

Rating Action: Moody's downgrades Southern Company to Baa2 stable; affirms subsidiary ratings and outlooks

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Approximately \$4 billion of debt downgraded

New York, May 13, 2016 -- Moody's Investors Service downgraded the long-term senior unsecured rating of The Southern Company to Baa2 from Baa1 and affirmed Southern's Prime-2 short-term rating for commercial paper. The rating outlook is stable. Moody's affirmed the ratings and outlooks of Southern's subsidiaries: Alabama Power Company (A1 stable), Alabama Power Capital Trust V (A2 stable); Georgia Power Company (A3 stable), Gulf Power Company (A2 stable), Mississippi Power Company (Baa3 negative); Southern Electric Generating Company (A2 stable), and Southern Company Funding Corporation (Prime-2 stable).

RATING RATIONALE

"The downgrade of Southern is prompted by the primarily debt financed acquisition of AGL Resources, Inc. (AGL, unrated) which will increase parent company leverage and reduce cash flow coverage metrics", said Michael G. Haggarty, Associate Managing Director. The addition of approximately \$8 billion of debt at the Southern holding company will increase parent level debt from around \$4 billion currently or 12-13% of total consolidated debt to the \$12 billion range, around 25% of consolidated debt, pressuring cash flow coverage metrics. "We project Southern's consolidated CFO pre-working capital to debt ratio will fall to approximately 15% immediately following the acquisition, from the 20% range currently, and not recover to previous levels for several years" added Haggarty.

The AGL acquisition comes at a time when Southern credit quality and relative position at the previous Baa1 rating level had already been weakened by over \$2 billion of pre-tax charges related to cost increases and delays at the Kemper Integrated Gasification Combined Cycle power plant at Mississippi Power. Southern continues to provide critical support to Mississippi Power, with \$776 million of promissory notes outstanding to the utility to maintain its liquidity until a permanent Kemper cost plan is approved and implemented. In addition, Southern's largest utility, Georgia Power is in the midst of an expensive, multi-year new nuclear plant construction program at its Vogtle nuclear plant site that has experienced cost increases and delays, with commercial operation currently three years behind schedule.

For Southern, the addition of approximately \$8 billion of debt at the parent company will eliminate an important credit advantage that had distinguished Southern from many of its peers, namely, the limited use of holding company leverage and higher financial flexibility at the parent company. With 25% of the company's total consolidated debt at the holding company level going forward, structural subordination will increase and financial flexibility will diminish. Although Southern still has a lower percentage of debt at the parent company than some other Baa rated peers like Duke Energy Corporation (Baa1 negative) which will be at around 35% following the Piedmont Natural Gas Company, Inc. (A2 stable) acquisition; Dominion Resources, Inc. (Baa2 stable) at approximately 48% after its acquisition of Questar Corporation (Prime-1, ratings on review for downgrade); and NextEra Energy, Inc. (Baa1 stable), which guarantees 33% of its total reported consolidated debt; it is no longer a material factor differentiating Southern from these companies.

In AGL, Southern is acquiring an entity whose financing subsidiary, AGL Capital Corporation (guaranteed by AGL), is rated Baa1 stable, lower than three of Southern's four existing utility subsidiaries. Although AGL provides Southern with regulatory and operational diversity, it will generate lower financial coverage metrics than Southern or any of its subsidiaries currently does, with AGL's CFO pre-working capital to debt expected to decline to the low to mid-teens (from the mid to high teens historically) as it issues debt to fund planned capital investments, another reason for the downgrade of Southern.

The affirmation of the ratings of Southern's other subsidiaries Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Southern Power, Southern Electric Generating, and Southern Company Funding reflects the minimal impact that Southern's acquisition of AGL will have on the credit profile of these companies. AGL is expected to be a separate subsidiary operating under the parent company. Although Southern will be servicing a substantial amount of new debt at the parent, potentially requiring a higher level of dividends from these

other subsidiaries, the magnitude should not be enough to materially affect the individual subsidiary credit profiles or ratings. Each of Southern's major subsidiaries maintains their own bank facilities and liquidity sources and, with the exception of Mississippi Power, are not reliant on the parent for material financing, liquidity, or other needs.

The affirmation of the ratings and stable outlook of Alabama Power (A1) reflects the credit supportive regulatory environment in Alabama, a lack of capital expenditures for new generation over the next few years, and strong, stable financial metrics, albeit slightly below the our rating methodology guidelines for a high "A" rating with a three year average CFO pre-working capital to debt of 25.5%. Although there is a now a relatively wide four notch differential between the ratings of Alabama Power and Southern, Alabama Power relies minimally on the parent to maintain its financial conditions and maintains its own credit facilities and commercial paper program. Alabama Power's dividends to the parent in 2015 were \$571 million, just over half of Georgia Power's 2015 dividend level of \$1,034 million.

