**Item 1A. RISK FACTORS**

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

**UTILITY REGULATORY, LEGISLATIVE, AND LITIGATION RISKS**

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

Southern Company and its subsidiaries are subject to substantial regulation from federal, state, and local regulatory agencies and are required to comply with numerous laws and regulations and to obtain numerous permits, approvals, and certificates from governmental agencies. The traditional electric operating companies and the natural gas distribution utilities seek to recover their costs (including a reasonable return on invested capital) through their retail rates, which must be approved by the applicable state PSC or other applicable state regulatory agency. A state PSC or other applicable state regulatory agency, in a future rate proceeding, may alter the timing or amount of certain costs for which recovery is allowed or modify the current authorized rate of return. Rate refunds may also be required. Additionally, the rates charged to wholesale customers by the traditional electric operating companies and by Southern Power and the rates charged to natural gas transportation customers by Southern Company Gas' pipeline investments and for some of its storage assets must be approved by the FERC. These wholesale rates could be affected by changes to Southern Power's and the traditional electric operating companies' ability to conduct business pursuant to FERC market-based rate authority. Retaining this authority from the FERC is important to the traditional electric operating companies' and Southern Power's ability to remain competitive in the wholesale electric markets.

The impact of any future revision or changes in interpretations of existing regulations or the adoption of new laws and regulations applicable to Southern Company or any of its subsidiaries is uncertain. Changes in regulation or the imposition of additional regulations could influence the operating environment of Southern Company and its subsidiaries and may result in substantial costs or otherwise negatively affect their results of operations.

**The Southern Company system's costs of compliance with environmental laws and satisfying related AROs are significant. The costs of compliance with current and future environmental laws and related AROs and the incurrence of environmental liabilities could negatively impact the net income, cash flows, and financial condition of the registrants.**

The Southern Company system's operations are subject to extensive regulation by state and federal environmental agencies through a variety of laws and regulations. Compliance with existing environmental requirements involves significant capital and operating costs including the settlement of AROs, a major portion of which is expected to be recovered through existing ratemaking provisions or through market-based contracts. There is no assurance, however, that all such costs will be recovered. The registrants expect future compliance expenditures will continue to be significant.

The EPA has adopted and is implementing regulations governing air and water quality under the Clean Air Act and regulations governing cooling water intake structures and effluent guidelines for steam electric generating plants under the Clean Water Act. The EPA has also adopted regulations governing the disposal of CCR, including coal ash and gypsum, in landfills and surface impoundments at active generating power plants. The cost estimates for AROs related to the disposal of CCR are based on information using various assumptions related to closure and post-closure costs, timing of future cash outlays, inflation and discount rates, and the potential methods for complying with the CCR Rule. The traditional electric operating companies will continue to periodically update their ARO cost estimates.

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

Existing environmental laws and regulations may be revised or new environmental laws and regulations may be adopted or become applicable to the Southern Company system. In addition, existing environmental laws and regulations may be impacted by related legal challenges.

Litigation over environmental issues and claims of various types, including property damage, personal injury, common law nuisance, and citizen enforcement of environmental requirements has occurred throughout the U.S. This litigation has included claims for damages alleged to have been caused by CO2and other emissions, CCR, releases of regulated substances, and alleged exposure to regulated substances, and/or requests for injunctive relief in connection with such matters.

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Compliance with any new or revised environmental laws or regulations could affect many areas of the Southern Company system's operations. The Southern Company system's ultimate environmental compliance strategy and future environmental expenditures will depend on various factors, such as state adoption and implementation of requirements, the availability and cost of any deployed control technology, and the outcome of pending and/or future legal challenges. Compliance costs may result from the installation of additional environmental controls, closure and monitoring of CCR facilities, unit retirements, or changing fuel sources for certain existing units, as well as related upgrades to the Southern Company system's transmission and distribution (electric and natural gas) systems. Environmental compliance spending over the next several years may differ materially from the amounts estimated. Such expenditures could affect results of operations, cash flows, and/or financial condition if such costs are not recovered on a timely basis through regulated rates for the traditional electric operating companies and the natural gas distribution utilities or through long-term wholesale agreements for the traditional electric operating companies and Southern Power. Further, higher costs that are recovered through regulated rates could contribute to reduced demand for energy, which could negatively affect results of operations, cash flows, and financial condition. Additionally, many commercial and industrial customers may also be affected by existing and future environmental requirements, which for some may have the potential to ultimately affect their demand for electricity or natural gas.

**The Southern Company system may be exposed to regulatory and financial risks related to the impact of GHG legislation, regulation, and emission reduction goals.**

The EPA has published rules limiting CO2 emissions from new, modified, and reconstructed fossil fuel-fired electric generating units and guidelines for states to develop plans to meet EPA-mandated CO2emission performance standards for existing units (known as the Clean Power Plan or CPP). On August 31, 2018, the EPA published a proposed rule known as the Affordable Clean Energy (ACE) Rule, which is intended to replace a regulation enacted in 2015 known as the Clean Power Plan (CPP), that would limit CO2emissions from existing fossil fuel-fired electric generating units. The CPP has been stayed by the U.S. Supreme Court since 2016. The ACE Rule would require states to develop GHG unit-specific emission rate standards based on heat-rate efficiency improvements for existing fossil fuel-fired steam units. As proposed, combustion turbines, including natural gas combined cycles, are not affected sources. As of January 1, 2019, the Southern Company system has ownership interests in 40 fossil fuel-fired steam units to which the proposed ACE Rule is applicable. The ultimate impact of this rule to the Southern Company system is currently unknown and will depend on changes between the proposal and the final rule, subsequent state plan developments and requirements, and any associated legal challenges.

The EPA also has proposed a review of final rules adopted in 2015 to establish performance standards for new, modified, and reconstructed electric utility generating units. The impact of any changes will depend on the content of any final rule adopted by the EPA and the outcome of any related legal challenges.

