

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

*Purchased Power – Affiliates*

In the first quarter 2017, purchased power expense from affiliates was \$28 million compared to \$33 million for the corresponding period in 2016. The decrease was primarily related to a 43.6% decrease in the amount of energy purchased as a result ~~in lower loads~~ of decreased demand in 2017, partially offset by a 47.6% increase in the average cost of purchased power per KWH as a result of fixed ~~transportation cost~~ at natural gas transportation costs for Plant Gaston.

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

*Purchased Power – Non-Affiliates*

In the first quarter 2017, purchased power expense from non-affiliates was \$88 million compared to \$83 million in the corresponding period in 2016. The increase was ~~primarily due to a 9.2% increase in~~ not material. Energy purchases from non-affiliates will vary depending on the market prices of wholesale energy as compared to the ~~volume cost of KWHs purchased, partially offset by a 2.5% decrease in the average cost per KWH purchased~~ the Southern Company system's generation, demand for energy within the Southern Company system's electric service territory, and the availability of the Southern Company system's generation.

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

*Purchased Power – Affiliates*

In the first quarter 2017, purchased power expense from affiliates was \$172 million compared to \$139 million in the corresponding period in 2016. The increase was primarily the result of a 13.8% increase in the volume of KWHs purchased to meet customer demand and a 6.8% increase in the average cost per KWH purchased primarily resulting from higher natural gas prices.

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

In the first quarter 2017, wholesale revenues from sales to affiliates were \$37 million compared to \$21 million for the corresponding period in 2016. The increase was primarily due to a 55.4% increase in KWH sales resulting from the ~~increased~~ availability of Gulf Power's generation to serve the power pool.

***Fuel and Purchased Power Expenses***

First Quarter 2017 vs. First Quarter 2016

(change in millions) (% change)

Fuel

\$ 14                      14.9

Purchased power – non-affiliates

2                              6.7

Total fuel and purchased power expenses

\$ 16

In the first quarter 2017, total fuel and purchased power expenses were \$142 million compared to \$126 million for the corresponding period in 2016. The increase was primarily the result of a \$10 million net increase related to the volume of KWHs generated and purchased due to higher generation from Gulf Power's coal-fired units and a \$6 million net increase due to the higher average cost of fuel and purchased power for Gulf Power's gas-fired PPA resource.

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

**First Quarter 2017** First Quarter 2016

Total generation (in millions of KWHs)	
<b>2,322</b>	1,816
Total purchased power (in millions of KWHs)	
<b>1,459</b>	1,760
Sources of generation (percent) –	
Coal <b>53</b>	42
Gas <b>47</b>	58
Cost of fuel, generated (in cents per net KWH) –	
Coal <b>3.27</b>	3.92
Gas <b>3.24</b>	3.75
Average cost of fuel, generated (in cents per net KWH)	
<b>3.26</b>	3.82
Average cost of purchased power (in cents per net KWH)(*)	
<b>4.57</b>	3.22

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

*Fuel*

In the first quarter 2017, fuel expense was \$108 million compared to \$94 million for the corresponding period in 2016. The increase was primarily due to a 60.9% increase in the volume of KWHs generated by Gulf Power's coalfired generation resources due to system reliability requirements, partially offset by a 14.7% decrease in the average cost of fuel resulting from lower coal and natural gas prices.

*Purchased Power – Non-Affiliates*

In the first quarter 2017, purchased power expense from non-affiliates was \$32 million compared to \$30 million for the corresponding period in 2016. The increase was primarily due to a ~~39.4%~~39.0% increase in the average cost per KWH purchased ~~resulting~~primarily resulting from higher energy costs from Gulf Power's gas-fired PPA resource, partially offset by a 14.8% decrease in the volume of KWHs purchased due to increased Gulf Power generation.

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

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

In the first quarter 2017, wholesale revenues from sales to affiliates were \$5 million compared to \$9 million for the corresponding period in 2016. The decrease was due to a \$5 million decrease in

KWH sales primarily due to the availability of lower cost alternatives offset by a \$1 million increase associated with higher fuel/natural gas prices.

**Fuel and Purchased Power Expenses**

First Quarter 2017 vs. First Quarter 2016

(change in millions) (% change)

Fuel \$ 2	2.6
Purchased power – non-affiliates	
1	N/M
Purchased power – affiliates	
2	40.0
Total fuel and purchased power expenses	
\$ 5	

N/M - Not meaningful

In the first quarter 2017, total fuel and purchased power expenses were \$86 million compared to \$81 million for the corresponding period in 2016. The increase was due to a \$12\$15 million increase in natural gas prices offset by a \$7\$10 million net decrease in the volume of KWHs generated and purchased.

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

**First Quarter 2017** First Quarter 2016

Total generation (in millions of KWHs)

**3,161** 3,588

Total purchased power (in millions of KWHs)

**242** **261**

**498** **333**

Sources of generation (percent) –

Coal **9** 11

Gas **91** 89

Cost of fuel, generated (in cents per net KWH) –

Coal **3.33** 3.55

Gas **2.65** 2.15

Average cost of fuel, generated (in cents per net KWH)

**2.71** 2.23

Average cost of purchased power (in cents per net KWH)

**3.33** **2.17**

**1.61** **1.70**

**Fuel**

In the first quarter 2017, total fuel expense was \$78 million compared to \$76 million for the corresponding period in 2016. The increase was due to a 17% increase in the average cost of fuel per KWH generated primarily due to a 23% higher cost of natural gas offset by a 12% decrease in the volume of KWHs generated primarily as a result of lower sales.

**Purchased Power – Non-Affiliates**

~~For first quarter 2017, purchased power expense from non-affiliates was \$1 million compared to zero for the corresponding period in 2016. The increase was primarily due to a 152% increase in the average cost per KWH purchased due to higher energy costs from available gas-fired~~

~~resources and an 86% increase in the volume of KWHs purchased due to the availability of lower cost energy.~~

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

*Purchased Power - Affiliates*

In the first quarter 2017, purchased power expense from affiliates was \$7 million compared to \$5 million for the corresponding period in 2016. The increase was primarily due to a 35% increase in the volume of KWHs purchased due to the availability of lower cost energy as compared to self-generation fuel cost, partially offset by a 6% decrease in the average cost per KWH purchased ~~due to lower power pool interchange rates~~ primarily as a result of lower fuel prices.

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