NOT A NEW ISSUE — BOOK-ENTRY ONLY

On the date of issuance of the Bonds, Butler Snow LLP ("Former Bond Counsel") delivered its opinion with respect to the Bonds described herein to the effect that interest on such Bonds, as of the date of such opinion, was not includable in gross income for federal income tax purposes under existing statutes, rulings and court decisions, and under applicable regulations, assuming the accuracy of certain representations and certifications and compliance with certain tax covenants made by the Company and the Issuer on the date the Bonds were issued, except for interest on any such Bonds for any period during which such Bonds are held by a person who is a "substantial user" of the Project (as defined herein) or a "related person" as defined in Section 147(a) of the Internal Revenue Code of 1986, as amended, and would not be treated as an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations, but such interest would be includable in adjusted current earnings in computing the federal alternative minimum tax imposed on certain corporations. Former Bond Counsel was also of the opinion that interest on such Bonds, as of the date of issuance thereof, was exempt from Mississippi state income taxation. Such opinions will not be updated or confirmed. In the opinion of Maynard Cooper & Gale, P.C., as Bond Counsel to Gulf Power Company (the "Company"), conversion of the interest rate on the Bonds as described herein will not adversely affect the exclusion from gross income of the interest on such Bonds for purposes of federal income taxation, based on assumptions and subject to the limitations described under "TAX MATTERS" herein.

$29,075,000
MISSISSIPPI BUSINESS FINANCE CORPORATION
Pollution Control Revenue Refunding Bonds,
First Series 2014
(Gulf Power Company Project)

THE BONDS ARE THE LIMITED SPECIAL OBLIGATIONS OF THE MISSISSIPPI BUSINESS FINANCE CORPORATION ("MBFC" OR THE "ISSUER"), A BODY CORPORATE AND POLITIC AND AN INSTRUMENTALITY OF THE STATE OF MISSISSIPPI AND ARE PAYABLE SOLELY FROM THE LOAN REPAYMENTS UNDER A PROMISSORY NOTE ISSUED PURSUANT TO A LOAN AGREEMENT RELATED TO THE BONDS WITH:

Gulf Power

Interest Accrual Date: April 15, 2019 **Due: April 1, 2044**

The Bonds will bear interest from the Interest Accrual Date at a Daily Rate determined by the Remarketing Agent as described under "THE BONDS—Interest on the Bonds" herein, payable on the fifth Business Day of each month. The Bonds were initially issued pursuant to a Trust Indenture, dated as of April 1, 2014 (the "Indenture"), between the Mississippi Business Finance Corporation, a body corporate and politic and instrumentality of the State of Mississippi (the "Issuer") and U.S. Bank National Association, as successor to The Bank of New York Mellon Trust Company, N.A. (the "Trustee").

The Bonds are subject to optional and extraordinary optional redemption prior to maturity as described under "THE BONDS—Redemption" herein. The Bonds are also subject to mandatory tender upon a change in interest rate determination method. When a Daily or Weekly Rate is in effect for the Bonds, holders will have the option to tender their Bonds for purchase as described under "THE BONDS—Optional Tender" herein.

Subject to satisfaction of certain conditions in the Indenture, the Company may from time to time change the method of determining the interest rate on the Bonds to a Daily, Modified Daily Rate, Weekly, Commercial Paper, Long-Term or Adjusted Index Rate as more fully described under "THE BONDS—Change in Interest Rate Determination Method" herein. This Reoffering Circular does not describe the terms and provisions applicable to the Bonds after the date they convert to accrue interest, as permitted by the Indenture, at interest rates other than the Daily Rate or the Weekly Rate described herein.

The Bonds will be reoffered as fully registered bonds and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC acts as securities depository for the Bonds. During any Daily or Weekly interest rate period, the Bonds will be in denominations of $100,000 and integral multiples of $5,000 thereafter. Purchases will be made in book-entry form through DTC participants and no physical delivery of Bonds will be made to purchasers, except as otherwise described in this reoffering circular (this "Reoffering Circular"). Payments of principal of, premium, if any, on, purchase price of and interest on the Bonds will be made by U.S. Bank National Association, as Trustee and Paying Agent, to Cede & Co., as nominee for DTC, as registered owner of the Bonds, to be subsequently disbursed to DTC participants and thereafter to the beneficial owners of the Bonds. See "THE BONDS — Book-Entry System."

THE BONDS AND THE INTEREST THEREON SHALL NOT BE DEEMED TO CONSTITUTE A DEBT OR GENERAL OBLIGATION OR A PLEDGE OF THE FAITH AND CREDIT OR TAXING POWER OF THE STATE OF MISSISSIPPI OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE ISSUER.

PRICE: 100%

This cover page contains certain information for quick reference only. It is not a summary of this reoffering. Investors must read the entire Reoffering Circular to obtain information essential to making an informed investment decision.

The Bonds are reoffered subject to prior sale, when, as and if received by SunTrust Robinson Humphrey, Inc. (the "Remarketing Agent"), subject to the receipt of the opinion of Maynard, Cooper & Gale, P.C., as Bond Counsel to the Company, as described herein, and certain other conditions. Certain legal matters, other than the validity of the Bonds and the exclusion from gross income for federal and state income tax purposes of interest thereon, will be passed on for the Company by its counsel, Liebler, Gonzalez & Portuondo, Morgan, Lewis & Bockius LLP, and, with respect to matters of Mississippi law, Maynard, Cooper & Gale, P.C. and for the Remarketing Agent by its counsel, Ballard Spahr LLP. The Bonds are expected to be delivered through the facilities of DTC in New York, New York on or about April 15, 2019.

SunTrust Robinson Humphrey

April 5, 2019

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The information contained in this Reoffering Circular has been obtained from the Company, DTC or other sources deemed reliable by the Company. No representation or warranty is made as to the accuracy or completeness of such information, and nothing contained in this Reoffering Circular is, or shall be relied upon as, a promise or representation by the Remarketing Agent. This Reoffering Circular is submitted in connection with the reoffering of securities as referred to herein and may not be reproduced or be used, in whole or in part, for any other purpose. The delivery of this Reoffering Circular at any time does not imply that information herein or in the Appendices to this Reoffering Circular is correct as of any time subsequent to its date.

The Issuer has not reviewed or approved the information contained in this Reoffering Circular.

The Remarketing Agent has provided the following sentence for inclusion in this Reoffering Circular. The Remarketing Agent has reviewed the information in this Reoffering Circular in accordance with, and as a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Remarketing Agent does not guarantee the accuracy or completeness of such information.

No broker, dealer, salesman or any other person has been authorized by the Issuer, by the Company or by the Remarketing Agent to give any information or to make any representation other than as contained in this Reoffering Circular or in the Appendices to this Reoffering Circular in connection with the reoffering described herein. Neither the Company nor the Remarketing Agent takes any responsibility for, nor can it provide any assurance as to the reliability of, any other information. This Reoffering Circular does not constitute an offer of any securities other than those described on the cover page or an offer to sell or a solicitation of an offer to buy in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE ISSUER, THE COMPANY AND THE TERMS OF THE REOFFERING DESCRIBED IN THIS REOFFERING CIRCULAR INCLUDING THE MERITS AND RISKS INVOLVED. THE SECURITIES DESCRIBED IN THIS REOFFERING CIRCULAR HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING REGULATORY AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS REOFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

CERTAIN PERSONS PARTICIPATING IN THE REOFFERING DESCRIBED IN THIS REOFFERING CIRCULAR MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE BONDS, INCLUDING BY ENTERING STABILIZING BIDS.

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REOFFERING CIRCULAR

$29,075,000
Mississippi Business Finance Corporation
Pollution Control Revenue Refunding Bonds,
First Series 2014
(Gulf Power Company Project)

INTRODUCTORY STATEMENT

This Reoffering Circular, including the cover page and the Appendices, is provided to furnish information in connection with the reoffering of $29,075,000 Mississippi Business Finance Corporation Pollution Control Revenue Refunding Bonds, First Series 2014 (Gulf Power Company Project) (the "Bonds").

The Bonds were initially issued pursuant to a Trust Indenture, dated as of April 1, 2014 (the "Indenture"), between the Mississippi Business Finance Corporation, a body corporate and politic and instrumentality of the State of Mississippi (the "Issuer") and U.S. Bank National Association (the "Trustee"), to refund the Mississippi Business Finance Corporation Pollution Control Revenue Refunding Bonds, Series 2003 (Gulf Power Company Project) in an aggregate principal amount of $29,075,000 (the "Refunded Bonds"). The Refunded Bonds were issued to refinance the acquisition, construction, installation and equipping of the interest of Gulf Power Company (the "Company") in certain air and water pollution control facilities (the "Project"). The Project is located at the Victor J. Daniel, Jr. steam electric generating plant in Jackson County, Mississippi (the "Plant"). The Company owns a 50% undivided interest in two coal-fired generating units at the Plant.

The Issuer loaned the original proceeds of the Bonds to the Company pursuant to a Loan Agreement, dated as of April 1, 2014 (the "Agreement"). In order to evidence the loan from the Issuer with respect to the Bonds (the "Loan") and to provide for its repayment, the Company issued a nonnegotiable promissory note related to the Bonds which was assigned to the Trustee (the "Note") pursuant to the Agreement. Payments required under the Note will be sufficient to pay when due the principal of, premium, if any, on, purchase price of and interest on the Bonds.

The Company has elected to change the interest rate determination method for the Bonds. On April 15, 2019 (the "Conversion Date"), the Bonds will be reoffered and will accrue interest at a Daily Rate (as defined herein). The Bonds will be reoffered pursuant to the Indenture.

The Bonds will accrue interest at a Daily Rate until the Company changes the interest rate on the Bonds to a Modified Daily Rate, Weekly Rate, a Commercial Paper Rate, an Adjusted Index Rate or a Long-Term Rate in accordance with the Indenture, in each case following a mandatory tender for purchase upon not less than 15 days' prior written notice to the Bondholders.

THIS REOFFERING CIRCULAR DOES NOT DESCRIBE THE TERMS AND PROVISIONS APPLICABLE TO THE BONDS AFTER THE DATE THEY CONVERT TO ACCRUE INTEREST, AS PERMITTED BY THE INDENTURE, AT INTEREST RATES OTHER THAN THE DAILY RATE OR THE WEEKLY RATE DESCRIBED HEREIN.

The Bonds are the limited special obligations of the Issuer payable solely from and secured by revenues and proceeds to be received by the Trustee, as assignee of the Issuer, pursuant to the Note. The Bonds are secured by an assignment and pledge to the Trustee of substantially all of the Issuer's rights, title and interest in and to the Note and the Agreement.

U.S. Bank National Association is the trustee under the Indenture. U.S. Bank National Association operates a corporate trust office in Atlanta, Georgia. The Trustee may be removed at any time by the Issuer and the Company or by the holders of a majority in aggregate principal amount of the Bonds at the time outstanding. Any resignation of the Trustee will become effective upon 30 days' written notice or upon the earlier acceptance of appointment by the successor Trustee. See "THE TRUSTEE."

Brief descriptions of the Issuer, the Bonds, the Agreement, the Indenture, the Trustee and certain other matters relating to the Bonds are set forth below. Information with respect to the Company, including certain financial statements, is set forth in Appendices A and B to this Reoffering Circular.

The descriptions and summaries in this Reoffering Circular do not purport to be complete, and reference is made to each document for the complete details of such document's terms and conditions. The statements made in this Reoffering Circular are qualified in their entirety by reference to each such document. Capitalized terms not defined in this Reoffering Circular have the meanings set forth in the Agreement and the Indenture, copies of which are available for inspection, during the reoffering period of the Bonds, at the offices of the Trustee, U.S. Bank National Association Global Corporate Trust, Two Midtown Plaza, 1349 W. Peachtree Street NW, Suite 1050, Atlanta, GA 30309.

THE ISSUER

The Issuer, created in 1983, is a public corporation of the State of Mississippi organized and chartered for the purpose of furthering the economic development of the State of Mississippi.

Sections 57-10-201 et seq. of the Mississippi Code of 1972, as amended (the "Act"), authorizes the Issuer to, among other things, provide financial assistance to "eligible companies" (as defined in the Act) in the State of Mississippi by providing loans and other assistance to such companies, thereby encouraging the investment of private capital in these companies and to finance such assistance by the issuance of revenue bonds. The Bonds were issued pursuant to resolutions of the Issuer duly adopted pursuant to the authority of the Act and the Constitution and laws of the State of Mississippi.

THE BONDS ARE NOT A GENERAL OBLIGATION OF THE ISSUER AND ARE NOT AN INDEBTEDNESS OF THE STATE OF MISSISSIPPI OR ANY POLITICAL SUBDIVISION THEREOF. NEITHER THE FAITH AND CREDIT OF THE ISSUER NOR THE FAITH AND CREDIT OR THE TAXING POWER OF THE STATE OF MISSISSIPPI OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF THE BONDS, PREMIUM, IF ANY, THEREON OR THE INTEREST THEREON OR OTHER COSTS INCIDENTAL THERETO. THE ISSUER HAS NO TAXING POWER.

NONE OF THE INFORMATION IN THIS REOFFERING CIRCULAR HAS BEEN SUPPLIED, REVIEWED OR APPROVED BY THE ISSUER, AND THE ISSUER MAKES NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

THE BONDS

The following is a summary of certain provisions of the Bonds. Reference is made to the Indenture and the forms of the Bonds included therein for the detailed provisions of the Bonds. This Reoffering Circular does not describe the terms and provisions applicable to the Bonds after the date they convert to accrue interest at interest rates other than the Daily Rate or the Weekly Rate described herein.

General

The Bonds are dated April 15, 2014, the date of their original issuance and delivery, and will mature on the date set forth on the cover page of this Reoffering Circular. The Company has elected to reoffer all of the Bonds at a Daily Rate following a conversion in accordance with the Indenture on the Conversion Date.

The Bonds may bear interest at a Daily Rate, Modified Daily Rate, a Weekly Rate, a Commercial Paper Rate, a Long-Term Interest Rate, or an Adjusted Index Rate as provided in the Indenture, provided, however, that in no event shall the rate of interest on the Bonds exceed 13% per annum. The Company may change the interest rate determination method for the Bonds from time to time, as described below under "Change in Interest Rate Determination Method." A change in the interest rate determination method for the Bonds will result in the mandatory tender of the Bonds, as described below under "Mandatory Tender."

The Bonds are issued as fully registered bonds without coupons in denominations of $100,000 and integral multiples of $5,000 thereafter.

The Bonds are issued in the name of Cede & Co., as registered owner and nominee of DTC. DTC acts as securities depository (the "Securities Depository") for the Bonds and individual purchases of Bonds may be made in only book-entry form. So long as the Bonds are in book-entry form only, purchasers of Bonds will not receive certificates representing their interest in the Bonds purchased. So long as Cede & Co. is the registered owner of such Bonds, as nominee of DTC, references herein to the Bondholders or registered owners or holders shall mean Cede & Co. and shall not mean the Beneficial Owners (as defined herein) of the Bonds.