In April 2018, Southern Company established an intermediate goal of a 50% reduction in carbon emissions from 2007 levels by 2030 and a long-term goal of low- to no-carbon operations by 2050. To achieve these goals, the Southern Company system expects to continue growing its renewable energy portfolio, optimize technology advancements to modernize its transmission and distribution systems, increase the use of natural gas for generation, complete ongoing construction projects, including Georgia Power's interest in Plant Vogtle Units 3 and 4, invest in energy efficiency, and continue research and development efforts focused on technologies to lower GHG emissions. The Southern Company system's ability to achieve these goals also will be dependent on many external factors, including supportive national energy policies, low natural gas prices, and the development, deployment, and advancement of relevant energy technologies.

Costs associated with GHG legislation, regulation, and emission reduction goals could be significant. However, the ultimate impact will depend on various factors, such as state adoption and implementation of requirements, low natural gas prices, the development, deployment, and advancement of relevant energy technologies, the ability to recover costs through existing ratemaking provisions, and the outcome of pending and/or future legal challenges.

Because natural gas is a fossil fuel with lower carbon content relative to other fossil fuels, future GHG constraints, including, but not limited to, the imposition of a carbon tax, may create additional demand for natural gas, both for production of electricity and direct use in homes and businesses. Future GHG constraints designed to minimize emissions from natural gas could likewise result in increased costs to the Southern Company system and affect the demand for natural gas as well as the prices charged to customers and the competitive position of natural gas.

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

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

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

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| • | delays and additional processes for developing transmission plans; and |

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

The FERC rules related to transmission are intended to spur the development of new transmission infrastructure to promote and encourage the integration of renewable sources of supply as well as facilitate competition in the wholesale market by providing more choices to wholesale power customers. Technology changes in the power and fuel industries continue to create significant impacts to wholesale transaction cost structures. The impact of these and other such developments and the effect of changes in levels of wholesale supply and demand are uncertain. The financial condition, net income, and cash flows of Southern Company, the traditional electric operating companies, and Southern Power could be adversely affected by these and other changes.

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

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

**OPERATIONAL RISKS**

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

The financial performance of Southern Company and its subsidiaries depends on the successful operation of the electric generation, transmission, and distribution facilities and natural gas distribution and storage facilities and the successful performance of necessary corporate functions. There are many risks that could affect these operations and performance of corporate functions, including:

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| • | operator error or failure of equipment or processes; |

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| • | accidents; |

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| • | operating limitations that may be imposed by environmental or other regulatory requirements or in connection with joint owner arrangements; |

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| • | labor disputes; |

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| • | physical attacks; |

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| • | fuel or material supply interruptions and/or shortages; |

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| • | transmission disruption or capacity constraints, including with respect to the Southern Company system's and third parties' transmission, storage, and transportation facilities; |

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| • | compliance with mandatory reliability standards, including mandatory cyber security standards; |

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| • | implementation of new technologies; |

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| • | information technology system failures; |

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| • | cyber intrusions; |

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| • | environmental events, such as spills or releases; and |

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

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

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

Alabama Power owns, and contracts for the operation of, two nuclear units and Georgia Power holds undivided interests in, and contracts for the operation of, four existing nuclear units. The six existing units are operated by Southern Nuclear and represent approximately 3,680 MWs, or 8% of the Southern Company system's electric generation capacity at January 1, 2019. In addition, these units generated approximately 25% of the total KWHs generated by each of Alabama Power and Georgia Power in the year ended December 31, 2018. In addition, Southern Nuclear, on behalf of Georgia Power and the other Vogtle Owners, is managing the construction of Plant Vogtle Units 3 and 4. Due solely to the increase in nuclear generating capacity, the below risks are expected to increase incrementally once Plant Vogtle Units 3 and 4 are operational. Nuclear facilities are subject to environmental, safety, health, operational, and financial risks such as:

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| • | the potential harmful effects on the environment and human health and safety resulting from a release of radioactive materials in connection with the operation of nuclear facilities and the storage, handling, and disposal of radioactive material, including spent nuclear fuel; |

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| • | uncertainties with respect to the ability to dispose of spent nuclear fuel and the need for longer term on-site storage; |

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| • | uncertainties with respect to the technological and financial aspects of decommissioning nuclear plants at the end of licensed lives and the ability to maintain and anticipate adequate capital reserves for decommissioning; |

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| • | limitations on the amounts and types of insurance commercially available to cover losses that might arise in connection with the nuclear operations of Alabama Power and Georgia Power or those of other commercial nuclear facility owners in the U.S.; |

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| • | potential liabilities arising out of the operation of these facilities; |

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

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| • | actual or threatened cyber intrusions or physical attacks; and |

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| • | the potential impact of an accident or natural disaster. |

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

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

In addition, actual or potential threats of cyber intrusions or physical attacks could result in increased nuclear licensing or compliance costs that are difficult to predict.

**Transporting and storing natural gas involves risks that may result in accidents and other operating risks and costs.**

Southern Company Gas' natural gas distribution and storage activities involve a variety of inherent hazards and operating risks, such as leaks, accidents, explosions, and mechanical problems, which could result in serious injury to employees and non-employees, loss of life, significant damage to property, environmental pollution, and impairment of its operations. The location of pipelines and storage facilities near populated areas could increase the level of damage resulting from these risks. Additionally, these pipeline and storage facilities are subject to various state and other regulatory requirements. Failure to comply with these regulatory requirements could result in substantial monetary penalties or potential early retirement of storage facilities, which could trigger an associated impairment. The occurrence of any of these events not fully covered by insurance or otherwise could adversely affect Southern Company Gas' and Southern Company's financial condition and results of operations.

