In September 2013, Mississippi Power entered into a nitrogen supply agreement for the air separation unit of the Kemper IGCC, which resulted in a capital lease obligation at inception of $83 million with an annual interest rate of

4.9%.

Subsequent to September 30, 2013, Georgia Power announced the redemption in November 2013 of $100 million aggregate principal amount of its Series 2008C 8.20% Senior Notes due November 1, 2048 and reclassified the outstanding principal balance to securities due within one year at September 30, 2013.

Also subsequent to September 30, 2013, Georgia Power announced the redemptions in November 2013 of $55 million aggregate principal amount of Development Authority of Burke County (Georgia) Pollution Control Revenue Bonds (Georgia Power Company Plant Vogtle Project), Third Series 1994 and $49.6 million aggregate principal amount of Development Authority of Burke County (Georgia) Pollution Control Revenue Bonds (Georgia Power Company Plant Vogtle Project), First Series 1997, which were issued for the benefit of Georgia Power.

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.

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Market Price Risk" herein for each registrant 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.

Southern Company, Alabama Power, Georgia Power, Gulf Power, and Southern Power

As of the end of the period covered by this quarterly report, Southern Company, Alabama Power, Georgia Power, Gulf Power, and Southern Power 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.

Mississippi Power

As described further in Notes 3 and 12 to the financial statements of Mississippi Power in Item 8 and Management's Report on Internal Control Over Financial Reporting in Item 9A of the Form 10-K/A, Mississippi Power restated and corrected its previously issued financial statements for the year ended December 31, 2012 to recognize a pretax charge for an estimated probable loss relating to the Kemper IGCC.

Mississippi Power reported in Item 4(a) of its Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 that management determined that Mississippi Power's failure to maintain sufficient evidence supporting certain estimated amounts included in the Kemper IGCC cost estimate and to fully communicate the related effects in the development of the Kemper IGCC cost estimate constituted a material weakness in internal control over financial reporting under the standards adopted by the Public Company Accounting Oversight Board. Mississippi Power's management completed the following actions in the second and third quarters of 2013 to remediate the material weakness in internal control over financial reporting:

- established a new governance team focused on accounting, legal, and regulatory affairs that meets regularly with the Kemper IGCC project and construction teams and provides further oversight around disclosures of the Kemper IGCC cost estimating process and schedule;
- re-emphasized and enhanced communication across functional areas and departments; and
- applied appropriate performance management actions.

Mississippi Power's management has continued to refine and enhance the Kemper IGCC project cost and schedule estimation methodologies and related documentation throughout the second and third quarters of 2013. Mississippi Power's management's assessment as to the effectiveness of these refinements and enhancements is expected to be complete at the end of the fourth quarter 2013.

As of the end of the period covered by this quarterly report, Mississippi Power conducted an evaluation under the supervision and with the participation of 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 this evaluation, which considered the material weakness described above, the Chief Executive Officer and the Chief Financial Officer concluded that the disclosure controls and procedures for this period were not effective.

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(b) Changes in internal controls.

Southern Company, Alabama Power, Georgia Power, Gulf Power, and Southern Power

There have been no changes in Southern Company's, Alabama Power's, Georgia Power's, Gulf Power's, or Southern Power'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 third quarter 2013 that have materially affected or are reasonably likely to materially affect Southern Company's, Alabama Power's, Georgia Power's, Gulf Power's, or Southern Power's internal control over financial reporting.

Mississippi Power

Other than implementation of the remedial actions described above under Item 4(a), there have been no changes in Mississippi Power'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 third quarter 2013 that have materially affected or are reasonably likely to materially affect Mississippi Power's internal control over financial reporting.

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ALABAMA POWER COMPANY

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ALABAMA POWER COMPANY
CONDENSED STATEMENTS OF INCOME (UNAUDITED)

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | (in millions) | | (in millions) | |
| Operating Revenues: | | | | |
| Retail revenues | $1,438 | $1,476 | $3,800 | $3,822 |
| Wholesale revenues, non-affiliates | 66 | 79 | 186 | 210 |
| Wholesale revenues, affiliates | 47 | 31 | 163 | 51 |
| Other revenues | 53 | 51 | 155 | 147 |
| Total operating revenues | 1,604 | 1,637 | 4,304 | 4,230 |
| Operating Expenses: | | | | |
| Fuel | 467 | 469 | 1,240 | 1,118 |
| Purchased power, non-affiliates | 36 | 31 | 84 | 63 |
| Purchased power, affiliates | 30 | 41 | 102 | 147 |
| Other operations and maintenance | 316 | 307 | 965 | 944 |
| Depreciation and amortization | 170 | 161 | 487 | 478 |
| Taxes other than income taxes | 85 | 84 | 262 | 255 |
| Total operating expenses | 1,104 | 1,093 | 3,140 | 3,005 |
| Operating Income | 500 | 544 | 1,164 | 1,225 |
| Other Income and (Expense): | | | | |
| Allowance for equity funds used during construction | 7 | 4 | 23 | 13 |
| Interest expense, net of amounts capitalized | (65) | (71) | (196) | (217) |
| Other income (expense), net | — | (3) | 1 | (6) |
| Total other income and (expense) | (58) | (70) | (172) | (210) |
| Earnings Before Income Taxes | 442 | 474 | 992 | 1,015 |
| Income taxes | 174 | 184 | 390 | 394 |
| Net Income | 268 | 290 | 602 | 621 |
| Dividends on Preferred and Preference Stock | 10 | 10 | 30 | 30 |
| Net Income After Dividends on Preferred and Preference Stock | $258 | $280 | $572 | $591 |

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | (in millions) | | (in millions) | |
| Net Income | $268 | $290 | $602 | $621 |
| Other comprehensive income (loss): | | | | |
| Qualifying hedges: | | | | |
| Changes in fair value, net of tax of $-, $(2), $- and $(6), respectively | — | (2) | — | (9) |
| Reclassification adjustment for amounts included in net income, net of tax of $1, $-, $1, and $-, respectively | — | — | 1 | — |
| Total other comprehensive income (loss) | — | (2) | 1 | (9) |
| Comprehensive Income | $268 | $288 | $603 | $612 |

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 Nine Months Ended September 30, | |
|---|---|---|
| | 2013 | 2012 |
| | (in millions) | |
| Operating Activities: | | |
| Net income | $602 | $621 |
| Adjustments to reconcile net income to net cash provided from operating activities — | | |
| Depreciation and amortization, total | 616 | 574 |
| Deferred income taxes | 200 | 132 |
| Allowance for equity funds used during construction | (23) | (13) |
| Pension, postretirement, and other employee benefits | 17 | 10 |
| Stock based compensation expense | 8 | 7 |
| Other, net | (24) | (3) |
| Changes in certain current assets and liabilities — | | |
| -Receivables | (98) | (83) |
| -Fossil fuel stock | 173 | (93) |
| -Materials and supplies | 16 | (5) |
| -Other current assets | (18) | (1) |
| -Accounts payable | (109) | (167) |
| -Accrued taxes | 105 | 146 |
| -Accrued compensation | (36) | (27) |
| -Retail fuel cost over recovery | 42 | 2 |
| -Other current liabilities | (2) | (15) |
| Net cash provided from operating activities | 1,469 | 1,085 |
| Investing Activities: | | |
| Property additions | (779) | (616) |