So long as Cede & Co. is the registered owner of Bonds, principal of, premium, if any, on purchase price of and interest on the Bonds are payable to Cede & Co., as nominee for DTC, which will, in turn, remit such amounts to the DTC Participants (as defined herein) for subsequent disbursement to the Beneficial Owners. See "Book-Entry System" below.

SunTrust Robinson Humphrey, Inc. has been appointed as remarketing agent for the Bonds under the Indenture. See "REMARKETING OF THE BONDS" below.

Interest on the Bonds will be payable as described below. From the Interest Accrual Date, interest on the Bonds will accrue at the Daily Rate and be payable on the fifth Business Day (as defined below) of each month. See "Summary" below for a table summarizing certain provisions of the Bonds.

"Business Day" means any day other than (i) a Saturday or Sunday, (ii) a day on which commercial banks in New York, New York, Gulfport, Mississippi, or the city in which the designated corporate trust office of the Trustee may be located, are authorized by law to close or (iii) a day on which the New York Stock Exchange or the Federal Reserve System is closed.

Book-Entry System

Portions of the following information concerning DTC and DTC's Book-Entry System have been obtained from DTC. The Issuer, the Company and the Remarketing Agent make no representation as to the accuracy of such information.

DTC will act as the Securities Depository for the Bonds. The Bonds will be reoffered as fully-registered bonds registered in the name of Cede & Co., DTC's nominee, or such other name as may be requested by an authorized representative of DTC. One fully-registered global bond certificate has been

issued for the Bonds, representing in the aggregate the total principal amount of the Bonds, and has been deposited with the Trustee on behalf of DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants (*"*Direct Participants*"*) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (*"*DTCC*"*). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (*"*Indirect Participants*"*). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission (the "Commission"). More information about DTC can be found at www.dtcc.com. The contents of such website do not constitute a part of this Reoffering Circular.

Purchases of Bonds within the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond (the "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchases. Beneficial Owners, however, are expected to receive written confirmations providing details of the transactions, as well as periodic statements of their holdings, from the Direct or Indirect Participants through which the Beneficial Owner purchased the Bonds. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any changes in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds. DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults and proposed amendments to the Bond documents. For example,

Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices will be sent to DTC. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the Bonds to be redeemed.

Although voting with respect to the Bonds is limited, in those cases where a vote is required, neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Company or the Trustee on the relevant payment date in accordance with their respective holdings shown on DTC's records. Payments by Direct or Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Direct or Indirect Participant and not of DTC, the Company, the Trustee or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the Trustee, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursements of such payments to the Beneficial Owners are the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as Securities Depository with respect to the Bonds at any time by giving reasonable notice to the Issuer or the Trustee. Under such circumstances, in the event that a successor Securities Depository is not obtained, certificated Bonds will be required to be printed and delivered to the holders of record. Additionally, the Company may decide to discontinue use of the system of book-entry transfers through DTC (or a successor Securities Depository) with respect to the Bonds. The Company understands, however, that under current industry practices, DTC would notify its Direct or Indirect Participants of the Company's decision but will only withdraw beneficial interests from a global Bond at the request of each Direct or Indirect Participant. In that event, certificates for the Bonds will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Issuer, the Company, the Remarketing Agent (as defined herein) and the Trustee believe to be reliable, but none of the Issuer, the Company, the Remarketing Agent or the Trustee takes any responsibility for the accuracy thereof. None of the Issuer, the Company, the Remarketing Agent or the Trustee has any responsibility for the performance by DTC or its Direct or Indirect Participants of their respective obligations as described herein or under the rules and procedures governing their respective operations.

In the event that the book-entry system is discontinued, a Bondholder may transfer or exchange the Bonds in accordance with the Indenture. The Trustee will require a Bondholder, among other things, to furnish appropriate endorsements and transfer documents and to pay any taxes and fees required by law or permitted by the Indenture.

Except in connection with the purchase of Bonds tendered for purchase, the Trustee is not required to transfer or exchange any Bond which has been called for redemption or during the period beginning 15 days before mailing a notice of redemption of the Bonds or any portion of the Bonds and ending on the redemption date. In addition, in case of such discontinuance, an additional or co-paying agent may be designated.

Interest on the Bonds

Interest will accrue and will be payable as described below. When interest is payable at a Daily or Weekly Rate, interest will be computed on the basis of the actual number of days elapsed over a year of 365 days (366 days in leap years). Interest on overdue principal and, to the extent lawful, on overdue premium and interest will be payable at the rate on the Bonds on the day before the default occurred. While there exists an Event of Default under the Indenture, the interest rate on the Bonds will be the rate on such Bonds on the day before the Event of Default occurred.

Daily Rate

When interest on the Bonds is payable at a Daily Rate, the Remarketing Agent will set a Daily Rate on or before 10:00 A.M., New York City time, on each Business Day for that Business Day. Each Daily Rate will be the minimum rate necessary (as determined by the Remarketing Agent based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) for the Remarketing Agent to sell the Bonds on the day the Daily Rate is set at their principal amount (without regard to accrued interest). The Daily Rate for any non-Business Day will be the rate for the last day for which a rate was set.

Weekly Rate

The Remarketing Agent will set a Weekly Rate on or before 5:00 P.M., New York City time, on the last Business Day before the commencement of a period during which the Bonds are to bear interest at a Weekly Rate and on each Tuesday thereafter so long as interest on the Bonds is to be payable at a Weekly Rate or, if any Tuesday is not a Business Day, on the next preceding Business Day. Each Weekly Rate will be the minimum rate necessary (as determined by the Remarketing Agent based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) for the Remarketing Agent to sell the Bonds on the date the Weekly Rate is set at their principal amount (without regard to accrued interest). Each Weekly Rate shall apply to (i) the period beginning on the effective date of a change to a Weekly Rate and ending on the next Tuesday or (ii) the period beginning on the Wednesday after the Weekly Rate is set and ending on the following Tuesday or, if earlier, ending on the day before the effective date of a new method of determining the interest rate on the Bonds, as applicable.

Fallback Interest Period and Rate

If the appropriate Daily or Weekly Interest Rate is not or cannot be determined for any reason, the method of determining interest on the Bonds will be automatically converted to the Weekly Rate (without the necessity of complying with the requirements of the Indenture described under "Change in Interest Rate Determination Method") and the interest rate will be equal to the SIFMA Rate adjusted by the Spread or, if the SIFMA Rate is unavailable or the Spread cannot be determined, 90% of the 30-day Treasury rate as provided to the Trustee by the Remarketing Agent, until such time as the method of determining interest on the Bonds can be changed in accordance with the Indenture. The Trustee will promptly notify the Bondholders of any such automatic conversion as provided in the Indenture.

Calculation and Notice of Interest

The Remarketing Agent will provide the Trustee and the Company with notice in writing or by telephone promptly confirmed by facsimile transmission by 12:30 P.M., New York City time, (i) on the first Business Day after a month in which interest on the Bonds was payable at a Daily Rate, of the Daily Rate for each day in such month, (ii) on each day on which a Weekly Rate becomes effective, of the Weekly Rate, and (iii) on any Business Day preceding any redemption or purchase date, any interest rate requested by the Trustee in order to enable it to calculate the accrued interest, if any, due on such redemption or purchase date. Using the rates supplied by such notice, the Trustee will calculate the interest payable on the Bonds. The Trustee will confirm the effective interest rate to any Bondholder who requests it in writing or by Electronic Means.

The setting of the rates by the Remarketing Agent and the calculation of interest payable on the Bonds by the Trustee as provided in the Indenture will be conclusive and binding on the Issuer, the Company, the Trustee and the owners of the Bonds.

Change in Interest Rate Determination Method

The Company may from time to time change the method of determining the interest rate on the Bonds by (1) notice to the Issuer, the Trustee and the Remarketing Agent, and (2) under certain circumstances set forth in the Indenture, delivery of a Favorable Opinion of Tax Counsel. The Company's notice will specify (i) the effective date of the proposed Change in Interest Rate Determination Method and (ii) the proposed interest rate determination method. The interest rate payable on the Bonds will be payable at the proposed rate on the effective date specified in the Company's notice, provided that: (i) the Company's notice complies with the provisions of the Indenture and the change to the proposed interest rate determination method complies with certain limitations set forth in the Indenture; and (ii) the notice is accompanied by a Favorable Opinion of Tax Counsel (see "Cancellation of Change in Interest Rate Determination Method if Opinion of Tax Counsel is Not Confirmed" below).

Notice of Change in Interest Rate Determination Method

The Trustee, upon receiving notice from the Company pursuant to the Indenture, is required to give at least 15 days written notice by first-class mail to the Bondholders before the effective date of a change in the interest rate determination method. Each notice will be effective when sent and will state:

(i) the purchase date (and, if the Bonds provide that accrued interest will not be paid on the purchase date, the date it will be paid);

(ii) the purchase price;

(iii) that the Bonds to be tendered must be surrendered (other than Bonds held by a Securities Depository) to collect the purchase price;

(iv) the address at which or the manner in which the Bonds must be surrendered;

(v) that interest on the Bonds to be tendered ceases to accrue on the purchase date;

(vi) that the interest rate determination method will be changed;

(vii) the proposed effective date of the new rate; and

(viii) that a mandatory tender will result on the effective date of the change as provided in the Bonds (and that, in the case of a failed conversion, the determination method will automatically be converted to a Weekly Rate and the Bonds will continue to be subject to mandatory tender on such proposed effective date).

Failure to give any required notice of tender as to any particular Bonds or any defect therein will not affect the validity of the tender of any Bonds in respect of which no such failure or defect has occurred. Any notice mailed as provided in the Bonds shall be effective when sent and will be conclusively presumed to have been given whether or not actually received by any holder.

Cancellation of Change in Interest Rate Determination Method if Opinion of Tax Counsel is Not Confirmed

No change will be made in the interest rate determination method at the direction of the Company as described under "Change in Interest Rate Determination Method" above if the Company shall fail to deliver on the effective date confirmation of the Favorable Opinion of Tax Counsel described under "Change in Interest Rate Determination Method" above. If a confirming Opinion of Tax Counsel is not so delivered, the Trustee will promptly give notice thereof to the holders of the Bonds if notice of the Change in Interest Rate Determination Method has been given of such failure and the determination method will automatically be converted to a Weekly Rate and the Bonds will continue to be subject to mandatory tender on such proposed effective date.

Mandatory Tender

Mandatory Tender upon a Change in the Method of Determining the Interest Rate on the Bonds. On the effective date of the change in the method of determining the interest rate on the Bonds, the Bonds will be subject to mandatory tender on the effective date of such change. Any such mandatory tender will be at a price equal to 100% of the principal amount of the Bonds plus accrued interest to (but excluding) the purchase date.

Optional Tender

While the Bonds bear interest at a Daily Rate or a Weekly Rate, the holder of any Bond may elect to have its Bond (or any portion of its Bond equal to the lowest authorized denomination or whole multiples thereof) purchased by the Trustee at 100% of the principal amount thereof plus interest accrued to (but excluding) the date of purchase, as described below.

Daily Rate Tender. When interest on a Bond is payable at a Daily Rate and a book-entry system is in effect, a Beneficial Owner of such Bond (through its Direct Participant in the Securities Depository) may tender its interest in a Bond (or portion of Bond) by delivering an irrevocable written notice or an irrevocable telephone notice, promptly confirmed in writing or by Electronic Means, to the Trustee and an irrevocable notice to the Remarketing Agent in writing or by Electronic Means, in each case by 11:00 A.M., New York City time, on a Business Day, stating the principal amount of the Bond (or portion of Bond) being tendered, payment instructions for the purchase price and the Business Day (which may be the date the notice is delivered) the Bond (or portion of Bond) is to be purchased. The Beneficial Owner shall effect delivery of such Bond by causing such Direct Participant to transfer its interest in the Bond equal to such Beneficial Owner's interest on the records of the Securities Depository to the participant account of the Trustee with the Securities Depository. Any notice received by the Trustee after 11:00 A.M., New York City time, will be deemed to have been given on the next Business Day.

When interest on a Bond is payable at a Daily Rate and a book-entry system is not in effect, a holder of a Bond may tender the Bond (or portion of Bond) by delivering (i) the notices described above (which must include the certificate number of the Bond) and (ii) the Bond to the Trustee by 1:00 P.M., New York City time, on the date of purchase.

Weekly Rate Tender. When interest on a Bond is payable at a Weekly Rate and a book-entry system is in effect, a Beneficial Owner of such Bond (through its Direct Participant in the Securities Depository) may tender its interest in a Bond (or portion of Bond) by delivering an irrevocable written notice or an irrevocable telephone notice, promptly confirmed in writing or by Electronic Means, to the Trustee and an irrevocable notice to the Remarketing Agent in writing or by Electronic Means, in each case prior to 4:00 P.M., New York City time, on a Business Day stating the principal amount of the Bond (or portion of Bond) being tendered, payment instructions for the purchase price, and the date, which must be a Business Day at least seven days after the notice is delivered, on which the Bond (or portion of Bond) is to be purchased. The Beneficial Owner shall effect delivery of such Bond by causing such Direct Participant to transfer its interest in the Bond equal to such Beneficial Owner's interest on the records of the Securities Depository to the participant account of the Trustee with the Securities Depository.

When interest on a Bond is payable at a Weekly Rate and a book-entry system is not in effect, a holder of a Bond may tender the Bond (or portion of Bond) by delivering (i) the notices described above (which must include the certificate number of the Bond) and (ii) the Bond to the Trustee by 1:00 P.M., New York City time, on the date of purchase.

Payment of Purchase Price. Payment of the purchase price of Bonds to be purchased upon optional tender as described above will be made by the Trustee in immediately available funds by the close of business on the date of purchase. During a Daily Rate Period, if a Bond is tendered after the Record Date and before the Interest Payment Date for that Interest Period, the Trustee will pay a purchase price of principal plus interest accruing after the last day of that Interest Period. The tendering holder will receive interest for that Interest Period from the Trustee pursuant to the usual procedures for the payment of interest. No purchase of Bonds by the Trustee shall be deemed to be a payment or redemption of the Bonds or of any portion thereof and such purchase does not operate to extinguish or discharge the indebtedness evidenced by such Bonds.

Provisions Applicable to All Tenders. Bonds for which the owners have given notice of tender for purchase but which are not delivered on the tender date shall be deemed tendered. Bonds tendered for purchase on a date after a call for redemption has been given but before the redemption date will be purchased pursuant to the tender.

Notices in respect of tenders and Bonds tendered must be delivered as follows:

<u>Trustee</u>

U.S. Bank National Association
Two Midtown Plaza
1349 W. Peachtree Street NW
Suite 1050
Atlanta, GA 30309
Telephone: 404-898-8830

<u>Remarketing Agent</u>

SunTrust Robinson Humphrey, Inc.
3333 Peachtree Rd.,
11th Floor
Atlanta, GA 30326
Telephone: 404-926-5307

The above delivery addresses or telephone numbers of the Trustee or the Remarketing Agent may be changed by notice mailed by first-class mail to the Bondholders at their registered addresses. All tendered Bonds must be accompanied by an instrument of transfer satisfactory to the Trustee, executed in blank by the holder or its duly authorized attorney, with the signature guaranteed by an eligible guarantor institution.