**Physical attacks, both threatened and actual, could impact the ability of the Subsidiary Registrants to operate and could adversely affect financial results and liquidity.**

The Subsidiary Registrants face the risk of physical attacks, both threatened and actual, against their respective generation and storage facilities and the transmission and distribution infrastructure used to transport energy, which could negatively impact

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their ability to generate, transport, and deliver power, or otherwise operate their respective facilities, or, with respect to Southern Company Gas, its ability to distribute or store natural gas, or otherwise operate its facilities, in the most efficient manner or at all. In addition, physical attacks against third-party providers could have a similar effect on Southern Company and its subsidiaries.

Despite the implementation of robust security measures, all assets are potentially vulnerable to disability, failures, or unauthorized access due to human error, natural disasters, technological failure, or internal or external physical attacks. If assets were to fail, be physically damaged, or be breached and were not restored in a timely manner, the affected Subsidiary Registrant may be unable to fulfill critical business functions. Moreover, the amount and scope of insurance maintained against losses resulting from any such events or physical security breaches may not be sufficient to cover losses or otherwise adequately compensate for any disruptions to business that could result.

These events could harm the reputation of and negatively affect the financial results of the registrants through lost revenues and costs to repair damage, if such costs cannot be recovered.

**An information security incident, including a cybersecurity breach, or the failure of one or more key information technology systems, networks, or processes could impact the ability of the registrants to operate and could adversely affect financial results and liquidity.**

Information security risks have generally increased in recent years as a result of the proliferation of new technology and increased sophistication and frequency of cyber attacks and data security breaches. The Subsidiary Registrants operate in highly regulated industries that require the continued operation of sophisticated information technology systems and network infrastructure, which are part of interconnected distribution systems. Because of the critical nature of the infrastructure, increased connectivity to the internet, and technology systems' inherent vulnerability to disability or failures due to hacking, viruses, acts of war or terrorism, or other types of data security breaches, Southern Company and its subsidiaries face a heightened risk of cyberattack. Parties that wish to disrupt the U.S. bulk power system or Southern Company system operations could view these computer systems, software, or networks as targets. The registrants and their third-party vendors have been subject, and will likely continue to be subject, to attempts to gain unauthorized access to their information technology systems and confidential data or to attempts to disrupt utility operations. As a result, Southern Company and its subsidiaries face on-going threats to their assets, including assets deemed critical infrastructure, where databases and systems have been, and will likely continue to be, subject to advanced computer viruses or other malicious codes, unauthorized access attempts, phishing, and other cyber attacks. While there have been immaterial incidents of phishing and attempted financial fraud across the Southern Company system, there has been no material impact on business or operations from these attacks. However, the registrants cannot guarantee that security efforts will prevent breaches, operational incidents, or other breakdowns of information technology systems and network infrastructure and cannot provide any assurance that such incidents will not have a material adverse effect in the future.

In addition, in the ordinary course of business, Southern Company and its subsidiaries collect and retain sensitive information, including personally identifiable information about customers, employees, and stockholders, and other confidential information. In some cases, administration of certain functions may be outsourced to third-party service providers that could also be targets of cyber attacks. Generally, Southern Company and its subsidiaries enter certain contractual security guarantees and assurances with these third parties to help ensure the security and safety of this information.

Despite the implementation of robust security measures, all assets are potentially vulnerable to disability, failures, or unauthorized access due to human error, natural disasters, technological failure, or internal or external cyber attacks. If assets were to fail or be breached and were not restored in a timely manner, the affected registrant may be unable to fulfill critical business functions, and sensitive and other data could be compromised. Any cyber breach or theft, damage, or improper disclosure of sensitive electronic data may also subject the affected registrant to penalties and claims from regulators or other third parties. Moreover, the amount and scope of insurance maintained against losses resulting from any such events or security breaches may not be sufficient to cover losses or otherwise adequately compensate for any disruptions to business that could result. In addition, as cybercriminals become more sophisticated, the cost of proactive defensive measures may increase.

These events could negatively affect the financial results of the registrants through lost revenues, costs to recover and repair damage, costs associated with governmental actions in response to such attacks, and litigation costs if such costs cannot be recovered through insurance or otherwise.

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

The traditional electric operating companies and Southern Power purchase fuel, including coal, natural gas, uranium, fuel oil, and biomass, as applicable, from a number of suppliers. Additionally, the traditional electric operating companies and Southern

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Power need adequate access to water, which is drawn from nearby sources to aid in the production of electricity and, once it is used, returned to its source. Disruption in the delivery of fuel, including disruptions as a result of, among other things, transportation delays, weather, labor relations, force majeure events, or environmental regulations affecting any of these fuel suppliers, or the availability of water, could limit the ability of the traditional electric operating companies and Southern Power to operate certain facilities, which could result in higher fuel and operating costs and potentially reduce the net income of the affected traditional electric operating company or Southern Power and Southern Company.

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

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

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

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

Most of Southern Power's generating capacity has been sold to purchasers under PPAs. Southern Power's top three customers, Georgia Power, Duke Energy Corporation, and Southern California Edison accounted for 9.8%, 6.8%, and 6.2%, respectively, of Southern Power's total revenues for the year ended December 31, 2018. In addition, the traditional electric operating companies enter into PPAs with non-affiliated parties. Revenues are dependent on the continued performance by the purchasers of their obligations under these PPAs. The failure of one of the purchasers to perform its obligations, including as a result of a general default or bankruptcy, could have a negative impact on the net income and cash flows of the affected traditional electric operating company or Southern Power and of Southern Company. Although the credit evaluations undertaken and contractual protections implemented by Southern Power and the traditional electric operating companies take into account the possibility of default by a purchaser, actual exposure to a default by a purchaser may be greater than predicted or specified in the applicable contract. See Note 1 to the financial statements under "Revenues – Concentration of Revenue" in Item 8 herein for additional information on Pacific Gas & Electric Company's bankruptcy filing.