The affirmation of the rating and stable outlook of Georgia Power (A3) considers the continued strong state regulatory support for the Vogtle new nuclear project, including the potential for a prudence determination of project costs by the Georgia Public Service Commission earlier than we had originally anticipated; and a recent settlement with the EPC contractors resolving long-term legal and other disputes that had plagued the project, including the removal of construction contractor Chicago Bridge & Iron Co. N.V. (CB&I, unrated). Progress continues on the Vogtle project, with construction approximately 30% complete, although additional delays beyond the three years currently incorporated into the schedule are possible.

These positive attributes have offset some recent adverse developments with regard the Vogtle project, most notably the precipitous decline in the credit quality of Toshiba Corporation (B3 negative), the parent company of EPC contractor Westinghouse Electric Company LLC (unrated) and the guarantor of certain Westinghouse obligations under the EPC contract. While Westinghouse has provided nearly \$1 billion of letters of credit to Georgia Power to support its obligations under the contract since Toshiba was downgraded below investment grade last year, we believe that a financially constrained Toshiba parent company could make additional costs and/or disputes related to the EPC contract more difficult to resolve.

While bonus depreciation will help support Georgia Power's financial metrics, which have declined as the Vogtle project has proceeded, the utility has also agreed to keep base rates flat for three years as part of a Georgia regulatory settlement for the AGL acquisition, which could offset these bonus depreciation benefits and pressure coverage metrics going forward. Georgia Power requested nearly \$1 billion of rate relief three years ago and we had expected Georgia Power to file a rate case in 2016. Moody's notes that the parent's acquisition of AGL has had a more direct impact on Georgia Power than on any of Southern's other subsidiaries.

The affirmation of the rating and stable outlook of Gulf Power (A2) reflects the credit supportive regulatory environment in Florida, with a reasonable rate case settlement in place through June 2017, capital expenditures declining from recently high levels; offset by financial metrics that are slightly below our rating methodology guidelines for an A2 rating, with a three year average CFO pre-working capital to debt of 22.9%.

The affirmation of the rating and negative outlook of Mississippi Power (Baa3) reflects the regulatory risk in obtaining permanent cost recovery on the Kemper IGCC plant with two new commissioners recently elected to the Mississippi Public Service Commission (MPSC); last year's MPSC approval of interim rate relief on the plant; and the utility's weak liquidity and standalone financial condition with metrics expected to be below investment grade for at least one to two years. The outlook could be stabilized if the Kemper plant reaches commercial operation and a permanent cost recovery plan is approved by the MPSC and implemented by the utility.

The affirmation of the rating and stable outlook of Southern Power (Baa1) considers the company's high percentage of contracted capacity; limited fuel risk; historically strong cash flow coverage metrics that may moderate going forward as some tax benefits are extended out into future years, and a growing renewable energy business that is providing diversification to partially offset compressed margins at its legacy natural gas plants. Although there was a substantial increase in debt over the last year with debt increasing to \$3.3 billion at 31 December 2015 from \$1.8 billion at 31 December 2014, Moody's expects the company to continue to finance its aggressive growth plans with a balanced mix of debt issuance and equity contributions from the parent company.

The affirmation of the ratings of Southern Electric Generating Company (SEGCO A2), a single asset generating plant, reflects the stable outlooks on Alabama Power and Georgia Power, which each own 50%.

SEGCO's single debt issue is rated A1 as it is fully guaranteed by Alabama Power.

The affirmation of the rating of Southern Company Funding Corporation (Prime-2), a commercial paper issuing vehicle, reflects the obligation and stable rating outlooks of the participating utilities: Alabama Power, Georgia Power and Gulf Power, to repay commercial paper issued by the funding company. Although Mississippi Power can also issue commercial paper under the program, it has not in recent years and has no plans to do so for the immediate future.

Rating Outlook

The stable rating outlook on Southern Company reflects the credit supportive regulatory environments in which its regulated utilities operate, the scale and diversity of its sources of cash flow, and Moody's expectation that it will not further increase parent company debt from current elevated levels.

Factors that Could Lead to an Upgrade

Southern's rating could be upgraded if there is a substantial reduction of parent company debt levels; the Vogtle and Kemper plants reach commercial operation without significant additional delays or cost increases; if one or more of its major utilities is upgraded (Alabama Power, Georgia Power, or AGL going forward); or if consolidated credit metrics return to previously strong levels, including CFO pre-working capital to debt in the 20% range.