Effect of Tender

No purchase of Bonds by the Company or advance use of any funds to effectuate any such purchase will be deemed to be a payment or redemption of the Bonds or of any portion thereof and such purchase will not operate to extinguish or discharge the indebtedness evidenced by such Bonds.

Irrevocability

Each notice of tender, whether delivered in writing or by telephone or Electronic Means, will automatically constitute an irrevocable tender for purchase of the Bond (or portion) to which the notice relates on the purchase date at a price equal to 100% of the principal amount of such Bond (or portion) plus any interest thereon accrued and unpaid as of the purchase date. The determination of the Trustee as to whether a notice of tender has been properly delivered will be conclusive and binding upon the Bondholders.

The Trustee may refuse to accept delivery of any Bond for which a proper instrument of transfer has not been provided. If any owner of a Bond who gave notice fails to deliver its Bond to the Trustee at the place and on the applicable date and time specified, or fails to deliver its Bond properly endorsed, its Bond shall constitute an undelivered Bond and will be purchased on the date specified in the notice.

Remarketing and Purchase

Except to the extent the Company directs the Remarketing Agent not to do so and except as otherwise provided in the Indenture, the Remarketing Agent for the Bonds will offer for sale and use reasonable efforts to sell all Bonds of such issue tendered for purchase at a price equal to 100% of the principal amount thereof plus accrued interest, if any, to the purchase date. The Trustee will pay the purchase price of the Bonds tendered for purchase first from the proceeds of the remarketing of such Bonds and, if such remarketing proceeds are insufficient, from moneys made available by the Company pursuant to the Agreement and the Note. The Company is obligated under the Agreement and the Note to purchase any Bonds tendered for purchase to the extent such Bonds have not been remarketed.

Redemption

All redemptions will be made in funds immediately available on the redemption and will be at a redemption price of 100% of the principal amount of the Bonds being redeemed plus interest accrued to the redemption, except that interest accruing at a Daily Rate to be paid on the fifth Business Day following the redemption date.

Optional Redemption During Daily or Weekly Rate Period. When interest on the Bonds is payable at a Daily or Weekly Rate, the Bonds may be redeemed in whole or in part, at the option of the Company, on any Business Day.

Extraordinary Optional Redemption. The Bonds are subject to redemption in whole without premium at any time upon receipt by the Trustee and the Issuer of a written notice from the Company stating that the Company has determined that:

(i) any federal, state or local body exercising governmental or judicial authority has taken any action which results in the imposition of unreasonable burdens or excessive liabilities with respect to the Project or the Plant, rendering impracticable or uneconomical the operation of either the Project or the Plant, including, without limitation, the condemnation or taking by eminent domain of all or substantially all of the Project or the Plant; or

(ii) changes in the economic availability of raw materials, operating supplies or facilities or technological or other changes have made the continued operation of the Plant as an efficient generating facility uneconomical; or

(iii) the Project or the Plant, has been damaged or destroyed to such an extent that it is not practicable or desirable to rebuild, repair or restore the Project or the Plant.

If the Issuer has received such notice from the Company, the Issuer, upon request of the Company, will give written notice to the Trustee directing the Trustee to take all action necessary to redeem the outstanding Bonds in whole without premium and on a date specified in such notice, which date shall be not less than 45 nor more than 90 days from the date the notice is received by the Trustee.

Notice of Redemption. At least 20 days before each redemption the Trustee will mail a notice of redemption by first-class mail to each Bondholder at the holder's registered address. Each notice of redemption will identify the Bonds to be redeemed and will state (i) the redemption date (and, if the Bonds provide that accrued interest will not be paid on the redemption date, the date it will be paid), (ii) the redemption price, (iii) that the Bonds called for redemption must be surrendered to collect the redemption price, (iv) the address at which the Bonds must be surrendered, (v) that interest on the Bonds called for redemption ceases to accrue on the redemption date and (vi) any conditions to the redemption. Such notice may state that said redemption will be conditional upon certain conditions being met on or prior to the date fixed for redemption. If such conditions are not met, such notice will be of no force and effect, the Issuer will not redeem such Bonds, the redemption price will not be due and payable, and the Trustee will give notice, in the same manner in which the notice of redemption was given, that such, moneys were not so received and that such Bonds will not be redeemed.

Failure to give any required notice of redemption as to any particular Bonds or any defect therein will not affect the validity of the call for redemption of any Bonds in respect of which no such failure or defect occurs. Any notice mailed as described above shall be effective when sent and will be conclusively presumed to have been given whether or not actually received by the addressee.

Effect of Notice of Redemption. When notice of redemption is required and given, Bonds called for redemption become due and payable on the redemption date; in such case when funds are deposited with the Trustee sufficient for redemption, interest on the Bonds to be redeemed ceases to accrue as of the date of redemption.

Partial Redemption: In the event of a redemption of less than all of the Bonds, at a time when the Bonds are not registered in the name of Cede & Co., as described below, the Trustee will select the Bonds to be redeemed by lot or other method it deems fair and appropriate in its sole and absolute discretion, except that the Trustee will first select any Bonds owned by the Company or any of its nominees or held by the Trustee for the account of the Company or any of its nominees. The Trustee will make the selection from the Bonds not previously called for redemption. For this purpose, the Trustee will consider each Bond in a denomination larger than the minimum denomination permitted by the Bonds at the time to be separate Bonds each in the minimum denomination.

Summary

Certain provisions of the Bonds and the Indenture are summarized in the following table:

	DAILY RATE	WEEKLY RATE
MANDATORY TENDER	On effective date of Change in Interest Rate Determination Method	On effective date of Change in Interest Rate Determination Method
OPTIONAL TENDER; NOTICE	On any Business Day; notice no later than 11:00 A.M. same day	On any Business Day; notice no later than 4:00 P.M., seven days in advance
INTEREST PERIODS	Each day	Wednesday through Tuesday
INTEREST RATE DETERMINED	Each Business Day	Each Tuesday (or preceding Business Day)
INTEREST ACCRUAL PERIOD	Calendar Month	Calendar Month
INTEREST PAYMENT DATE	Fifth Business Day of next month	First Business Day of next month
RECORD DATE	Last Business Day of month	Business Day before Interest Payment Date
OPTIONAL REDEMPTION BY COMPANY	On any Business Day	On any Business Day

THE AGREEMENT

The following is a summary of certain provisions of the Agreement. This summary is not a complete recital of the terms of the Agreement, and reference is made to the Agreement in its entirety for the detailed provisions thereof.

Issuance of the Bonds

The Issuer issued the Bonds and loaned the proceeds of the sale thereof to the Company for the purpose of refinancing certain obligations previously issued by the Issuer related to the Project.

Repayment of the Loan and Other Amounts Payable

In order to evidence the Loan and the Company's obligation to repay the same, the Company has issued the Note in the same aggregate principal amount as the Bonds and having the same stated maturity and interest rate. Pursuant to the Note, the Company will pay to the Trustee, as assignee of the Issuer, amounts which, and at or before times which, shall correspond to the payments in respect of the principal of, premium, if any, on, interest on and purchase price of the Bonds whenever and in whatever manner the same shall become due, whether at stated maturity, upon redemption or declaration or otherwise. The Company will also pay the purchase price of Bonds required to be purchased under the terms of the Indenture to the extent there are no remarketing proceeds to pay such amounts. In the event there are available moneys on deposit with the Trustee with respect to the Bonds on any payment date, such moneys will be credited against the payment then due.

The Company will also pay the fees, costs and reasonable expenses of the Trustee, any paying agents and the tender agents under the Indenture and any expenses in connection with any redemption of the Bonds.

Term of Agreement

The Agreement shall continue in full force and effect until such time as all of the outstanding Bonds have been fully paid or provision has been made for such payment in accordance with the terms of the Indenture, whichever shall be earlier, and the fees and expenses of the Trustee, any paying agents, the tender agents and all other amounts payable by the Company under the Agreement and the Note shall have been paid.

Obligations of the Company Unconditional

The Company agrees that its obligations to make payments pursuant to the Note and to perform and observe the other agreements on its part contained in the Agreement are absolute and unconditional notwithstanding, among other things, any changes in the tax law or other law of the United States of America, the State of Mississippi or any political subdivision of either thereof or any failure by the Issuer to perform its obligations under the Agreement.

Assignment and Pledge

The Issuer assigned to the Trustee a security interest in all of its rights, title and interest in, to and under the Note and the Agreement and all amounts payable thereunder (except for certain payments under the Agreement in respect of indemnification and certain fees and expenses). The Company assented to such assignment and agreed that, as to the Trustee, its obligation to make payments will be absolute and not subject to any defense or any right of set-off, counterclaim or recoupment arising out of any breach by the Issuer or the Trustee of any obligation to the Company, whether under the Agreement or otherwise, or out of any indebtedness or liability at any time owing to the Company by the Issuer or the Trustee.

Consolidation, Merger or Sale of Assets

The Company may consolidate with or merge into another domestic corporation (i.e., a corporation incorporated and existing under the laws of one of the states of the United States of America or under the laws of the United States of America) or permit other corporations to consolidate with or merge into it, or sell or otherwise transfer to another domestic corporation all or substantially all of its assets as an entirety and thereafter dissolve, provided, in the event the Company is not the surviving, resulting or transferee corporation, that the surviving, resulting or transferee corporation assumes, accepts and agrees in writing to pay and perform all of the obligations of the Company under the Agreement and the Note and is incorporated in or qualified to do business in Mississippi and that such consolidation, merger or transfer of assets does not result in the loss of the exclusion from gross income for federal income tax purposes of interest on the outstanding Bonds.

Defaults and Remedies; Force Majeure

The Agreement provides that the happening of one or more of the following events will constitute an "Event of Default" under the Agreement: (a) failure by the Company to pay when due the amounts required to be paid pursuant to the Note, which failure, in the case of such amounts in respect of interest on any Bond, continues for two days; (b) failure by the Company to pay within 30 days of the date due any other amounts required to be paid pursuant to the Agreement; (c) failure by the Company to observe and perform any other of its covenants, conditions or agreements under the Agreement for a period of 90

days after written notice from the Issuer or the Trustee, unless extended; and (d) certain events of bankruptcy, insolvency, dissolution, liquidation, winding-up, reorganization or other similar events of the Company.

Under the terms of the Agreement, certain of the Company's obligations referred to in clause (c) of the preceding paragraph may be suspended if by reason of force majeure (as defined in the Agreement) the Company is unable to carry out such obligations.

Whenever an Event of Default shall have occurred and be continuing, the Trustee, as assignee of the Issuer, may (a) by written notice to the Company, declare all amounts payable pursuant to the Note to be immediately due and payable and (b) take whatever action at law or in equity may appear necessary or desirable to collect the amounts then due and thereafter to become due under the Note or to enforce performance and observance of any obligation, agreement or covenant of the Company under the Agreement.

Any amounts collected pursuant to any above action taken will be deposited with the Trustee and applied in accordance with the provisions of the Indenture, or, if the Bonds have been fully paid (or provision for payment thereof has been made in accordance with the provisions of the Indenture) and the fees and expenses of the Trustee, the paying agents and the tender agents and all other amounts required to be paid under the Indenture shall have been paid, returned to the Company.

Amendment of the Agreement

Prior to the payment of the Bonds in full (or provision for the payment thereof having been made in accordance with the provisions of the Indenture), the Agreement may not be terminated and may not be amended except by written agreement in accordance with the Indenture. See "THE INDENTURE — Amendment of the Agreement."

THE INDENTURE

In addition to the description of the provisions of the Indenture contained elsewhere herein, the following is a summary of certain provisions of the Indenture. This summary is not a complete recital of the terms of the Indenture and reference is made to the Indenture in its entirety for the detailed provisions thereof.

Permitted Investments

Except as otherwise provided in the Indenture, any moneys held by the Trustee shall be invested and reinvested by the Trustee, at the written direction of the Company to the extent permitted by law, in securities or obligations specified in the Indenture.

Default Under the Indenture

The following shall be "Events of Default" under the Indenture:

(a) default in the payment of any interest on any Bond outstanding under the Indenture when due and as the same shall become due and payable, which default continues for two days;

(b) default in the due and punctual payment of principal on any Bond when due and payable, whether at maturity, upon redemption or by declaration or otherwise;

(c) default in the due and punctual payment of the purchase price of any Bond required to be purchased in accordance with its terms; and

(d) the occurrence and continuance of an "Event of Default" under the Agreement.

Remedies Under the Indenture

Upon the occurrence of an Event of Default, the Trustee may, and upon written request of the holders of not less than 25% in aggregate principal amount of the Bonds then outstanding shall, by notice in writing to the Issuer and the Company, declare the principal of all Bonds then outstanding and the interest accrued thereon immediately due and payable.

If, after the principal of the Bonds and the accrued interest thereon have been declared due and payable, all arrears of interest and interest on overdue installments of interest, if lawful, and principal and premium, if any, having become due other than by acceleration are paid by the Issuer, and the Issuer also performs all other things in respect of which it may have been in default under the Indenture and pays the reasonable charges of the Trustee and other costs, the Trustee shall annul such declaration and such annulment shall be binding upon all holders of the Bonds issued under the Indenture; but no such annulment shall extend to or affect any subsequent default or impair any right or remedy consequent thereon.

If an Event of Default occurs and is continuing, subject to the Indenture, the Trustee, before or after declaring the principal of the Bonds and the interest accrued thereon immediately due and payable, may, and upon written request of the holders of not less than 25% in aggregate principal amount of the Bonds then outstanding shall, by notice in writing delivered to the Issuer and the Company, pursue any available remedy by proceeding at law or in equity available to the Trustee under the Agreement or the Note to collect the principal of or interest on the Bonds or to enforce the performance of any provision of the Bonds, the Indenture, the Agreement or the Note. The Trustee, as the assignee of all the rights, title and interest of the Issuer in and to the Agreement and the Note, may enforce each and every right granted to the Issuer under the Agreement and the Note. In exercising such rights and the rights given the Trustee under the Indenture, the Trustee shall take such action as, in the judgment of the Trustee applying the standards described in the Indenture, would best serve the interests of the Bondholders. If any Event of Default has occurred and is continuing, the Trustee may, and upon the written request of the holders of not less than 25% in aggregate principal amount of all Bonds then outstanding shall, by notice in writing delivered to the Issuer and the Company and receipt of indemnity to its satisfaction, in its own name: (a) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Bondholders, including the right to require the Issuer to enforce any rights under the Agreement and the Note and to require the Issuer to carry out any other provisions of the Indenture for the benefit of the Bondholders; (b) bring suit upon the Bonds; (c) by action or suit in equity require the Issuer to account as if it were the trustee of an express trust for the Bondholders; or (d) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Bondholders.

No remedy conferred upon or reserved to the Trustee or to the Bondholders by the terms of the Indenture is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Trustee or to the Bondholders under the Indenture or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon any default or Event of Default shall impair any such right or power or shall be construed to be a waiver of any such default or Event of Default or acquiescence therein; and every such right and power may be exercised from time to time as often as may be deemed expedient. No waiver of any default or Event of Default under the Indenture, whether by the Trustee or by the Bondholders, shall extend to or shall affect any subsequent default or Event of Default or shall impair any rights or remedies consequent thereon.