Additionally, neither Southern Power nor any traditional electric operating company can predict whether the PPAs will be renewed at the end of their respective terms or on what terms any renewals may be made. The failure of the traditional electric operating companies or Southern Power to satisfy minimum operational or availability requirements under these PPAs could result in payment of damages or termination of the PPAs.

**The asset management arrangements between Southern Company Gas' wholesale gas services and its customers, including the natural gas distribution utilities, may not be renewed or may be renewed at lower levels, which could have a significant impact on Southern Company Gas' financial results.**

Southern Company Gas' wholesale gas services currently manages the storage and transportation assets of the natural gas distribution utilities (except Nicor Gas) as well as certain non-affiliated customers. Southern Company Gas' wholesale gas

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services has a concentration of credit risk for services it provides to its counterparties, which is generally concentrated in 20 of its counterparties.

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

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

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

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

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

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

Southern Company Gas' gas marketing services is affected by competition from other energy marketers providing similar services in Southern Company Gas' service territories, most notably in Illinois and Georgia. Southern Company Gas' wholesale gas services competes for sales with national and regional full-service energy providers, energy merchants and producers, and pipelines based on the ability to aggregate competitively-priced commodities with transportation and storage capacity. Southern Company Gas competes with natural gas facilities in the Gulf Coast region of the U.S., as the majority of the existing and proposed high deliverability salt-dome natural gas storage facilities in North America are located in the Gulf Coast region.

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

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

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

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

**CONSTRUCTION RISKS**

**The registrants may incur** **additional costs or delays in the construction of new plants or other facilities and may not be able to recover their investments. Also, existing facilities of** **the Subsidiary Registrants require** **ongoing expenditures, including those to meet AROs and other environmental standards and goals.**

**General**

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

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| • | shortages, increased costs, or inconsistent quality of equipment, materials, and labor; |

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| • | changes in labor costs, availability, and productivity; |

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| • | challenges related to management of contractors, subcontractors, or vendors; |

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| • | work stoppages; |

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| • | contractor or supplier delay; |

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| • | non-performance under construction, operating, or other agreements; |

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| • | delays in or failure to receive necessary permits, approvals, tax credits, and other regulatory authorizations; |

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| • | delays in start-up activities (including major equipment failure and system integration) and/or operational performance; |

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| • | operational readiness, including specialized operator training and required site safety programs; |

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| • | impacts of new and existing laws and regulations, including environmental laws and regulations; |

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| • | the outcome of any legal challenges to projects, including legal challenges to regulatory approvals; |

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| • | failure to construct in accordance with permitting and licensing requirements (including satisfaction of NRC requirements); |

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| • | failure to satisfy any environmental performance standards and the requirements of tax credits and other incentives; |

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| • | continued public and policymaker support for projects; |

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| • | adverse weather conditions or natural disasters; |

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| • | engineering or design problems; |

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| • | changes in project design or scope; |

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| • | environmental and geological conditions; |

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| • | delays or increased costs to interconnect facilities to transmission grids; and |

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| • | increased financing costs as a result of changes in market interest rates or as a result of project delays. |

If a Subsidiary Registrant is unable to complete the development or construction of a project or decides to delay or cancel construction of a project, it may not be able to recover its investment in that project and may incur substantial cancellation payments under equipment purchase orders or construction contracts, as well as other costs associated with the closure and/or abandonment of the construction project. See Note 2 to the financial statements under "Kemper County Energy Facility" for information related to the abandonment of and related closure activities and costs for the mine and gasifier-related assets at the Kemper County energy facility.

Additionally, each Southern Company Gas pipeline construction project involves separate joint venture participants, Southern Power participates in partnership agreements with respect to renewable energy projects, and Georgia Power jointly owns Plant Vogtle Units 3 and 4 with other co-owners. Any failure by a partner or co-owner to perform its obligations under the applicable agreements could have a material negative impact on the applicable project under construction. In addition, partnership and joint ownership agreements may provide partners or co-owners with certain decision-making authority in connection with projects under construction, including rights to cause the cancellation of a construction project under certain circumstances.

Even if a construction project (including a joint venture construction project) is completed, the total costs may be higher than estimated and may not be recoverable through regulated rates, if applicable. In addition, construction delays and contractor

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performance shortfalls can result in the loss of revenues and may, in turn, adversely affect the net income and financial position of the affected registrant. See Note 2 to the financial statements under "FERC Matters – Southern Company Gas" for information regarding the Atlantic Coast Pipeline construction delays and the associated cost increase.

Construction delays could result in the loss of otherwise available tax credits and incentives. Furthermore, if construction projects are not completed according to specification, a registrant may incur liabilities and suffer reduced plant efficiency, higher operating costs, and reduced net income.

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

The largest construction project currently underway in the Southern Company system is Plant Vogtle Units 3 and 4.

**Plant Vogtle Units 3 and 4 construction and rate recovery**

***Background***

In 2009, the Georgia PSC certified construction of Plant Vogtle Units 3 and 4. Georgia Power holds a 45.7% ownership interest in Plant Vogtle Units 3 and 4. In 2012, the NRC issued the related combined construction and operating licenses, which allowed full construction of the two AP1000 nuclear units (with electric generating capacity of approximately 1,100 MWs each) and related facilities to begin. Until March 2017, construction on Plant Vogtle Units 3 and 4 continued under the Vogtle 3 and 4 Agreement, which was a substantially fixed price agreement. In March 2017, the EPC Contractor filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code.

In connection with the EPC Contractor's bankruptcy filing, Georgia Power, acting for itself and as agent for the Vogtle Owners, entered into the Interim Assessment Agreement with the EPC Contractor to allow construction to continue. The Interim Assessment Agreement expired in July 2017 when Georgia Power, acting for itself and as agent for the other Vogtle Owners, and the EPC Contractor entered into the Vogtle Services Agreement. Under the Vogtle Services Agreement, Westinghouse provides facility design and engineering services, procurement and technical support, and staff augmentation on a time and materials cost basis.