Factors that Could Lead to a Downgrade

Southern's rating is well positioned at the Baa2 rating level but could be downgraded if there are material additional debt financed acquisitions; if there are additional delays or cost increases at the Vogtle nuclear project, and to a lesser degree the Kemper project; or if consolidated coverage metrics show a decline below the levels incorporated in our AGL acquisition projections, including cash flow from operations pre-working capital to debt below 15% for an extended period.

Downgrades:

..Issuer: Southern Company (The)

....Junior Subordinated Regular Bond/Debenture, Downgraded to Baa3 from Baa2

....Senior Unsecured Shelf, Downgraded to (P)Baa2 from (P)Baa1

....Senior Unsecured Bank Credit Facility, Downgraded to Baa2 from Baa1

....Senior Unsecured Regular Bond/Debenture, Downgraded to Baa2 from Baa1

Outlook Actions:

..Issuer: Alabama Power Capital Trust V

....Outlook, Remains Stable

..Issuer: Alabama Power Company

....Outlook, Remains Stable

..Issuer: Georgia Power Company

....Outlook, Remains Stable

..Issuer: Gulf Power Company

....Outlook, Remains Stable

..Issuer: Mississippi Power Company

....Outlook, Remains Negative

..Issuer: Southern Company (The)

....Outlook, Changed To Stable From Negative

..Issuer: Southern Company Funding Corporation

....Outlook, Remains Stable

..Issuer: Southern Elect Generating Co

....Outlook, Remains Stable

..Issuer: Southern Power Company

....Outlook, Remains Stable

Affirmations:

..Issuer: Alabama Power Capital Trust V

....Pref. Stock Preferred Stock, Affirmed A2

..Issuer: Alabama Power Company

.... Commercial Paper, Affirmed P-1

.... Issuer Rating, Affirmed A1

....Junior Subordinated Shelf, Affirmed (P)A2

....Preferred Shelf, Affirmed (P)A3

....Preference Shelf, Affirmed (P)A3

....Senior Unsecured Shelf, Affirmed (P)A1

....Preference Stock Preference Stock, Affirmed A3

....Pref. Stock Preferred Stock, Affirmed A3

....Senior Unsecured Bank Credit Facility, Affirmed A1

....Senior Unsecured Commercial Paper, Affirmed P-1

....Senior Unsecured Regular Bond/Debenture, Affirmed A1

..Issuer: Appling County Development Authority, GA

....Senior Unsecured Revenue Bonds, Affirmed A3

....Senior Unsecured Revenue Bonds, Affirmed VMIG 2

..Issuer: Bartow County Development Authority, GA

....Senior Unsecured Revenue Bonds, Affirmed A3

....Senior Unsecured Revenue Bonds, Affirmed VMIG 2

..Issuer: Burke County Development Authority, GA

....Senior Unsecured Revenue Bonds, Affirmed A3

....Senior Unsecured Revenue Bonds, Affirmed VMIG 2

..Issuer: Columbia (Town of) AL, Industrial Dev. Board

....Senior Unsecured Revenue Bonds, Affirmed A1

...Senior Unsecured Revenue Bonds, Affirmed VMIG 1
..Issuer: Coweta County Development Authority, GA

...Senior Unsecured Revenue Bonds, Affirmed A3

...Senior Unsecured Revenue Bonds, Affirmed VMIG 2
..Issuer: Effingham County Industrial Dev. Auth., GA

...Senior Unsecured Revenue Bonds, Affirmed A3

...Senior Unsecured Revenue Bonds, Affirmed VMIG 2
..Issuer: Escambia (County of) FL

...Senior Unsecured Revenue Bonds, Affirmed A2

...Senior Unsecured Revenue Bonds, Affirmed VMIG 1
..Issuer: Eutaw (City of) AL, Industrial Dev. Board (Supported by Alabama Power Company)

...Senior Unsecured Revenue Bonds, Affirmed A1

...Senior Unsecured Revenue Bonds, Affirmed VMIG 1
..Issuer: Eutaw (City of) AL, Industrial Dev. Board (Supported by Mississippi Power Company)

...Senior Unsecured Revenue Bonds, Affirmed Baa3

...Senior Unsecured Revenue Bonds, Affirmed VMIG 3
..Issuer: Floyd County Development Authority, GA

...Senior Unsecured Revenue Bonds, Affirmed A3

...Senior Unsecured Revenue Bonds, Affirmed VMIG 2
..Issuer: Georgia Power Company

.... Issuer Rating, Affirmed A3

...Senior Secured Shelf, Affirmed (P)A3

...Junior Subordinated Shelf, Affirmed (P)Baa1

...Preferred Shelf, Affirmed (P)Baa2

...Preference Shelf, Affirmed (P)Baa2

...Preference Stock Preference StockAffirmed Baa2

...Pref. Stock Non-cumulative Preferred Stock, Affirmed Baa2

...Senior Unsecured Bank Credit Facility, Affirmed A3

...Senior Unsecured Regular Bond/Debenture, Affirmed A3
..Issuer: Gulf Power Company