Upon the occurrence and continuance of an Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and of the Bondholders under the Indenture, the Trustee shall be entitled as a matter of right to the appointment of a receiver or receivers of the trust estate with such powers as the court making such appointment shall confer.

In the event of a bankruptcy or reorganization of the Company, the Trustee may file a proof of claim on behalf of all Bondholders with respect to the obligations of the Company pursuant to the Agreement and the Note.

A Bondholder may not pursue any remedy with respect to the Indenture or the Bonds unless (a) the Bondholder gives the Trustee written notice stating that an Event of Default is continuing, (b) the Bondholders of at least 25% in principal amount of the Bonds then outstanding make a written request to the Trustee to pursue the remedy, (c) such Bondholder or Bondholders offer to the Trustee indemnity satisfactory to the Trustee against any loss, liability or expense and (d) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of indemnity. Nothing contained in the Indenture shall, however, affect or impair the right of any Bondholder to enforce the payment of the principal of, premium, if any, on and interest on any Bond at and after the stated maturity thereof.

A Bondholder may not use the Indenture to prejudice the rights of another Bondholder or to obtain a preference or priority over the other Bondholders.

Notwithstanding any other provision of the Indenture, the right of any Bondholder to receive payment of principal of and interest on a Bond, on or after the due dates expressed in the Bond, or the purchase price of a Bond on or after the date for its purchase as provided in the Bond, or to bring suit for the enforcement of any such payment on or after such dates, shall not be impaired or affected without the consent of the Bondholder.

Waivers of Events of Default; Control by Majority

The holders of a majority in principal amount of the Bonds then outstanding, by notice to the Trustee, may waive an existing Event of Default and its consequences. When an Event of Default is waived, it is cured and stops continuing, but no such waiver shall extend to any subsequent or other Event of Default or impair any right consequent to it. The holders of a majority in principal amount of the Bonds then outstanding may, in writing, direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on it. However, the Trustee may refuse to follow any direction that conflicts with law or the Indenture or that the Trustee determines is unduly prejudicial to the rights of other Bondholders, or would subject the Trustee to personal liability.

Defeasance

Any Bond will be deemed paid for all purposes of the Indenture when (a) payment of the principal of and interest on the Bond to the due date of such principal and interest (whether at maturity, upon redemption or otherwise) or the payment of the purchase price either (1) has been made in accordance with the terms of the Bonds or (2) has been provided for by depositing with the Trustee in trust (A) moneys in an amount which are sufficient to make such payment and/or (B) Government Obligations maturing as to principal and interest in such amounts and at such times as will insure, without any further reinvestment, the availability of sufficient moneys to make such payment and (b) all compensation and reasonable expenses of the Trustee pertaining to each Bond in respect of which such deposit is made have been paid or provided for to the Trustee's satisfaction. When a Bond is deemed paid, it will no longer be secured by or entitled to the benefits of the Indenture or be an obligation of the

Issuer and shall be payable solely from the moneys or Government Obligations described above under clause (a)(2), except that such Bond may be tendered if and as provided in the Bonds and it may be registered as transferred, exchanged, registered, discharged from registration or replaced as provided in the Indenture.

Notwithstanding the foregoing, upon the deposit of funds or Government Obligations under clause (a)(2) in the above paragraph, the purchase price of tendered Bonds shall be paid from the sale of Bonds under the Indenture, unless the Company provides instructions to the Trustee in writing to purchase such Bonds from moneys deposited with the Trustee for cancellation. If payment of such purchase price is not made from the sale of Bonds pursuant to the Indenture, payment shall be made from funds (or Government Obligations) on deposit pursuant to the Indenture without the need of any further instruction or direction by the Company, in which case such Bonds shall be surrendered to the Trustee and canceled.

Notwithstanding the foregoing, no deposit under clause (a)(2) in the first paragraph above shall be deemed a payment of a Bond until (1) the Company has furnished the Trustee a Favorable Opinion of Tax Counsel to the effect that (a) the deposit of such cash or Government Obligations will not cause the Bonds to become "arbitrage bonds" under Section 148 of the Internal Revenue Code of 1986, as amended (the "Code"), and (b) all of the conditions precedent for the defeasance of the Bonds have been complied with, and (2) (a) notice of redemption of the Bond is given in accordance with the Indenture or, if the Bond is not to be redeemed or paid within the next 60 days, until the Company has given the Trustee, in form satisfactory to the Trustee, irrevocable instructions (i) to notify, as soon as practicable, the owner of the Bond, in accordance with the Indenture, that the deposit required by clause (a)(2) in the first paragraph above has been made with the Trustee and that the Bond is deemed to be paid under the Indenture and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal of the Bond, premium, if any, on and interest on such Bond, if the Bond is to be redeemed rather than paid and (ii) to give notice of redemption not less than 20 nor more than 60 days prior to the redemption date for such Bond or (b) the maturity of the Bond.

"Government Obligations" means (i) noncallable direct obligations of the United States for which its full faith and credit are pledged, (ii) noncallable obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States, the timely payment of which is unconditionally guaranteed as a full faith and credit obligation of the United States or (iii) securities or receipts evidencing ownership interests in obligations or specified portions (such as principal or interest) of obligations described in (i) or (ii).

Amendment of the Indenture

Any amendment of or supplement to the Indenture will be effected by a supplemental indenture entered into by the Issuer and the Trustee. The Issuer and the Trustee may enter into supplemental indentures without notice to or the consent of any Bondholder for the following purposes: (a) to cure any ambiguity, inconsistency, formal defect or omission; (b) to grant to the Trustee for the benefit of the Bondholders additional rights, remedies, powers or authority; (c) to subject to the Indenture additional collateral or to add other agreements of the Issuer; (d) to modify the Indenture or the Bonds to permit qualification under the Trust Indenture Act of 1939, as amended, or any similar federal statute at the time in effect, or to permit the qualification of the Bonds for sale under the securities laws of any state of the United States; (e) to authorize different authorized denominations of the Bonds and to make correlative amendments and modifications to the Indenture regarding exchangeability of the Bonds of different authorized denominations, redemptions of portions of the Bonds of particular authorized denominations and similar amendments and modifications of a technical nature; (f) to increase or decrease the number of days specified for the giving of notices of mandatory tender and to make corresponding changes to the

period for notice of redemption of the Bonds; (g) to provide for an uncertificated system of registering the Bonds or to provide for the change to or from a book-entry system for the Bonds; (h) to evidence the succession of a new Trustee or the appointment by the Trustee or the Issuer of a co-trustee; (i) to make any change that does not materially adversely affect the rights of any Bondholder; or (j) to make any other changes to the Indenture that take effect as to any or all remarketed Bonds following a mandatory tender.

Except for supplemental indentures entered into for the purposes described in the preceding paragraph, the Indenture will not be amended or supplemented without the consent of the holders of at least a majority in aggregate principal amount of the Bonds at the time outstanding thereunder; provided that without the consent of each Bondholder affected thereby, no amendment or supplement may: (a) extend the maturity of the principal of, or interest on, any Bond; (b) reduce the principal amount of, or rate of interest on, any Bond; (c) effect a privilege or priority of any Bond or Bonds over any other Bond or Bonds; (d) reduce the percentage of the principal amount of the Bonds required for consent to such amendment or supplement; (e) impair the exclusion from federal gross income of interest on any Bond; (f) eliminate the holders' rights to tender the Bonds or extend the due date for the purchase of Bonds tendered by the holders thereof; (g) create a lien ranking prior to or on a parity with the lien of the Indenture on the property described in the Granting Clause of the Indenture; or (h) deprive any Bondholder of the lien created by the Indenture on such property. In addition, if moneys or Government Obligations have been deposited or set aside with the Trustee for the payment of Bonds as described under "— Defeasance" herein and those Bonds shall not have in fact been actually paid in full, no amendment to the defeasance provisions of the Indenture shall be made without the consent of the holder of each of those Bonds affected.

Amendment of the Agreement

The Issuer may enter into, and the Trustee may consent to, any amendment of or supplement to the Agreement or the Note, or may waive compliance by the Company of any provision of the Agreement or the Note, in each case without notice to or consent of any Bondholder if the amendment, supplement or waiver is required or permitted (a) by the provisions of the Agreement or the Indenture, (b) to cure any ambiguity, inconsistency, formal defect or omission, (c) to identify more precisely the Project, (d) in connection with any authorized amendment of or supplement to the Indenture or (e) to make any change that in the judgment of the Trustee, with the advice of counsel, does not materially adversely affect the rights of any Bondholder.

Any other amendment or supplement to the Agreement or the terms of the Note may be made only with the consent of the holders of at least a majority in aggregate principal amount of the Bonds at the time outstanding.

THE TRUSTEE

The Company maintains normal banking relationships with the Trustee and borrows from the Trustee from time to time. The Trustee serves as trustee under other indentures providing for certain tax exempt bonds for the benefit of the Company.

REMARKETING OF THE BONDS

Pursuant to a Remarketing Agreement (the "Remarketing Agreement"), SunTrust Robinson Humphrey, Inc. (the "Remarketing Agent") has agreed, subject to certain conditions, to offer for sale and use reasonable efforts to sell such Bonds at a price equal to 100% of the principal amount thereof. In connection with the reoffering of the Bonds on the Conversion Date, the Company will pay to the Remarketing Agent a fee for its services in an amount equal to $18,172. Following the Conversion Date,

and while the Bonds accrue interest at the Daily Rate or the Weekly Rate, the Company will pay the Remarketing Agent an annual fee for its services as Remarketing Agent as specified in the Remarketing Agreement. The Company has agreed to indemnify the Remarketing Agent against certain civil liabilities, including liabilities under federal securities laws.

The Remarketing Agent may offer and sell the Bonds to certain dealers (including dealers depositing the Bonds into investment trusts) and others at prices lower than the public offering price stated on the cover page. After the reoffering, the public offering price may be changed from time to time.

Neither the Company nor the Remarketing Agent makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Bonds. In addition, neither the Company nor the Remarketing Agent makes any representation that the Remarketing Agent will engage in such transactions or that such transactions, once commenced, will not be discontinued without notice.

In the ordinary course of their business, the Remarketing Agent and its affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with the Company and its affiliates, for which they have received and will receive customary compensation.

The Remarketing Agent has entered into an agreement (the "Distribution Agreement") with SunTrust Investment Services, Inc. ("STIS") for the retail distribution of certain municipal securities offerings, including the Bonds. Pursuant to the Distribution Agreement, the Remarketing Agent will share a portion of its remarketing agent compensation with respect to the Bonds with STIS. The Remarketing Agent and STIS are both subsidiaries of SunTrust Banks, Inc. SunTrust Robinson Humphrey is the trade name for certain capital markets and investment banking services of SunTrust Banks, Inc. and its subsidiaries.

SPECIAL CONSIDERATIONS RELATING TO THE BONDS

The Remarketing Agent is Paid by the Company

The Remarketing Agent's responsibilities include determining the interest rate from time to time and remarketing the Bonds that are optionally or mandatorily tendered by the owners thereof (subject, in each case, to the terms of the Indenture and the Remarketing Agreement), all as further described in this Reoffering Circular. The Remarketing Agent is appointed by the Company and is paid by the Company for its services. As a result, the interests of the Remarketing Agent may differ from those of existing holders and potential purchasers of the Bonds.

The Remarketing Agent Routinely Purchases Bonds for its Own Account

The Remarketing Agent acts as remarketing agent for a variety of variable rate demand obligations and, in its sole discretion, routinely purchases such obligations for its own account. The Remarketing Agent is permitted, but not obligated, to purchase tendered Bonds for its own account and, in its sole discretion, may routinely acquire such tendered Bonds in order to achieve a successful remarketing of the Bonds (i.e., because there otherwise are not enough buyers to purchase the Bonds) or for other reasons. However, the Remarketing Agent is not obligated to purchase Bonds, and may cease doing so at any time without notice. The Remarketing Agent also may make a market in the Bonds by routinely purchasing and selling Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales may be at or below par. However, the Remarketing Agent is not required to make a market in the Bonds. The Remarketing Agent also may sell any Bonds it has

purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Bonds. The purchase of Bonds by the Remarketing Agent may create the appearance that there is greater third party demand for the Bonds in the market than is actually the case. The practices described above also may result in fewer Bonds being tendered in a remarketing.

Bonds May be Offered at Different Prices on Any Date Including an Interest Rate Determination Date

Pursuant to the Indenture and the Remarketing Agreement, the Remarketing Agent is required to determine the applicable rate of interest that, in its judgment, is the lowest rate that would permit the sale of the Bonds bearing interest at the applicable interest rate at par plus accrued interest, if any, on and as of the applicable interest rate determination date. The interest rate will reflect, among other factors, the level of market demand for the Bonds (including whether the Remarketing Agent is willing to purchase Bonds for its own account). There may or may not be Bonds tendered and remarketed on an interest rate determination date, the Remarketing Agent may or may not be able to remarket any Bonds tendered for purchase on such date at par and the Remarketing Agent may sell Bonds at varying prices to different investors on such date or any other date. The Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third party buyers for all of the Bonds at the remarketing price. In the event the Remarketing Agent owns any Bonds for its own account, it may, in its sole discretion in a secondary market transaction outside the tender process, offer such Bonds on any date, including the interest rate determination date, at a discount to par to some investors.

The Ability to Sell the Bonds Other Than Through the Tender Process May Be Limited

The Remarketing Agent may buy and sell Bonds other than through the tender process. However, it is not obligated to do so and may cease doing so at any time without notice and may require holders that wish to tender their Bonds to do so through the Tender Agent with appropriate notice. Thus, investors who purchase the Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Bonds other than by tendering the Bonds in accordance with the tender process.

Under Certain Circumstances, the Remarketing Agent May Be Removed, Resign or Cease Remarketing the Bonds, Without a Successor Being Named

Under certain circumstances, the Remarketing Agent may be removed or have the ability to resign or cease its remarketing efforts, without a successor having been named, subject to the terms of the Indenture and the Remarketing Agreement.

TAX MATTERS

Former Bond Counsel delivered an opinion at the initial issuance of the Bonds to the effect that the interest on the Bonds, under existing statutes, regulations, rulings and court decisions, was excluded from the gross income of the owners of the Bonds for federal income tax purposes, except for interest on any Bond for any period during which such Bond is held by a "substantial user" of the Project or a "related person" within the meaning of Section 147(a) of the Code. The opinion of Former Bond Counsel stated that the interest on the Bonds would not be treated as an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations; however, with respect to certain corporations (as defined for federal income tax purposes), such interest will be taken into account in determining adjusted current earnings in computing the federal alternative minimum tax imposed on such corporations.

No opinion will be expressed with respect to any other federal tax consequences of the receipt or accrual of interest on the Bonds. The opinion of Former Bond Counsel assumed the accuracy of the representations and certifications of the Issuer, the Company and the Trustee, and the continued compliance with the covenants related to the exclusion of interest on the Bonds from gross income. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in other federal income tax consequences to certain taxpayers, including, but not limited to, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement Benefits, foreign corporations engaged in a trade or business in the United States, certain "S Corporations," and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Bonds should consult their own tax advisors with respect to the excludability of the interest thereon from gross income.