In October 2017, Georgia Power, acting for itself and as agent for the other Vogtle Owners, executed the Bechtel Agreement, a cost reimbursable plus fee arrangement, whereby Bechtel is reimbursed for actual costs plus a base fee and an at-risk fee, which is subject to adjustment based on Bechtel's performance against cost and schedule targets.

***Cost and Schedule***

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

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|  | |  |  |  |
|  | | *(in billions)* | | |
| Base project capital cost forecast(a)(b) | | $ | 8.0 |  |
| Construction contingency estimate | | 0.4 | |  |
| Total project capital cost forecast(a)(b) | | 8.4 | |  |
| Net investment as of December 31, 2018(b) | | (4.6 | | ) |
| **Remaining estimate to complete(a)** | | **$** | **3.8** |  |
|  |  |
| (a) | Excludes financing costs expected to be capitalized through AFUDC of approximately $315 million. |

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

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

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

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

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

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

***Joint Owner Contracts***

In November 2017, the Vogtle Owners entered into an amendment to their joint ownership agreements for Plant Vogtle Units 3 and 4 to provide for, among other conditions, additional Vogtle Owner approval requirements. Effective August 31, 2018, the Vogtle Owners further amended the joint ownership agreements to clarify and provide procedures for certain provisions of the joint ownership agreements related to adverse events that require the vote of the holders of at least 90% of the ownership interests in Plant Vogtle Units 3 and 4 to continue construction (as amended, and together with the November 2017 amendment, the Vogtle Joint Ownership Agreements).

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

*Amendments to the Vogtle Joint Ownership Agreements*

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

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

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Power will be responsible for 65.7% of qualifying construction costs between $1.6 billion and $2.1 billion over the EAC in the nineteenth VCM (resulting in a further $100 million of potential additional costs to Georgia Power), with the remaining Vogtle Owners responsible for 34.3% of such costs pro rata in accordance with their respective ownership interests.

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

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

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

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

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

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

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*Purchase of PTCs During Commercial Operation*

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

*Potential Funding to MEAG Project J*

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

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

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

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

***Regulatory Matters***

In December 2017, the Georgia PSC voted to approve (and issued its related order on January 11, 2018) Georgia Power's recommendation to continue construction and resolved the following regulatory matters related to Plant Vogtle Units 3 and 4: (i) none of the $3.3 billion of costs incurred through December 31, 2015 and reflected in the fourteenth VCM report should be disallowed from rate base on the basis of imprudence; (ii) the Contractor Settlement Agreement was reasonable and prudent and none of the amounts paid pursuant to the Contractor Settlement Agreement should be disallowed from rate base on the basis of imprudence; (iii) (a) capital costs incurred up to $5.68 billion would be presumed to be reasonable and prudent with the burden of proof on any party challenging such costs, (b) Georgia Power would have the burden to show that any capital costs above $5.68 billion were prudent, and (c) a revised capital cost forecast of $7.3 billion (after reflecting the impact of payments received under the Guarantee Settlement Agreement and related Customer Refunds) was found reasonable; (iv) construction of Plant Vogtle Units 3 and 4 should be completed, with Southern Nuclear serving as project manager and Bechtel as primary contractor; (v) approved and deemed reasonable Georgia Power's revised schedule placing Plant Vogtle Units 3 and 4 in service in November 2021 and November 2022, respectively; (vi) confirmed that the revised cost forecast does not represent a cost cap and that prudence decisions on cost recovery will be made at a later date, consistent with applicable Georgia law; (vii) reduced the ROE used to calculate the NCCR tariff (a) from 10.95% (the ROE rate setting point authorized by the Georgia PSC in the 2013 ARP) to 10.00% effective January 1, 2016, (b) from 10.00% to 8.30%, effective January 1, 2020, and (c) from 8.30% to 5.30%, effective January 1, 2021 (provided that the ROE in no case will be less than Georgia Power's average cost of long-term debt); (viii) reduced the ROE used for AFUDC equity for Plant Vogtle Units 3 and 4 from 10.00% to Georgia Power's average cost of long-term debt, effective January 1, 2018; and (ix) agreed that upon Unit 3 reaching commercial operation, retail base rates would be adjusted to include carrying costs on those capital costs deemed prudent in the Vogtle Cost Settlement Agreement. The January 11, 2018 order also stated that if Plant Vogtle Units 3 and 4 are not commercially operational by June 1, 2021 and June 1, 2022, respectively, the ROE used to calculate the NCCR tariff will be further reduced by 10 basis points each month (but not lower than Georgia Power's average cost of long-term debt) until the respective Unit is commercially operational. The ROE reductions negatively impacted earnings by approximately $100 million, $25 million, and $20 million in 2018, 2017, and 2016, respectively, and are estimated to have negative earnings impacts of approximately $75 million in 2019 and an aggregate of approximately $615 million from 2020 to 2022.

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

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

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

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

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

See Note 2 to the financial statements under "Georgia Power – Nuclear Construction" in Item 8 herein for additional information regarding Plant Vogtle Units 3 and 4.

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

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

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

Work continues with state and federal agencies to obtain the required permits to begin construction on the PennEast Pipeline. Any material delays may impact forecasted capital expenditures and the expected in-service date.

The Atlantic Coast Pipeline has experienced challenges to its permits since construction began in 2018. During the third and fourth quarters 2018, a FERC stop work order, together with delays in obtaining permits necessary for construction and construction delays due to judicial actions, impacted the cost and schedule for the project. As a result, total project cost estimates have increased and the operator of the joint venture currently expects to achieve a late 2020 in-service date for at least

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key segments of the Atlantic Coast Pipeline, while the remainder may extend into early 2021. Abnormal weather, work delays (including due to judicial or regulatory action), and other conditions may result in additional cost or schedule modifications, which could result in an impairment of Southern Company Gas' investment and could have a material impact on Southern Company's and Southern Company Gas' financial statements.