.... Issuer Rating, Affirmed A2

...Subordinate Shelf, Affirmed (P)A3

...Junior Subordinated Shelf, Affirmed (P)A3

...Senior Unsecured Shelf, Affirmed (P)A2

....Preferred Shelf, Affirmed (P)Baa1
....Preference Shelf, Affirmed (P)Baa1
....Preference Stock Preference Stock, Affirmed Baa1
....Pref. Stock Preferred Stock, Affirmed Baa1
....Senior Unsecured Regular Bond/Debenture, Affirmed A2
..Issuer: Harrison (County of) MS
....Senior Unsecured Revenue Bonds, Affirmed Baa3
....Senior Unsecured Revenue Bonds, Affirmed VMIG 3
..Issuer: Heard County Development Authority, GA
....Senior Unsecured Revenue Bonds, Affirmed A3
....Senior Unsecured Revenue Bonds, Affirmed VMIG 2
..Issuer: Jackson (County of) FL
....Senior Unsecured Revenue Bonds, Affirmed A2
....Senior Unsecured Revenue Bonds, Affirmed VMIG 1
..Issuer: Mississippi Business Finance Corporation (Supported by Mississippi Power Company)
....Senior Unsecured Revenue Bonds, Affirmed Baa3
....Senior Unsecured Revenue Bonds, Affirmed VMIG 3
..Issuer: Mississippi Business Finance Corporation (Supported by Gulf Power Company)
....Senior Unsecured Revenue Bonds, Affirmed A2
....Senior Unsecured Revenue Bonds, Affirmed VMIG 1
..Issuer: Mississippi Power Company
.... Issuer Rating, Affirmed Baa3
....Pref. Stock Preferred Stock, Affirmed Ba2
....Senior Unsecured Regular Bond/Debenture, Affirmed Baa3
..Issuer: Mobile (City of) AL, I.D.B.
....Senior Unsecured Revenue Bonds, Affirmed A1
....Senior Unsecured Revenue Bonds, Affirmed VMIG 1
..Issuer: Monroe County Development Authority, GA (Supported by Georgia Power Company)
....Senior Unsecured Revenue Bonds, Affirmed A3
....Senior Unsecured Revenue Bonds, Affirmed VMIG 2
..Issuer: Monroe County Development Authority, GA (Supported by Gulf Power Company)
....Senior Unsecured Revenue Bonds, Affirmed A2
..Issuer: Southern Company (The)

... Commercial Paper, Affirmed P-2
..Issuer: Southern Company Funding Corporation
...Senior Unsecured Commercial Paper, Affirmed P-2
..Issuer: Southern Elect Generating Co
... Issuer Rating, Affirmed A2
...Senior Unsecured Regular Bond/Debenture, Affirmed A1
..Issuer: Southern Power Company
... Issuer Rating, Affirmed Baa1
...Preference Shelf, Affirmed (P)Baa3
...Senior Unsecured Shelf, Affirmed (P)Baa1
...Senior Unsecured Bank Credit Facility, Affirmed Baa1
...Senior Unsecured Commercial Paper, Affirmed P-2
...Senior Unsecured Regular Bond/Debenture, Affirmed Baa1
..Issuer: Walker County Econ & Ind Dev Authority
...Senior Unsecured Revenue Bonds, Affirmed A1
...Senior Unsecured Revenue Bonds, Affirmed VMIG 1
..Issuer: West Jefferson (Town of) AL, Ind. Devel. Bd.
...Senior Unsecured Revenue Bonds, Affirmed A1
...Senior Unsecured Revenue Bonds, Affirmed VMIG 1
..Issuer: Wilsonville (Town of) AL, I.D.B.
...Senior Secured Revenue Bonds, Affirmed A1
...Senior Secured Revenue Bonds, Affirmed VMIG 1

The principal methodology used in rating Southern Company (The), Georgia Power Company, Alabama Power Company, Mississippi Power Company, Gulf Power Company, Alabama Power Capital Trust V, Southern Elect Generating Co and Southern Company Funding Corporation was Regulated Electric and Gas Utilities published in December 2013. The principal methodology used in rating Southern Power Company was Unregulated Utilities and Unregulated Power Companies published in October 2014. Please see the Ratings Methodologies page on www.moodys.com for a copy of these methodologies.

The Southern Company is a utility holding company headquartered in Atlanta, Georgia and the parent company of utility subsidiaries Alabama Power Company, Georgia Power Company, Gulf Power Company, Mississippi Power Company, Southern Electric Generating Company, wholesale power company Southern Power Company, and commercial paper issuer Southern Company Funding Corporation.

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