The opinion of Former Bond Counsel provided that interest on the Bonds is exempt from all present State of Mississippi income taxation. A copy of such opinion of Former Bond Counsel is included in Appendix C hereto but such opinion spoke on and as of the date of the initial delivery of the Bonds and will not be reissued in connection with reoffering of the Bonds.

On April 15, 2019, Bond Counsel will deliver to the Trustee an opinion to the effect that, based upon the assumptions and subject to the limitations described therein, conversion of the interest rate period on the Bonds to Daily Interest Rate Period in accordance with the provisions of the Indenture is permitted by the Indenture and the laws of the State of Mississippi and will not, by itself, adversely affect the exclusion from gross income of the interest on the Bonds for federal income tax purposes.

From time to time, there are legislative proposals in Congress that, if enacted, could cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation, adversely affect the market value of the Bonds or otherwise prevent owners of the Bonds from realizing the full current benefit of the tax status of such interest. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, such legislation would apply to bonds issued prior to enactment. Purchasers of the Bonds should consult their tax advisors regarding the effect of any such legislation. The opinions previously expressed by Former Bond Counsel were based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Bonds, and Former Bond Counsel expressed no opinion with respect to any proposed legislation or as to the tax treatment of interest on the Bonds, or as to the consequences of owning or receiving interest on the Bonds, as of any future date. Former Bond Counsel has not agreed to notify the Issuer or the owners of the Bonds as to any event subsequent to the issuance of the Bonds that might affect the tax treatment of interest on the Bonds, the market value of the Bonds or the consequences of owning or receiving interest on the Bonds.

Prospective purchasers of the Bonds should consult their own tax advisors regarding pending or proposed federal tax legislation and prospective purchasers of the Bonds at other than their original issuance at the price indicated on the cover of this Official Statement should also consult their own tax advisers regarding other tax considerations such as the consequences of market discount, as to all of which Former Bond Counsel expressed no opinion.

CONTINUING DISCLOSURE

Solely for the purpose of enabling the Remarketing Agent to comply with the requirements of Rule 15c2-12(b)(5) (the "Rule"), the Company has undertaken, (but only to the extent required for compliance with valid and effective provisions of the Rule), pursuant to an Amended and Restated 15c2-12 Undertaking attached hereto as Appendix E, for the benefit of the Bondholders, to provide to the Municipal Securities Rulemaking Board under its Electronic Municipal Market Access System

("EMMA") either a copy, or notice of the filing of the following with the Commission of: (i) not later than 120 days after the end of each fiscal year of the Company, the audited annual financial statements of the Company of the type included in Appendix B to this Reoffering Circular, or, if the Company has filed an annual report with the Commission on Form 10-K (or any successor form), the Form 10-K; and (ii) in a timely manner, notice of the occurrence of certain events enumerated in the Rule (the "Company's Undertaking").

Neither the Issuer nor its members, officers or employees have any responsibility or liability for the sufficiency, performance or enforcement of the Company's Undertaking. The Company and its directors, officers, employees and shareholders shall have no liability under the Company's Undertaking for any act or failure to act; a failure to perform the Company's Undertaking shall not constitute an Event of Default under the Agreement, an event of default under the Indenture or a default under the Note or any Bond; and the sole remedy shall be specific enforcement of the Company's Undertaking by the Trustee or by such persons, if any, as the Rule may require to be entitled to enforce the same. The Company reserves the right to (a) contest the validity of the Rule and (b) modify its performance of the Company's Undertaking, to the extent not inconsistent with valid and effective provisions of the Rule.

The Company recently learned that it failed to file in May 2014 a notice with EMMA that certain prior bonds that were issued by the Escambia County, Florida were redeemed in connection with the financing of those bonds in 2014. The Company has procedures in place to make such material event notices in the future.

LEGAL MATTERS

The obligations of the Remarketing Agent pursuant to the Remarketing Agreement are subject to the issuance of the opinion of Maynard, Cooper & Gale, P.C., as Bond Counsel, with respect thereto as described herein under "TAX MATTERS." Certain legal matters, other than the validity of the Bonds and the exclusion from gross income for federal income tax purposes of interest thereon, will be passed upon for the Company by its counsel, Liebler, Gonzalez & Portuondo, Morgan, Lewis & Bockius LLP and, with respect to matters of Mississippi law, Maynard, Cooper & Gale, P.C. and for the Remarketing Agent by its counsel, Ballard Spahr LLP.

MISCELLANEOUS

Certain information relating to the business and properties of the Company is included in Appendix A to this Reoffering Circular, and the Company's audited financial statements for the years ended December 31, 2018 and 2017 are included as Appendix B, to which reference is hereby made.

RATINGS

Moody's has assigned the Bonds a rating of "A2/VMIG-1" and S&P has assigned the Bonds a rating of "A-/A-2". Any desired further explanation of the significance of these ratings should be obtained from Moody's or S&P, respectively. There is no assurance that such ratings will continue for any given period of time or that they will not be lowered or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. Any such change in or withdrawal of such ratings could have an adverse effect on the market price of the Bonds.

A securities rating is not a recommendation to buy, sell or hold securities.

APPENDIX A

GULF POWER COMPANY

Gulf Power Company (the "Company") is a rate-regulated electric utility under the jurisdiction of the Florida Public Service Commission engaged in the generation, transmission, distribution and sale of electric energy in northwest Florida. As of January 1, 2019, the Company served more than 460,000 customers in eight counties throughout northwest Florida and had approximately 2,300 MW of fossil-fueled electric generating capacity and 9,400 miles of transmission and distribution lines located in Florida, Mississippi and Georgia.

On January 1, 2019, NextEra Energy, Inc. ("NextEra") acquired all of the outstanding common shares of the Company from The Southern Company, which resulted in the Company becoming a wholly-owned subsidiary of NextEra. The Company was incorporated under the laws of Maine in 1925, and became a Florida corporation after being domesticated under the laws of Florida in 2005. The principal executive offices of the Company are located at 500 Bayfront Parkway, Pensacola, Florida 32501, and the telephone number is (850) 444-6111.

The Company is not currently subject to the informational requirements of the Securities Exchange Act of 1934, as amended. Nevertheless, the Company has undertaken to provide certain information to Electronic Municipal Market Access System as described in the Amended and Restated 15c2-12 Undertaking described in the Reoffering Circular.

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APPENDIX B

COMPANY FINANCIAL STATEMENTS

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Deloitte.

INDEPENDENT AUDITORS' REPORT

Gulf Power Company

We have audited the accompanying financial statements of Gulf Power Company (the Company), which comprise the balance sheets and statements of capitalization as of December 31, 2018 and 2017, and the related statements of income, comprehensive income, common stockholder's equity, and cash flows for the years then ended, and the related notes to the financial statements (collectively referred to as the "financial statements"), in conformity with accounting principles generally accepted in the United States of America.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gulf Power Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Atlanta, Georgia
April 1, 2019

STATEMENTS OF INCOME
For the Years Ended December 31, 2018 and 2017
Gulf Power Company Financial Statements and Notes

	2018	2017
	(in millions)	
Operating Revenues:		
Retail revenues	**$ 1,213**	$ 1,281
Wholesale revenues, non-affiliates	**54**	57
Wholesale revenues, affiliates	**132**	108
Other revenues	**66**	70
Total operating revenues	**1,465**	1,516
Operating Expenses:		
Fuel	**421**	427
Purchased power	**177**	155
Other operations and maintenance	**356**	369
Depreciation and amortization	**191**	137
Taxes other than income taxes	**118**	116
Loss on Plant Scherer Unit 3	**—**	33
Total operating expenses	**1,263**	1,237
Operating Income	**202**	279
Other Income and (Expense):		
Interest expense, net of amounts capitalized	**(53)**	(50)
Other income (expense), net	**(9)**	—
Total other income and (expense)	**(62)**	(50)
Earnings Before Income Taxes	**140**	229
Income taxes (benefit)	**(20)**	90
Net Income	**160**	139
Dividends on Preference Stock	**—**	4
Net Income After Dividends on Preference Stock	**$ 160**	$ 135

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2018 and 2017
Gulf Power Company Financial Statements and Notes

		2018		2017
			(in millions)	
Net Income	**$**	**160**	$	139
Other comprehensive income (loss):				
Qualifying hedges:				
Changes in fair value, net of tax of $- and $(1), respectively		—		(1)
Total other comprehensive income (loss)		—		(1)
Comprehensive Income	**$**	**160**	$	138

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2018 and 2017
Gulf Power Company Financial Statements and Notes

	2018	2017
	(in millions)	
Operating Activities:		
Net income	**$ 160**	$ 139
Adjustments to reconcile net income to net cash provided from operating activities —		
Depreciation and amortization, total	**197**	149
Deferred income taxes	**3**	72
Loss on Plant Scherer Unit 3	**—**	33
Other, net	**(4)**	(2)
Changes in certain current assets and liabilities —		
-Receivables	**29**	(43)
-Other current assets	**—**	13
-Accounts payable	**(103)**	20
-Over recovered regulatory clause revenues	**36**	(12)
-Other current liabilities	**(5)**	(13)
Net cash provided from operating activities	**313**	356
Investing Activities:		
Property additions	**(346)**	(202)
Cost of removal, net of salvage	**(34)**	(21)
Other investing activities	**(20)**	(11)
Net cash used for investing activities	**(400)**	(234)
Financing Activities:		
Increase (decrease) in notes payable, net	**(45)**	(223)
Proceeds —		
Common stock issued to parent	**—**	175
Capital contributions from parent company	**267**	2
Senior notes	**—**	300
Redemptions —		
Preference stock	**—**	(150)
Senior notes	**—**	(85)
Payment of common stock dividends	**(153)**	(165)
Other financing activities	**(1)**	(4)
Net cash provided from (used for) financing activities	**68**	(150)
Net Change in Cash, Cash Equivalents, and Restricted Cash	**(19)**	(28)
Cash, Cash Equivalents, and Restricted Cash at Beginning of Year	**28**	56
Cash, Cash Equivalents, and Restricted Cash at End of Year	**$ 9**	$ 28
Supplemental Cash Flow Information:		
Cash paid (received) during the period for —		
Interest (net of $- and $- capitalized, respectively)	**$ 50**	$ 46
Income taxes (net of refunds)	**(29)**	12
Noncash transactions —		
Accrued property additions at year-end	**26**	31
Other financing activities related to energy services	**—**	(7)
Receivables related to energy services	**—**	7

The accompanying notes are an integral part of these financial statements.

BALANCE SHEETS
At December 31, 2018 and 2017
Gulf Power Company Financial Statements and Notes

Assets		**2018**		2017
			(in millions)	
Current Assets:				
Cash and cash equivalents	**$**	**9**	$	28
Receivables —				
Customer accounts receivable		**77**		76
Unbilled revenues		**57**		67
Under recovered regulatory clause revenues		**—**		27
Affiliated		**—**		14
Other accounts and notes receivable		**8**		7
Accumulated provision for uncollectible accounts		**(1)**		(1)
Fossil fuel stock		**62**		63
Materials and supplies		**66**		57
Other regulatory assets, current		**45**		56
Property damage reserve		**34**		—
Other current assets		**11**		21
Total current assets		**368**		415
Property, Plant, and Equipment:				
In service		**5,391**		5,196
Less: Accumulated provision for depreciation		**1,543**		1,461
Plant in service, net of depreciation		**3,848**		3,735
Construction work in progress		**199**		91
Total property, plant, and equipment		**4,047**		3,826
Deferred Charges and Other Assets:				
Deferred charges related to income taxes		**29**		31
Other regulatory assets, deferred		**703**		502
Other deferred charges and assets		**41**		23
Total deferred charges and other assets		**773**		556
Total Assets	**$**	**5,188**	$	4,797

The accompanying notes are an integral part of these financial statements.

BALANCE SHEETS
At December 31, 2018 and 2017
Gulf Power Company Financial Statements and Notes

Liabilities and Stockholder's Equity	**2018**	2017
		(in millions)
Current Liabilities:		
Notes payable	**$ —**	$ 45
Accounts payable —		
Affiliated	**—**	52
Other	**222**	75
Customer deposits	**34**	35
Accrued taxes	**17**	10
Accrued interest	**9**	9
Accrued compensation	**10**	39
Deferred capacity expense, current	**22**	22
Asset retirement obligations, current	**46**	37
Other regulatory liabilities, current	**50**	—
Other current liabilities	**17**	27
Total current liabilities	**427**	351
Long-Term Debt (See accompanying statements)	**1,286**	1,285
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	**622**	537
Deferred credits related to income taxes	**374**	458
Employee benefit obligations	**87**	102
Deferred capacity expense	**75**	97
Asset retirement obligations	**123**	105
Other cost of removal obligations	**211**	221
Other regulatory liabilities, deferred	**4**	43
Other deferred credits and liabilities	**59**	67
Total deferred credits and other liabilities	**1,555**	1,630
Total Liabilities	**3,268**	3,266
Common Stockholder's Equity (See accompanying statements)	**1,920**	1,531
Total Liabilities and Stockholder's Equity	**$ 5,188**	$ 4,797
Commitments and Contingent Matters (See notes)		

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CAPITALIZATION
At December 31, 2018 and 2017
Gulf Power Company Financial Statements and Notes

	2018	2017	2018	2017
	(in millions)		*(percent of total)*	
Long-Term Debt:				
Long-term notes payable —				
4.75% due 2020	**$ 175**	$ 175		
3.10% due 2022	**100**	100		
3.30% to 5.10% due 2027-2044	**715**	715		
Total long-term notes payable	**990**	990		
Other long-term debt —				
Pollution control revenue bonds —				
2.10% due 2022	**37**	37		
2.60% due 2023	**33**	33		
1.40% to 4.45% due 2037-2049	**157**	157		
Variable rate (1.76% at 12/31/18) due 2022	**4**	4		
Variable rates (1.79% to 1.85% at 12/31/18) due 2039-2042	**78**	78		
Total other long-term debt	**309**	309		
Unamortized debt discount	**(4)**	(5)		
Unamortized debt issuance expense	**(9)**	(9)		
Total long-term debt (annual interest requirement — $48 million)	**1,286**	1,285	**40.1%**	45.6%
Common Stockholder's Equity:				
Common stock, without par value —				
Authorized — 20,000,000 shares				
Outstanding — 7,392,717 shares	**678**	678		
Paid-in capital	**978**	594		
Retained earnings	**265**	259		
Accumulated other comprehensive income	**(1)**	—		
Total common stockholder's equity	**1,920**	1,531	**59.9**	54.4
Total Capitalization	**$ 3,206**	$ 2,816	**100.0%**	100.0%

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF COMMON STOCKHOLDER'S EQUITY
For the Years Ended December 31, 2018 and 2017
Gulf Power Company Financial Statements and Notes

	Number of Common Shares Issued	Common Stock	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
			(in millions)			
Balance at December 31, 2016	6	503	589	296	1	1,389
Net income after dividends on preference stock	—	—	—	135	—	135
Issuance of common stock	—	175	—	—	—	175
Capital contributions from parent company	—	—	5	—	—	5
Other comprehensive income (loss)	—	—	—	—	(1)	(1)
Cash dividends on common stock	—	—	—	(165)	—	(165)
Other	—	—	—	(7)	—	(7)
Balance at December 31, 2017	**6**	**678**	**594**	**259**	**—**	**1,531**
Net income after dividends on preference stock	**—**	**—**	**—**	**160**	**—**	**160**
Capital contributions from parent company	**—**	**—**	**384**	**—**	**—**	**384**
Cash dividends on common stock	**—**	**—**	**—**	**(153)**	**—**	**(153)**
Other	**—**	**—**	**—**	**(1)**	**(1)**	**(2)**
Balance at December 31, 2018	**6**	**$ 678**	**$ 978**	**$ 265**	**$ (1)**	**$ 1,920**

The accompanying notes are an integral part of these financial statements.