The ultimate outcome of these matters cannot be determined at this time and the occurrence of these or any other of the foregoing events could adversely affect the results of operations, cash flows, and financial condition of Southern Company Gas and Southern Company.

**FINANCIAL, ECONOMIC, AND MARKET RISKS**

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

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

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| • | prevailing market prices for coal, natural gas, uranium, fuel oil, biomass, and other fuels, as applicable, used in the generation facilities of the traditional electric operating companies and Southern Power and, in the case of natural gas, distributed by Southern Company Gas, including associated transportation costs, and supplies of such commodities; |

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| • | demand for energy and the extent of additional supplies of energy available from current or new competitors; |

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| • | liquidity in the general wholesale electricity and natural gas markets; |

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| • | weather conditions impacting demand for electricity and natural gas; |

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| • | seasonality; |

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| • | transmission or transportation constraints, disruptions, or inefficiencies; |

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| • | availability of competitively priced alternative energy sources; |

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| • | forced or unscheduled plant outages for the Southern Company system, its competitors, or third party providers; |

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| • | the financial condition of market participants; |

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| • | the economy in the Southern Company system's service territory, the nation, and worldwide, including the impact of economic conditions on demand for electricity and the demand for fuels, including natural gas; |

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| • | natural disasters, wars, embargos, physical or cyber attacks, and other catastrophic events; and |

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| • | federal, state, and foreign energy and environmental regulation and legislation. |

These factors could increase the expenses and/or reduce the revenues of the registrants. For the traditional electric operating companies and Southern Company Gas' regulated gas distribution operations, such impacts may not be fully recoverable through rates.

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

**The registrants are subject to risks associated with a changing economic environment, customer behaviors, including increased energy conservation, and adoption patterns of technologies by the customers of the Subsidiary Registrants.**

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

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

Both federal and state programs exist to influence how customers use energy, and several of the traditional electric operating companies and Southern Company Gas have PSC or other applicable state regulatory agency mandates to promote energy efficiency. Conservation programs could impact the financial results of the registrants in different ways. For example, if any traditional electric operating company or Southern Company Gas is required to invest in conservation measures that result in

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reduced sales from effective conservation, regulatory lag in adjusting rates for the impact of these measures could have a negative financial impact on such traditional electric operating company or Southern Company Gas and Southern Company. Customers could also voluntarily reduce their consumption of energy in response to decreases in their disposable income, increases in energy prices, or individual conservation efforts.

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

All of the factors discussed above could adversely affect a registrant's results of operations, financial condition, and liquidity.

**The operating results of the registrants are affected by weather conditions and may fluctuate on a seasonal and** **quarterly basis. In addition, catastrophic events, such as fires, earthquakes, hurricanes, tornadoes, floods, droughts, and storms, could result in substantial damage to or limit the operation of the properties of a Subsidiary Registrant and could negatively impact results of operation, financial condition, and liquidity.**

Electric power and natural gas supply are generally seasonal businesses. In many parts of the country, demand for power peaks during the summer months, with market prices also peaking at that time. In other areas, power demand peaks during the winter months. While the electric power sales of some of the traditional electric operating companies peak in the summer, others peak in the winter. In the aggregate, electric power sales peak during the summer with a smaller peak during the winter. Additionally, Southern Power has variability in its revenues from renewable generation facilities due to seasonal weather patterns primarily from wind and sun. In most of the areas Southern Company Gas serves, natural gas demand peaks during the winter. As a result, the overall operating results of the registrants may fluctuate substantially on a seasonal basis. In addition, the Subsidiary Registrants have historically sold less power and natural gas when weather conditions are milder. Unusually mild weather in the future could reduce the revenues, net income, and available cash of the affected registrant.

Further, volatile or significant weather events could result in substantial damage to the transmission and distribution lines of the traditional electric operating companies, the generating facilities of the traditional electric operating companies and Southern Power, and the natural gas distribution and storage facilities of Southern Company Gas. The Subsidiary Registrants have significant investments in the Atlantic and Gulf Coast regions and Southern Power and Southern Company Gas have investments in various states which could be subject to severe weather and natural disasters, including wildfires. Further, severe drought conditions can reduce the availability of water and restrict or prevent the operation of certain generating facilities. There have been multiple significant hurricanes in the Southern Company system service territory in recent years.

In the event a traditional electric operating company or Southern Company Gas experiences any of these weather events or any natural disaster or other catastrophic event, recovery of costs in excess of reserves and insurance coverage is subject to the approval of its state PSC or other applicable state regulatory agency. Historically, the traditional electric operating companies from time to time have experienced deficits in their storm cost recovery reserve balances and may experience such deficits in the future. For example, at December 31, 2018, Georgia Power had a substantial underrecovered balance in its storm cost recovery balance as a result of multiple recent significant hurricanes in its service territory. Any denial by the applicable state PSC or other applicable state regulatory agency or delay in recovery of any portion of such costs could have a material negative impact on a traditional electric operating company's or Southern Company Gas' and on Southern Company's results of operations, financial condition, and liquidity.

In addition, damages resulting from significant weather events within the service territory of any traditional electric operating company or Southern Company Gas or affecting Southern Power's customers may result in the loss of customers and reduced demand for energy for extended periods and may impact customers' ability to perform under existing PPAs. See Note 1 to the financial statements under "Revenues – Concentration of Revenue" in Item 8 herein for additional information on Pacific Gas & Electric Company's bankruptcy filing. Any significant loss of customers or reduction in demand for energy could have a material negative impact on a registrant's results of operations, financial condition, and liquidity.

**Acquisitions, dispositions, or other strategic ventures or investments may not result in anticipated benefits and may present risks not originally contemplated, which may have a material adverse effect on the liquidity, results of operations, and financial condition of Southern Company and its subsidiaries.**

Southern Company and its subsidiaries have made significant acquisitions and investments in the past, as well as recent dispositions, and may in the future make additional acquisitions, dispositions, or other strategic ventures or investments, including the pending disposition by Southern Power of Plant Mankato, which cannot be assured to be completed or beneficial to Southern Company or its subsidiaries. Southern Company and its subsidiaries continually seek opportunities to create value

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through various transactions, including acquisitions or sales of assets. Specifically, Southern Power continually seeks opportunities to execute its strategy to create value through various transactions, including acquisitions, dispositions, and sales of partnership interests, development and construction of new generating facilities, and entry into PPAs primarily with investor-owned utilities, IPPs, municipalities, and other load-serving entities, as well as commercial and industrial customers.

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

These transactions also involve risks, including:

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| • | they may not result in an increase in income or provide adequate or expected funds or return on capital or other anticipated benefits; |

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| • | they may result in Southern Company or its subsidiaries entering into new or additional lines of business, which may have new or different business or operational risks; |

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| • | they may not be successfully integrated into the acquiring company's operations and/or internal control processes; |

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| • | the due diligence conducted prior to a transaction may not uncover situations that could result in financial or legal exposure or may not appropriately evaluate the likelihood or quantify the exposure from identified risks; |

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| • | they may result in decreased earnings, revenues, or cash flow; |

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| • | Southern Company, Southern Company Gas, and certain of their subsidiaries have retained obligations in connection with transitional agreements related to dispositions that subject these companies to additional risk; |

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| • | Southern Company or the applicable subsidiary may not be able to achieve the expected financial benefits from the use of funds generated by any dispositions; |

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| • | expected benefits of a transaction may be dependent on the cooperation or performance of a counterparty; or |

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| • | for the traditional electric operating companies and Southern Company Gas, costs associated with such investments that were expected to be recovered through regulated rates may not be recoverable. |

**Southern Company and Southern Company Gas are holding companies and Southern Power owns many of its assets indirectly through subsidiaries. Each of these companies is dependent on cash flows from their respective subsidiaries to meet their ongoing and future financial obligations, including making interest and principal payments on outstanding indebtedness and, for Southern Company, to pay dividends on its common stock.**

Southern Company and Southern Company Gas are holding companies and, as such, they have no operations of their own. Substantially all of Southern Company's and Southern Company Gas' and many of Southern Power's respective consolidated assets are held by subsidiaries. A significant portion of Southern Company Gas' debt is issued by its 100%-owned subsidiary, Southern Company Gas Capital, and is fully and unconditionally guaranteed by Southern Company Gas. Southern Company's, Southern Company Gas' and, to a certain extent, Southern Power's ability to meet their respective financial obligations, including making interest and principal payments on outstanding indebtedness, and, for Southern Company, to pay dividends on its common stock, is dependent on the net income and cash flows of their respective subsidiaries and the ability of those subsidiaries to pay upstream dividends or to repay borrowed funds. Prior to funding Southern Company, Southern Company Gas, or Southern Power, the respective subsidiaries have financial obligations and, with respect to Southern Company and Southern Company Gas, regulatory restrictions that must be satisfied, including among others, debt service and preferred stock dividends. These subsidiaries are separate legal entities and, except as described below, have no obligation to provide Southern Company, Southern Company Gas, or Southern Power with funds. Certain of Southern Power's assets are held through controlling interests in subsidiaries. In certain cases, distributions without partner consent are limited to available cash, and the subsidiaries are obligated to distribute all available cash to their owners each quarter. In addition, Southern Company, Southern Company Gas, and Southern Power may provide capital contributions or debt financing to subsidiaries under certain circumstances, which would reduce the funds available to meet their respective financial obligations, including making interest and principal payments on outstanding indebtedness, and to pay dividends on Southern Company's common stock.

**A downgrade in the credit ratings of any of the registrants, Southern Company Gas Capital, or Nicor Gas could negatively affect their ability to access capital at reasonable costs and/or could require posting of collateral or replacing certain indebtedness.**

There are a number of factors that rating agencies evaluate to arrive at credit ratings for the registrants, Southern Company Gas Capital, and Nicor Gas, including capital structure, regulatory environment, the ability to cover liquidity requirements, and other commitments for capital. The registrants, Southern Company Gas Capital, and Nicor Gas could experience a downgrade in their ratings if any rating agency concludes that the level of business or financial risk of the industry or the applicable company has deteriorated. Changes in ratings methodologies by the agencies could also have a negative impact on credit ratings. If one or more rating agencies downgrade any registrant, Southern Company Gas Capital, or Nicor Gas, borrowing

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costs likely would increase, including automatic increases in interest rates under applicable term loans and credit facilities, the pool of investors and funding sources would likely decrease, and, particularly for any downgrade to below investment grade, significant collateral requirements may be triggered in a number of contracts. Any credit rating downgrades could require altering the mix of debt financing currently used, and could require the issuance of secured indebtedness and/or indebtedness with additional restrictive covenants binding the applicable company.

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

Southern Company, the traditional electric operating companies, and Southern Power each engage in a long-term planning process to estimate the optimal mix and timing of new generation assets required to serve future load obligations. Southern Company Gas engages in a long-term planning process to estimate the optimal mix and timing of building new pipelines and storage facilities, replacing existing pipelines, rewatering storage facilities, and entering new markets and/or expanding in existing markets. These planning processes must look many years into the future in order to accommodate the long lead times associated with the permitting and construction of new generation and associated transmission facilities and natural gas distribution and storage facilities. Inherent risk exists in predicting demand as future loads are dependent on many uncertain factors, including economic conditions, customer usage patterns, efficiency programs, and customer technology adoption. Because regulators may not permit the traditional electric operating companies or Southern Company Gas' regulated operating companies to adjust rates to recover the costs of new generation and associated transmission assets and/or new pipelines and related infrastructure in a timely manner or at all, Southern Company and its subsidiaries may not be able to fully recover these costs or may have exposure to regulatory lag associated with the time between the incurrence of costs and the recovery in customers' rates. In addition, under Southern Power's model of selling capacity and energy at negotiated market-based rates under long-term PPAs, Southern Power might not be able to fully execute its business plan if market prices drop below original forecasts. Southern Power and/or the traditional electric operating companies may not be able to extend existing PPAs or find new buyers for existing generation assets as existing PPAs expire, or they may be forced to market these assets at prices lower than originally intended. These situations could have negative impacts on net income and cash flows for the affected registrant.