Index to the Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Gulf Power Company (the Company) is a wholly-owned subsidiary of The Southern Company (Southern Company), which is the parent company of the Company (through December 31, 2018), Alabama Power Company (Alabama Power), Georgia Power Company (Georgia Power), and Mississippi Power Company (Mississippi Power) (collectively, the traditional electric operating companies), as well as Southern Power Company and its subsidiaries (Southern Power), Southern Company Gas and its subsidiaries (Southern Company Gas), Southern Company Services, Inc. (SCS), Southern Communications Services, Inc. (Southern Linc), Southern Company Holdings, Inc., Southern Nuclear Operating Company, Inc., PowerSecure, Inc., and other direct and indirect subsidiaries (collectively, the Southern Company system). The traditional electric operating companies are vertically integrated utilities providing electric service in four Southeastern states. The Company provides electric service to retail customers in northwest Florida and to wholesale customers in the Southeast.

The Company is subject to regulation by the Federal Energy Regulatory Commission (FERC) and the Florida Public Service Commission (PSC). As such, the Company's financial statements reflect the effects of rate regulation in accordance with U.S. generally accepted accounting principles (GAAP) and comply with the accounting policies and practices prescribed by its regulatory commissions. The preparation of financial statements in conformity with GAAP requires the use of estimates, and the actual results may differ from those estimates. Certain prior years' data presented in the financial statements have been reclassified to conform to the current year presentation.

On January 1, 2019, Southern Company completed the sale of all of the capital stock of the Company to 700 Universe, LLC, a wholly-owned subsidiary of NextEra Energy, Inc. (NextEra Energy) for an aggregate cash purchase price of approximately $5.8 billion (less $1.3 billion of indebtedness assumed), subject to customary working capital adjustments. Upon completion of the sale, the Company is no longer a subsidiary of Southern Company.

Recently Issued Accounting Standards

Revenue

In 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification 606, *Revenue from Contracts with Customers* (ASC 606), replacing the existing accounting standard and industry-specific guidance for revenue recognition with a five-step model for recognizing and measuring revenue from contracts with customers. The underlying principle of the standard is to recognize revenue to depict the transfer of goods or services to customers at the amount expected to be collected. ASC 606 became effective on January 1, 2018 and the Company adopted it using the modified retrospective method applied to open contracts and only to the version of contracts in effect as of January 1, 2018. In accordance with the modified retrospective method, the Company's previously issued financial statements have not been restated to comply with ASC 606 and the Company did not have a cumulative-effect adjustment to retained earnings. The adoption of ASC 606 had no significant impact on the timing of revenue recognition compared to previously reported results; however, it requires enhanced disclosures regarding the nature, amount, timing, and uncertainty of revenue and the related cash flows arising from contracts with customers, which are included herein and in Note 11.

Other

In March 2017, the FASB issued Accounting Standards Update No. 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* (ASU 2017-07). ASU 2017-07 requires that an employer report the service cost component in the same line item or items as other compensation costs and requires the other components of net periodic pension and postretirement benefit costs to be separately presented in the statements of income outside of income from operations. Additionally, only the service cost component is eligible for capitalization, when applicable. The Company adopted ASU 2017-07 effective January 1, 2018 with no material impact on its financial statements. ASU 2017-07 has been applied retrospectively, with the service cost component of net periodic benefit costs included in operations and maintenance expenses and all other components of net periodic benefit costs included in other income (expense), net in the statements of income for all periods presented. The Company used the practical expedient provided by ASU 2017-07, which permits an employer to use the amounts disclosed in its retirement benefits note for prior comparative periods as the estimation basis for applying the retrospective presentation requirements to those periods. The amounts of the other components of net periodic benefit costs reclassified for the prior periods are presented in Note 2. The presentation changes resulted in a decrease in operating income and an increase in other income for the year ended December 31, 2017. The requirement to limit capitalization to the service cost component of net periodic benefit costs has been applied on a prospective basis from the date of adoption.

In August 2017, the FASB issued Accounting Standards Update No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities* (ASU 2017-12). ASU 2017-12 makes more financial and non-financial hedging strategies eligible for hedge accounting, amends the related presentation and disclosure requirements, and simplifies hedge effectiveness assessment requirements. ASU 2017-12 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company adopted ASU 2017-12 effective January 1, 2018 with no material impact on its financial statements. See Note 10 for disclosures required by ASU 2017-12.

On February 14, 2018, the FASB issued Accounting Standards Update No. 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* (ASU 2018-02) to address the application of Accounting Standards Codification 740, *Income Taxes* (ASC 740) to certain provisions of The Tax Cuts and Jobs Act, which became effective on January 1, 2018 (Tax Reform Legislation). ASU 2018-02 specifically addresses the ASC 740 requirement that the effect of a change in tax laws or rates on deferred tax assets and liabilities be included in income from continuing operations, even when the tax effects were initially recognized directly in other comprehensive income (OCI) at the previous rate, which strands the income tax rate differential in accumulated OCI (AOCI). The amendments in ASU 2018-02 allow a reclassification from accumulated OCI to retained earnings for stranded tax effects resulting from the Tax Reform Legislation. The Company adopted ASU 2018-02 effective January 1, 2018 with no material impact on its financial statements.

Affiliate Transactions

The Company has an agreement with SCS under which the following services are rendered to the Company at direct or allocated cost: general and design engineering, operations, purchasing, accounting, finance, treasury, tax, information technology, marketing, auditing, insurance and pension administration, human resources, systems and procedures, digital wireless communications, and other services with respect to business and operations, construction management, and transactions under the operating arrangement whereby the integrated generating resources of the traditional electric operating companies and Southern Power (excluding subsidiaries) are subject to joint commitment and dispatch in order to serve their combined load obligations (power pool). Costs for these services amounted to $94 million and $81 million during 2018 and 2017, respectively. Cost allocation methodologies used by SCS prior to the repeal of the Public Utility Holding Company Act of 1935, as amended, were approved by the U.S. Securities and Exchange Commission (SEC). Subsequently, additional cost allocation methodologies have been reported to the FERC and management believes they are reasonable. The FERC permits services to be rendered at cost by system service companies. See Note 7 under "Operating Leases" for information on leases of cellular tower space for the Company's digital wireless communications equipment.

The Company has operating agreements with Georgia Power and Mississippi Power under which the Company owns a portion of Plant Scherer and Plant Daniel, respectively. Georgia Power operates Plant Scherer and Mississippi Power operates Plant Daniel. The Company reimbursed Georgia Power $8 million and $11 million in 2018 and 2017, respectively, and Mississippi Power $31 million in each of 2018 and 2017 for its proportionate share of related expenses. See Note 4 and Note 7 under "Operating Leases" for additional information.

Total power purchased from affiliates through the power pool, included in purchased power in the statements of income, totaled $17 million and $15 million in 2018 and 2017, respectively.

The Company has an agreement with Alabama Power under which Alabama Power made transmission system upgrades to ensure firm delivery of energy under a non-affiliate power purchase agreement (PPA) from a combined cycle plant located in Alabama. Payments by the Company to Alabama Power for the improvements were $11 million in each of 2018 and 2017 and are expected to be approximately $10 million annually for 2019 through 2023, when the PPA expires. These costs have been approved for recovery by the Florida PSC through the Company's purchased power capacity cost recovery clause and by the FERC in the transmission facilities cost allocation tariff.

The Company provides incidental services to and receives such services from other Southern Company subsidiaries which are generally minor in duration and amount. However, the Company received storm restoration assistance from other Southern Company subsidiaries totaling $44 million in 2018. See Note 3 under "Retail Regulatory Matters – Storm Damage Cost Recovery" for additional information on Hurricane Michael impacts.

The traditional electric operating companies, including the Company, and Southern Power, may jointly enter into various types of wholesale energy, natural gas, and certain other contracts, either directly or through SCS, as agent. Each participating company may be jointly and severally liable for the obligations incurred under these agreements. See Note 7 under "Fuel and Purchased Power Agreements" for additional information.

Regulatory Assets and Liabilities

The Company is subject to accounting requirements for the effects of rate regulation. Regulatory assets represent probable future revenues associated with certain costs that are expected to be recovered from customers through the ratemaking process. Regulatory liabilities represent probable future reductions in revenues associated with amounts that are expected to be credited to customers through the ratemaking process.

Regulatory assets and (liabilities) reflected in the balance sheets at December 31 relate to:

	2018	2017	Note
	(in millions)		
Property damage reserve	**$ 255**	$ (40)	(a)
Retiree benefit plans, net	**160**	166	(b,c)
PPA charges	**97**	119	(d,c)
Closure of ash ponds	**91**	80	(e,c)
Remaining book value of retired assets	**60**	65	(f)
Environmental remediation	**48**	52	(e,c)
Deferred income tax charges	**30**	31	(g)
Deferred return on transmission upgrades	**25**	25	(f)
Loss on reacquired debt	**15**	17	(h)
Asset retirement obligations, net	**18**	13	(g,c)
Other regulatory assets, net	**9**	36	(i)
Fuel-hedging assets, net	**6**	21	(j,c)
Deferred income tax credits	**(382)**	(458)	(k)
Other cost of removal obligations	**(211)**	(221)	(g)
Over recovered regulatory clause revenues	**(48)**	(11)	(l)
Total regulatory assets (liabilities), net	**$ 173**	$ (105)	

Note: The recovery and amortization periods for these regulatory assets and (liabilities) are as follows:

(a) Recovery is expected to be determined by the Florida PSC in connection with a petition filed on February 26, 2019. See "Property Damage Reserve" herein and Note 3 for additional information.

(b) Recovered and amortized over the average remaining service period, which may range up to 14 years. See Note 2 for additional information.

(c) Not earning a return as offset in rate base by a corresponding asset or liability.

(d) Recovered over the life of the PPA for periods up to five years.

(e) Recovered through the environmental cost recovery clause when the remediation or the work is performed.

(f) Recorded and recovered or amortized as approved by the Florida PSC with remaining periods up to 39 years.

(g) Asset retirement and removal assets and liabilities are recorded, and deferred income tax assets are recorded, recovered, and amortized, over the remaining property lives, which may range up to 47 years. Asset retirement and removal assets and liabilities will be settled and trued up following completion of the related activities.

(h) Recovered over either the remaining life of the original issue or, if refinanced, over the life of the new issue, which may range up to 40 years.

(i) Comprised primarily of vacation pay and under recovered regulatory clause revenues. Other regulatory assets costs, with the exception of vacation pay, are recorded and recovered or amortized as approved by the Florida PSC. Vacation pay, including banked holiday pay, does not earn a return as offset in rate base by a corresponding liability; it is recorded as earned by employees and recovered as paid, generally within one year.

(j) Fuel-hedging assets and liabilities are recorded over the life of the underlying hedged purchase contracts, which currently do not exceed two years. Upon final settlement, actual costs incurred are recovered through the fuel cost recovery clause.

(k) Deferred income tax liabilities are amortized over the remaining property lives, which may range up to 47 years. Includes the deferred tax liabilities as a result of the Tax Reform Legislation. See Notes 3 and 5 for additional information.

(l) Recorded and recovered or amortized as approved by the Florida PSC, generally within one year.

In the event that a portion of the Company's operations is no longer subject to applicable accounting rules for rate regulation, the Company would be required to write off to income or reclassify to accumulated OCI related regulatory assets and liabilities that are not specifically recoverable through regulated rates. In addition, the Company would be required to determine if any impairment to other assets, including plant, exists and write down the assets, if impaired, to their fair values. All regulatory assets and liabilities are to be reflected in rates. See Note 3 under "Retail Regulatory Matters" for additional information.

Revenues

The Company generates revenues from a variety of sources which are accounted for under various revenue accounting guidance, including ASC 606, lease, derivative, and regulatory accounting. The Company has a diversified base of customers. No single customer or industry comprises 10% or more of revenues. The adoption of ASC 606 had no impact on the timing or amount of revenue recognized under previous guidance. See "Recently Adopted Accounting Standards – Revenue" herein and Note 11 for information regarding the Company's adoption of ASC 606 and related disclosures.

The majority of the revenues of the Company are generated from contracts with retail electric customers. Retail revenues recognized under ASC 606 are consistent with prior revenue recognition policies. These revenues, generated from the integrated service to deliver electricity when and if called upon by the customer, are recognized as a single performance obligation satisfied over time, at a tariff rate, and as electricity is delivered to the customer during the month. Unbilled revenues related to retail sales are accrued at the end of each fiscal period. Retail rates may include provisions to adjust billings for fluctuations in fuel costs, the energy component of purchased power costs, and certain other costs. The Company continuously monitors the over or under recovered fuel cost balance in light of the inherent variability in fuel costs. The Company is required to notify the Florida PSC if the projected fuel cost over or under recovery is expected to exceed 10% of the projected fuel revenue applicable for the period and indicate if an adjustment to the fuel cost recovery factor is being requested. The Company has similar retail cost recovery clauses for energy conservation costs, purchased power capacity costs, and environmental compliance costs. Revenues are adjusted for differences between these actual costs and amounts billed in current regulated rates. Under or over recovered regulatory clause revenues are recorded in the balance sheets and are recovered from or returned to customers, respectively, through adjustments to the billing factors. Annually, the Company petitions for recovery of projected costs including any true-up amounts from prior periods, and approved rates are implemented each January. See Note 3 for additional information regarding regulatory matters of the Company.

Wholesale capacity revenues from PPAs are recognized either on a levelized basis over the appropriate contract period or the amount billable under the contract terms. Energy and other revenues are generally recognized as services are provided. The accounting for these revenues under ASC 606 is consistent with prior revenue recognition policies. The contracts for capacity and energy in a wholesale PPA have multiple performance obligations where the contract's total transaction price is allocated to each performance obligation based on the standalone selling price. The standalone selling price is primarily determined by the price charged to customers for the specific goods or services transferred with the performance obligations. The Company recognizes revenue as the performance obligations are satisfied over time, as electricity is delivered to the customer, or as generation capacity is available to the customer.

For both retail and wholesale revenues, the Company generally has a right to consideration in an amount that corresponds directly with the value to the customer of the entity's performance completed to date and may recognize revenue in the amount to which the entity has a right to invoice and has elected to recognize revenue for its sales of electricity and capacity using the invoice practical expedient. In addition, payment for goods and services rendered is typically due in the subsequent month following satisfaction of the Company's performance obligation.

Fuel Costs

Fuel costs are expensed as the fuel is used. Fuel expense generally includes fuel transportation costs and the cost of purchased emissions allowances as they are used. Fuel expense and emissions allowance costs are recovered by the Company through the fuel cost recovery and environmental cost recovery rates, respectively, approved annually by the Florida PSC.

Income Taxes

The Company uses the liability method of accounting for deferred income taxes and provides deferred income taxes for all significant income tax temporary differences. Federal investment tax credits (ITC) utilized are deferred and amortized to income over the average life of the related property and state ITCs are recognized in the period in which the credit is claimed on the state income tax return.

The Company recognizes tax positions that are "more likely than not" of being sustained upon examination by the appropriate taxing authorities. See Note 5 under "Unrecognized Tax Benefits" for additional information.

Other Taxes

Taxes imposed on and collected from customers on behalf of governmental agencies are presented net on the Company's statements of income and are excluded from the transaction price in determining the revenue related to contracts with a customer accounted for under ASC 606.

Property, Plant, and Equipment

Property, plant, and equipment is stated at original cost less any regulatory disallowances and impairments. Original cost includes: materials; labor; minor items of property; appropriate administrative and general costs; payroll-related costs such as taxes, pensions, and other benefits; and the interest capitalized and cost of equity funds used during construction.

The Company's property, plant, and equipment in service consisted of the following at December 31:

	2018	2017
	(in millions)	
Generation	**$ 3,064**	$ 3,005
Transmission	**737**	720
Distribution	**1,385**	1,282
General	**204**	188
Plant acquisition adjustment	**1**	1
Total plant in service	**$ 5,391**	$ 5,196

The cost of replacements of property, exclusive of minor items of property, is capitalized. The cost of maintenance, repairs, and replacement of minor items of property is charged to other operations and maintenance expenses as incurred or performed.

Depreciation and Amortization

Depreciation of the original cost of utility plant in service is provided primarily by using composite straight-line rates, which approximated 3.7% for all years presented. Depreciation studies are conducted periodically to update the composite rates. These studies are approved by the Florida PSC and the FERC. When property, plant, and equipment subject to composite depreciation is retired or otherwise disposed of in the normal course of business, its original cost, together with the cost of removal, less salvage, is charged to accumulated depreciation. For other property dispositions, the applicable cost and accumulated depreciation are removed from the balance sheet accounts, and a gain or loss is recognized. Minor items of property included in the original cost of the asset are retired when the related property unit is retired. As authorized in a settlement agreement approved by the Florida PSC in 2013, the Company reduced depreciation and recorded a regulatory asset totaling $62.5 million between January 2014 and June 2017. See Note 3 under "Retail Regulatory Matters – Retail Base Rate Cases" for additional information.

Asset Retirement Obligations and Other Costs of Removal

Asset retirement obligations (AROs) are computed as the present value of the estimated costs for an asset's future retirement and are recorded in the period in which the liability is incurred. The estimated costs are capitalized as part of the related long-lived asset and depreciated over the asset's useful life. In the absence of quoted market prices, AROs are estimated using present value techniques in which estimates of future cash outlays associated with the asset retirements are discounted using a credit-adjusted risk-free rate. Estimates of the timing and amounts of future cash outlays are based on projections of when and how the assets will be retired and the cost of future removal activities. The Company has received an order from the Florida PSC allowing the continued accrual of other future retirement costs for long-lived assets that the Company does not have a legal obligation to retire. Accordingly, the accumulated removal costs for these obligations are reflected in the balance sheets as a regulatory liability.

The liability for AROs primarily relates to facilities that are subject to the Disposal of Coal Combustion Residuals from Electric Utilities final rule published by the U.S. Environmental Protection Agency (EPA) in 2015 (CCR Rule), principally ash ponds, and to the closure of an ash pond at Plant Scholz. In addition, the Company has retirement obligations related to combustion turbines at its Pea Ridge facility, various landfill sites, a barge unloading dock, asbestos removal, and disposal of polychlorinated biphenyls in certain transformers.

The Company also has identified retirement obligations related to certain transmission and distribution facilities, certain wireless communication towers, and certain structures authorized by the U.S. Army Corps of Engineers. However, liabilities for the removal of these assets have not been recorded because the settlement timing for the retirement obligations related to these assets is indeterminable and, therefore, the fair value of the retirement obligations cannot be reasonably estimated. A liability for these retirement obligations will be recognized when sufficient information becomes available to support a reasonable estimation of the ARO.

The Company will continue to recognize in the statements of income allowed removal costs in accordance with its regulatory treatment. Any differences between costs recognized in accordance with accounting standards related to asset retirement and

environmental obligations and those reflected in rates are recognized as either a regulatory asset or liability, as ordered by the Florida PSC, and are reflected in the balance sheets.

Details of the AROs included on the balance sheets are as follows:

	2018	2017
	(in millions)	
Balance at beginning of year	**$ 142**	$ 136
Liabilities settled	**(32)**	(8)
Accretion	**2**	2
Cash flow revisions	**57**	12
Balance at end of year	**$ 169**	$ 142

In 2018, the Company recorded an increase of approximately $57 million primarily related to its AROs subject to the CCR Rule, including an increase of approximately $46 million related to closure of an ash pond at Plant Smith. The revised cost estimates were based on detailed design quantities and costs and reflect the estimated amount of ash to be excavated and water management requirements necessary to support closure. These factors also impact the timing of future cash outlays.

In December 2018, the Company also recorded an increase of approximately $15 million related to Plant Scherer Unit 3. During the second half of 2018, Georgia Power completed a strategic assessment related to its plans to close the ash ponds at all its generating plants, including Plant Scherer Unit 3, which is jointly owned with the Company, in compliance with the CCR Rule and the related state of Georgia rule. This assessment included engineering and constructability studies related to design assumptions for ash pond closures and advanced engineering methods. The results indicated that additional closure costs will be required to close these ash ponds primarily due to changes in closure strategies, the estimated amount of ash to be excavated, and additional water management requirements to support closure strategies. These factors also impact the timing of future cash outlays.

These increases were partially offset by a decrease of approximately $4 million primarily related to the closure of an ash pond at Plant Scholz.

The cost estimates for AROs related to coal combustion residuals are based on information as of December 31, 2018 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 requirements for closure for those facilities impacted by the CCR Rule. The Company expects to continue to periodically update these cost estimates, which could increase further, as additional information becomes available. Absent continued recovery of ARO costs through regulated rates, the Company's results of operations, cash flows, and financial condition could be materially impacted. The ultimate outcome of this matter cannot be determined at this time.

Allowance for Funds Used During Construction

The Company records allowance for funds used during construction (AFUDC), which represents the estimated debt and equity costs of capital funds that are necessary to finance the construction of new regulated facilities. While cash is not realized currently, AFUDC increases the revenue requirement and is recovered over the service life of the asset through a higher rate base and higher depreciation. The equity component of AFUDC is not taxable.

Impairment of Long-Lived Assets and Intangibles

The Company evaluates long-lived assets for impairment when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. The determination of whether an impairment has occurred is based on either a specific regulatory disallowance or an estimate of undiscounted future cash flows attributable to the assets, as compared with the carrying value of the assets. If an impairment has occurred, the amount of the impairment recognized is determined by either the amount of regulatory disallowance or by estimating the fair value of the assets and recording a loss if the carrying value is greater than the fair value. For assets identified as held for sale, the carrying value is compared to the estimated fair value less the cost to sell in order to determine if an impairment loss is required. Until the assets are disposed of, their estimated fair value is re-evaluated when circumstances or events change.

See Note 3 under "Retail Regulatory Matters – Retail Base Rate Cases" for information regarding a regulatory disallowance recorded in 2017.

Property Damage Reserve

The Company accrues for the cost of repairing damages from major storms and other uninsured property damages, including uninsured damages to transmission and distribution facilities, generation facilities, and other property. The costs of such damage are charged to the reserve. The Florida PSC approved annual accrual to the property damage reserve is $3.5 million, with a target level for the reserve between $48 million and $55 million. In accordance with a settlement agreement approved by the Florida PSC on April 4, 2017 (2017 Rate Case Settlement Agreement), the Company suspended further property damage reserve accruals effective April 2017. The Company may make discretionary accruals and is required to resume accruals of $3.5 million annually if the reserve falls below zero. The Company accrued total expenses of $28.2 million in 2018 and $3.5 million in 2017. As of December 31, 2018, the Company's property damage reserve had a deficit balance of approximately $255 million, of which $34 million and $221 million are included in property damage reserve and other regulatory assets, deferred on the balance sheet, respectively. As of December 31, 2017, the balance in the Company's property damage reserve totaled approximately $40 million, which is included in other regulatory liabilities, deferred on the balance sheet.

When the property damage reserve is inadequate to cover the cost of major storms, the Florida PSC can authorize a storm cost recovery surcharge to be applied to customer bills. As authorized in the 2017 Rate Case Settlement Agreement, the Company may initiate a storm surcharge to recover costs associated with any tropical systems named by the National Hurricane Center or other catastrophic storm events that reduce the property damage reserve in the aggregate by approximately $31 million (75% of the April 1, 2017 balance) or more. The storm surcharge would begin, on an interim basis, 60 days following the filing of a cost recovery petition, would be limited to $4.00/month for a 1,000 kilowatt-hour residential customer unless the Company incurs in excess of $100 million in qualified storm recovery costs in a calendar year, and would replenish the property damage reserve to approximately $40 million. See Note 3 under "Retail Regulatory Matters – Retail Base Rate Cases" for information on a storm surcharge request related to Hurricane Michael.

Injuries and Damages Reserve

The Company is subject to claims and lawsuits arising in the ordinary course of business. As permitted by the Florida PSC, the Company accrues $1.6 million annually for the uninsured costs of injuries and damages. The Florida PSC has also given the Company the flexibility to increase its annual accrual above $1.6 million to the extent the balance in the reserve does not exceed $2 million and to defer expense recognition of liabilities greater than the balance in the reserve. The cost of settling claims is charged to the reserve. The injuries and damages reserve totaled $2.8 million and $2.1 million at December 31, 2018 and 2017, respectively, of which $1.6 million is included in other current liabilities each year. There were no liabilities in excess of the reserve balance at December 31, 2018 or 2017.

Long-Term Service Agreement

The Company has entered into a long-term service agreement (LTSA) for the purpose of securing maintenance support for a combined cycle generating unit at Plant Smith. The LTSA covers all planned inspections on the covered equipment, which generally includes the cost of all labor and materials. The LTSA also obligates the counterparty to cover the costs of unplanned maintenance on the covered equipment subject to limits and scope specified in the contract.

Payments made under the LTSA for the performance of any planned inspections or unplanned capital maintenance are recorded in the statements of cash flows as investing activities. Receipts of major parts into materials and supplies inventory prior to planned inspections are treated as noncash transactions in the statements of cash flows. Any payment made prior to the work being performed are recorded as prepayments in noncurrent assets on the balance sheets. At the time work is performed, an appropriate amount is transferred from the prepayment and recorded as property, plant, and equipment or expensed.

Cash and Cash Equivalents

For purposes of the financial statements, temporary cash investments are considered cash equivalents. Temporary cash investments are securities with original maturities of 90 or less.

Materials and Supplies

Materials and supplies generally includes the average cost of transmission, distribution, and generating plant materials. Materials are recorded to inventory when purchased and then expensed or capitalized to plant, as appropriate, at weighted average cost when installed.

Fuel Inventory

Fuel inventory includes the average cost of oil, natural gas, coal, transportation, and emissions allowances. Fuel is recorded to inventory when purchased and then expensed, at weighted average cost, as used. Fuel expense and emissions allowance costs are

recovered by the Company through the fuel cost recovery and environmental cost recovery rates, respectively, approved annually by the Florida PSC. Emissions allowances granted by the EPA are included in inventory at zero cost.

Financial Instruments

The Company uses derivative financial instruments to limit exposure to fluctuations in interest rates, the prices of certain fuel purchases, and electricity purchases and sales. All derivative financial instruments are recognized as either assets or liabilities on the balance sheets (included in "Other" or shown separately as "Risk Management Activities") and are measured at fair value. See Note 9 for additional information regarding fair value. Substantially all of the Company's bulk energy purchases and sales contracts that meet the definition of a derivative are excluded from fair value accounting requirements because they qualify for the "normal" scope exception, and are accounted for under the accrual method. Derivative contracts that qualify as cash flow hedges of anticipated transactions or are recoverable through the Florida PSC approved fuel-hedging program result in the deferral of related gains and losses in AOCI or regulatory assets and liabilities, respectively, until the hedged transactions occur. Any ineffectiveness arising from cash flow hedges is recognized currently in net income. Other derivative contracts that qualify as fair value hedges are marked to market through current period income and are recorded on a net basis in the statements of income. Cash flows from derivatives are classified on the statement of cash flows in the same category as the hedged item. The Florida PSC extended the moratorium on the Company's fuel-hedging program until January 1, 2021 in connection with the 2017 Rate Case Settlement Agreement. The moratorium does not have an impact on the recovery of existing hedges entered into under the previously-approved hedging program. See Note 10 for additional information regarding derivatives.

The Company offsets fair value amounts recognized for multiple derivative instruments executed with the same counterparty under a netting arrangement. The Company had no outstanding collateral repayment obligations or rights to reclaim collateral arising from derivative instruments recognized at December 31, 2018.

The Company is exposed to potential losses related to financial instruments in the event of counterparties' nonperformance. The Company has established risk management policies and controls to determine and monitor the creditworthiness of counterparties in order to mitigate the Company's exposure to counterparty credit risk.

Provision for Uncollectible Accounts

All customers of the Company are billed monthly. For the majority of receivables, a provision for uncollectible accounts is established based on historical collection experience and other factors. For the remaining receivables, if the Company is aware of a specific customer's inability to pay, a provision for uncollectible accounts is recorded to reduce the receivable balance to the amount reasonably expected to be collected. If circumstances change, the estimate of the recoverability of accounts receivable could change as well. Circumstances that could affect this estimate include, but are not limited to, customer credit issues, customer deposits, and general economic conditions. Customers' accounts are written off once they are deemed to be uncollectible. For all periods presented, uncollectible accounts averaged less than 1% of revenues.

Comprehensive Income

The objective of comprehensive income is to report a measure of all changes in common stock equity of an enterprise that result from transactions and other economic events of the period other than transactions with owners. Comprehensive income consists of net income, changes in the fair value of qualifying cash flow hedges, and reclassifications for amounts included in net income.

2. RETIREMENT BENEFITS

The Company has a qualified defined benefit, trusteed, pension plan covering substantially all employees. This qualified defined benefit pension plan is funded in accordance with requirements of the Employee Retirement Income Security Act of 1974, as amended (ERISA). No contributions to the qualified pension plan were made for the year ended December 31, 2018 and no mandatory contributions to the qualified pension plan are anticipated for the year ending December 31, 2019. The Company also provides certain non-qualified defined benefits for a select group of management and highly compensated employees, which are funded on a cash basis. In addition, the Company provides certain medical care and life insurance benefits for retired employees through other postretirement benefit plans. The Company funds its other postretirement trusts to the extent required by the FERC. For the year ending December 31, 2019, no other postretirement trust contributions are expected.