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

**The businesses of the registrants, SEGCO, and Nicor Gas are dependent on their ability to successfully access funds through capital markets and financial institutions. The** **inability of any of the registrants, SEGCO, or Nicor Gas to access funds may limit its ability to execute its business plan by impacting its ability to fund capital investments or acquisitions that it may otherwise rely on to achieve future earnings and cash flows.**

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

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| • | an economic downturn or uncertainty; |

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| • | bankruptcy or financial distress at an unrelated energy company, financial institution, or sovereign entity; |

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| • | capital markets volatility and disruption, either nationally or internationally; |

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| • | changes in tax policy, including further interpretation and guidance on tax reform; |

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| • | volatility in market prices for electricity and natural gas; |

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| • | actual or threatened cyber or physical attacks on the Southern Company system's facilities or unrelated energy companies' facilities; |

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| • | war or threat of war; or |

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| • | the overall health of the utility and financial institution industries. |

Georgia Power's ability to make future borrowings through its term loan credit facility with the FFB is subject to the satisfaction of customary conditions, as well as certification of compliance with the requirements of the loan guarantee program under Title XVII of the Energy Policy Act of 2005, including accuracy of project-related representations and warranties, delivery of updated project-related information and evidence of compliance with the prevailing wage requirements of the Davis-Bacon Act of 1931, as amended, and certification from the DOE's consulting engineer that proceeds of the advances are used to reimburse certain costs of construction relating to Plant Vogtle Units 3 and 4 that are eligible for financing under the Title XVII Loan Guarantee Program. Prior to obtaining any further advances under Georgia Power's loan guarantee agreement with the DOE, Georgia Power is required to obtain the DOE's approval of the Bechtel Agreement.

**Failure to comply with debt covenants or conditions could adversely affect the ability of the registrants, SEGCO, Southern Company Gas Capital, or Nicor Gas to execute future borrowings.**

The debt and credit agreements of the registrants, SEGCO, Southern Company Gas Capital, and Nicor Gas contain various financial and other covenants. Georgia Power's loan guarantee agreement with the DOE contains additional covenants, events of default, and mandatory prepayment events relating to the construction of Plant Vogtle Units 3 and 4. Failure to meet those covenants beyond applicable grace periods could result in accelerated due dates and/or termination of the agreements, which would negatively affect the applicable company's financial condition and liquidity.

**Volatility in the securities markets, interest rates, and other factors could substantially increase defined benefit pension and other postretirement plan costs and the funding available for nuclear decommissioning.**

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

**The registrants are subject to risks associated with their ability to obtain adequate insurance at acceptable costs.**

The financial condition of some insurance companies, actual or threatened physical or cyber attacks, and natural disasters, among other things, could have disruptive effects on insurance markets. The availability of insurance covering risks that the registrants and their respective competitors typically insure against may decrease, and the insurance that the registrants are able to obtain may have higher deductibles, higher premiums, and more restrictive policy terms. Further, the insurance policies may not cover all of the potential exposures or the actual amount of loss incurred.

Any losses not covered by insurance, or any increases in the cost of applicable insurance, could adversely affect the results of operations, cash flows, or financial condition of the affected registrant.

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

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

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future. As a result, changes in the underlying assumptions or use of alternative valuation methods could affect the reported fair value of these contracts.

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

**Future impairments of goodwill or long-lived assets could have a material adverse effect on the registrants' results of operations.**

Goodwill is assessed for impairment at least annually and more frequently if events or circumstances occur that would more likely than not reduce the fair value of a reporting unit below its carrying value and long-lived assets are assessed for impairment whenever events or circumstances indicate that an asset's carrying amount may not be recoverable. In connection with the completion of the Merger, the application of the acquisition method of accounting was pushed down to Southern Company Gas. The excess of the purchase price over the fair values of Southern Company Gas' assets and liabilities was recorded as goodwill. This resulted in a significant increase in the goodwill recorded on Southern Company's and Southern Company Gas' consolidated balance sheets. At December 31, 2018, goodwill was $5.3 billion and $5.0 billion for Southern Company and Southern Company Gas, respectively.

In addition, Southern Company and its subsidiaries have long-lived assets recorded on their balance sheets. To the extent the value of goodwill or long-lived assets become impaired, the affected registrant may be required to incur impairment charges that could have a material impact on their results of operations. For example, a wholly-owned subsidiary of Southern Company Gas owns and operates a natural gas storage facility consisting of two salt dome caverns where recent seismic mapping indicates that proximity of one of the caverns to the edge of the salt dome may be less than the required minimum and could result in Southern Company Gas retiring the cavern early. Early retirement of the cavern could trigger impairment of other long-lived assets associated with the natural gas storage facility. In addition, a subsidiary of Southern Company has several leveraged lease agreements, with terms ranging up to 45 years, which relate to international and domestic energy generation, distribution, and transportation assets. Southern Company receives federal income tax deductions for depreciation and amortization, as well as interest on long-term debt related to these investments. Southern Company reviews all important lease assumptions at least annually, or more frequently if events or changes in circumstances indicate that a change in assumptions has occurred or may occur. With respect to Southern Company's subsidiary's investments in leveraged leases, the recovery of its investment is dependent on the profitable operation of the leased assets by the respective lessees. A significant deterioration in the performance of the leased asset could result in the impairment of the related lease receivable.