Actuarial Assumptions

The weighted average rates assumed in the actuarial calculations used to determine both the net periodic costs for the pension and other postretirement benefit plans for the following year and the benefit obligations as of the measurement date are presented below.

Assumptions used to determine net periodic costs:	2018	2017
Pension plans		
Discount rate – benefit obligations	**3.82%**	4.46%
Discount rate – interest costs	**3.48**	3.82
Discount rate – service costs	**3.98**	4.81
Expected long-term return on plan assets	**7.95**	7.95
Annual salary increase	**4.46**	4.46
Other postretirement benefit plans		
Discount rate – benefit obligations	**3.69%**	4.25%
Discount rate – interest costs	**3.30**	3.56
Discount rate – service costs	**3.90**	4.62
Expected long-term return on plan assets	**7.81**	7.81
Annual salary increase	**4.46**	4.46

Assumptions used to determine benefit obligations:	2018	2017
Pension plans		
Discount rate	**4.51%**	3.82%
Annual salary increase	**4.46**	4.46
Other postretirement benefit plans		
Discount rate	**4.37%**	3.69%
Annual salary increase	**4.46**	4.46

The Company estimates the expected rate of return on pension plan and other postretirement benefit plan assets using a financial model to project the expected return on each current investment portfolio. The analysis projects an expected rate of return on each of the different asset classes in order to arrive at the expected return on the entire portfolio relying on each trust's target asset allocation and reasonable capital market assumptions. The financial model is based on four key inputs: anticipated returns by asset class (based in part on historical returns), each trust's target asset allocation, an anticipated inflation rate, and the projected impact of a periodic rebalancing of each trust's portfolio.

An additional assumption used in measuring the accumulated other postretirement benefit obligations (APBO) was a weighted average medical care cost trend rate. The weighted average medical care cost trend rates used in measuring the APBO as of December 31, 2018 were as follows:

	Initial Cost Trend Rate	Ultimate Cost Trend Rate	Year That Ultimate Rate is Reached
Pre-65	6.50%	4.50%	2028
Post-65 medical	5.00	4.50	2028
Post-65 prescription	8.00	4.50	2028

An annual increase or decrease in the assumed medical care cost trend rate of 1% would affect the APBO and the service and interest cost components at December 31, 2018 as follows:

	1 Percent Increase	1 Percent Decrease
	(in millions)	
Benefit obligation	$ 2	$ 2
Service and interest costs	—	—

Pension Plans

The total accumulated benefit obligation for the pension plans was $481 million at December 31, 2018 and $524 million at December 31, 2017. Changes in the projected benefit obligations and the fair value of plan assets during the plan years ended December 31, 2018 and 2017 were as follows:

	2018	2017
	(in millions)	
Change in benefit obligation		
Benefit obligation at beginning of year	**$ 587**	$ 517
Service cost	**16**	13
Interest cost	**20**	19
Benefits paid	**(30)**	(20)
Actuarial (gain) loss	**(67)**	58
Balance at end of year	**526**	587
Change in plan assets		
Fair value of plan assets at beginning of year	**553**	491
Actual return (loss) on plan assets	**(40)**	81
Employer contributions	**9**	1
Benefits paid	**(30)**	(20)
Fair value of plan assets at end of year	**492**	553
Accrued liability	**$ (34)**	$ (34)

At December 31, 2018, the projected benefit obligations for the qualified and non-qualified pension plans were $515 million and $11 million, respectively. All pension plan assets are related to the qualified pension plan.

Amounts recognized in the balance sheets at December 31, 2018 and 2017 related to the Company's pension plans consist of the following:

	2018	2017
	(in millions)	
Other regulatory assets, deferred	**$ 164**	$ 160
Other current liabilities	**(1)**	(1)
Employee benefit obligations	**(33)**	(33)

Presented below are the amounts included in regulatory assets at December 31, 2018 and 2017 related to the defined benefit pension plans that had not yet been recognized in net periodic pension cost along with the estimated amortization of such amounts for 2019.

	2018	2017	Estimated Amortization in 2019
		(in millions)	
Prior service cost	**$ 2**	$ 2	**$ —**
Net (gain) loss	**162**	158	**5**
Regulatory assets	**$ 164**	$ 160	

The changes in the balance of regulatory assets related to the defined benefit pension plans for the years ended December 31, 2018 and 2017 are presented in the following table:

	2018	2017
	(in millions)	
Regulatory assets:		
Beginning balance	**$ 160**	$ 153
Net (gain) loss	**14**	15
Reclassification adjustments:		
Amortization of prior service costs	**—**	(1)
Amortization of net gain (loss)	**(10)**	(7)
Total reclassification adjustments	**(10)**	(8)
Total change	**4**	7
Ending balance	**$ 164**	$ 160

Components of net periodic pension cost were as follows:

	2018	2017
	(in millions)	
Service cost	**$ 16**	$ 13
Interest cost	**20**	19
Expected return on plan assets	**(40)**	(38)
Recognized net (gain) loss	**10**	7
Net amortization	**—**	1
Net periodic pension cost	**$ 6**	$ 2

Net periodic pension cost is the sum of service cost, interest cost, and other costs netted against the expected return on plan assets. The expected return on plan assets is determined by multiplying the expected rate of return on plan assets and the market-related value of plan assets. In determining the market-related value of plan assets, the Company has elected to amortize changes in the market value of all plan assets over five years rather than recognize the changes immediately. As a result, the accounting value of plan assets that is used to calculate the expected return on plan assets differs from the current fair value of the plan assets.

Future benefit payments reflect expected future service and are estimated based on assumptions used to measure the projected benefit obligation for the pension plans. At December 31, 2018, estimated benefit payments were as follows:

	Benefit Payments
	(in millions)
2019	$ 26
2020	26
2021	26
2022	27
2023	28
2024 to 2028	151

Other Postretirement Benefits

Changes in the APBO and in the fair value of plan assets during the plan years ended December 31, 2018 and 2017 were as follows:

	2018	2017
	(in millions)	
Change in benefit obligation		
Benefit obligation at beginning of year	**$ 83**	$ 83
Service cost	**1**	1
Interest cost	**3**	3
Benefits paid	**(4)**	(5)
Actuarial (gain) loss	**(14)**	1
Balance at end of year	**69**	83
Change in plan assets		
Fair value of plan assets at beginning of year	**20**	18
Actual return (loss) on plan assets	**(1)**	3
Employer contributions	**2**	4
Benefits paid	**(4)**	(5)
Fair value of plan assets at end of year	**17**	20
Accrued liability	**$ (52)**	$ (63)

Amounts recognized in the balance sheets at December 31, 2018 and 2017 related to the Company's other postretirement benefit plans consist of the following:

	2018	2017
	(in millions)	
Other regulatory assets, deferred	**$ —**	$ 8
Other current liabilities	**(1)**	(1)
Other regulatory liabilities, deferred	**(4)**	(2)
Employee benefit obligations	**(51)**	(62)

Approximately $(4) million and $6 million was included in net regulatory (liabilities) assets at December 31, 2018 and 2017, respectively, related to the net loss for the other postretirement benefit plans that had not yet been recognized in net periodic other postretirement benefit cost. The estimated amortization of such amounts for 2019 is immaterial.

The changes in the balance of net regulatory assets (liabilities) related to the other postretirement benefit plans for the plan years ended December 31, 2018 and 2017 are presented in the following table:

	2018	2017
	(in millions)	
Net regulatory assets (liabilities):		
Beginning balance	**$ 6**	$ 7
Net (gain) loss	**(10)**	(1)
Ending balance	**$ (4)**	$ 6

Components of the other postretirement benefit plans' net periodic cost were as follows:

	2018	2017
	(in millions)	
Service cost	**$ 1**	$ 1
Interest cost	**3**	3
Expected return on plan assets	**(2)**	(1)
Net periodic postretirement benefit cost	**$ 2**	$ 3

Future benefit payments, including prescription drug benefits, reflect expected future service and are estimated based on assumptions used to measure the APBO for the other postretirement benefit plans. Estimated benefit payments are reduced by drug subsidy receipts expected as a result of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 as follows:

	Benefit Payments	Subsidy Receipts	Total
		(in millions)	
2019	$ 6	$ —	$ 6
2020	5	—	5
2021	5	—	5
2022	5	—	5
2023	5	(1)	4
2024 to 2028	25	(2)	23

Benefit Plan Assets

Pension plan and other postretirement benefit plan assets are managed and invested in accordance with all applicable requirements, including ERISA and the Internal Revenue Code of 1986, as amended. The Company's investment policies for both the pension plan and the other postretirement benefit plans cover a diversified mix of assets, as described below. Derivative instruments may be used to gain efficient exposure to the various asset classes and as hedging tools. The Company minimizes the risk of large losses primarily through diversification but also monitors and manages other aspects of risk.

The composition of the Company's pension plan and other postretirement benefit plan assets as of December 31, 2018 and 2017, along with the targeted mix of assets for each plan, is presented below:

	Target	**2018**	2017
Pension plan assets:			
Domestic equity	26%	**28%**	31%
International equity	25	**25**	25
Fixed income	23	**24**	24
Special situations	3	**1**	1
Real estate investments	14	**15**	13
Private equity	9	**7**	6
Total	100%	**100%**	100%
Other postretirement benefit plan assets:			
Domestic equity	25%	**27%**	30%
International equity	24	**24**	24
Domestic fixed income	25	**26**	26
Special situations	3	**1**	1
Real estate investments	14	**15**	13
Private equity	9	**7**	6
Total	100%	**100%**	100%

The investment strategy for plan assets related to the Company's qualified pension plan is to be broadly diversified across major asset classes. The asset allocation is established after consideration of various factors that affect the assets and liabilities of the pension plan including, but not limited to, historical and expected returns and interest rates, volatility, correlations of asset classes, the current level of assets and liabilities, and the assumed growth in assets and liabilities. Because a significant portion of the liability of the pension plan is long-term in nature, the assets are invested consistent with long-term investment expectations for return and risk. To manage the actual asset class exposures relative to the target asset allocation, the Company employs a formal rebalancing program. As additional risk management, external investment managers and service providers are subject to written guidelines to ensure appropriate and prudent investment practices. Management believes the portfolio is well-diversified with no significant concentrations of risk.

Investment Strategies

Detailed below is a description of the investment strategies for each major asset category for the pension and other postretirement benefit plans disclosed above:

- ***Domestic equity.*** A mix of large and small capitalization stocks with generally an equal distribution of value and growth attributes, managed both actively and through passive index approaches.
- ***International equity.*** A mix of growth stocks and value stocks with both developed and emerging market exposure, managed both actively and through passive index approaches.
- ***Fixed income.*** A mix of domestic and international bonds.
- ***Special situations.*** Investments in opportunistic strategies with the objective of diversifying and enhancing returns and exploiting short-term inefficiencies as well as investments in promising new strategies of a longer-term nature.
- ***Real estate.*** Investments in traditional private market, equity-oriented investments in real properties (indirectly through pooled funds or partnerships) and in publicly traded real estate securities.
- ***Private equity.*** Investments in private partnerships that invest in private or public securities typically through privately-negotiated and/or structured transactions, including leveraged buyouts, venture capital, and distressed debt.

Benefit Plan Asset Fair Values

Following are the fair value measurements for the pension plan and the other postretirement benefit plan assets as of December 31, 2018 and 2017. The fair values presented are prepared in accordance with GAAP. For purposes of determining the fair value of the pension plan and other postretirement benefit plan assets and the appropriate level designation, management

relies on information provided by the plan's trustee. This information is reviewed and evaluated by management with changes made to the trustee information as appropriate.

Valuation methods of the primary fair value measurements disclosed in the following tables are as follows:

- ***Domestic and international equity.*** Investments in equity securities such as common stocks, American depositary receipts, and real estate investment trusts that trade on a public exchange are classified as Level 1 investments and are valued at the closing price in the active market. Equity funds with unpublished prices (i.e. pooled funds) are valued as Level 2, when the underlying holdings are comprised of Level 1 or Level 2 equity securities.
- ***Fixed income.*** Investments in fixed income securities are generally classified as Level 2 investments and are valued based on prices reported in the market place. Additionally, the value of fixed income securities takes into consideration certain items such as broker quotes, spreads, yield curves, interest rates, and discount rates that apply to the term of a specific instrument.
- ***Real estate, private equity, and special situations.*** Investments in real estate, private equity, and special situations are generally classified as Net Asset Value as a Practical Expedient, since the underlying assets typically do not have publicly available observable inputs. The fund manager values the assets using various inputs and techniques depending on the nature of the underlying investments. Techniques may include purchase multiples for comparable transactions, comparable public company trading multiples, discounted cash flow analysis, prevailing market capitalization rates, recent sales of comparable investments, and independent third-party appraisals. The fair value of partnerships is determined by aggregating the value of the underlying assets less liabilities.

The fair values of pension plan assets as of December 31, 2018 and 2017 are presented below. These fair values exclude cash, receivables related to investment income and pending investments sales, and payables related to pending investment purchases. The Company did not have any investments classified as Level 3 at December 31, 2018 or 2017.

	Fair Value Measurements Using			
At December 31, 2018:	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Net Asset Value as a Practical Expedient (NAV)**	**Total**
		(in millions)		
Assets:				
Domestic equity(*)	$ 89	$ 44	$ —	$ 133
International equity(*)	57	56	—	113
Fixed income:				
U.S. Treasury, government, and agency bonds	—	39	—	39
Corporate bonds	—	51	—	51
Pooled funds	—	28	—	28
Cash equivalents and other	11	—	—	11
Real estate investments	18	—	58	76
Special situations	—	—	7	7
Private equity	—	—	35	35
Total	$ 175	$ 218	$ 100	$ 493

(*) Level 1 securities consist of actively traded stocks while Level 2 securities consist of pooled funds.

At December 31, 2017:	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Net Asset Value as a Practical Expedient (NAV)	Total
		(in millions)		
Assets:				
Domestic equity(*)	$ 112	$ 54	$ —	$ 166
International equity(*)	72	65	—	137
Fixed income:				
U.S. Treasury, government, and agency bonds	—	39	—	39
Corporate bonds	—	57	—	57
Pooled funds	—	30	—	30
Cash equivalents and other	10	—	—	10
Real estate investments	22	—	55	77
Special situations	—	—	8	8
Private equity	—	—	31	31
Total	$ 216	$ 245	$ 94	$ 555

(*) Level 1 securities consist of actively traded stocks while Level 2 securities consist of pooled funds.

The fair values of other postretirement benefit plan assets as of December 31, 2018 and 2017 are presented below. These fair value measurements exclude cash, receivables related to investment income and pending investments sales, and payables related to pending investment purchases. The Company did not have any investments classified as Level 3 at December 31, 2018 or 2017.

At December 31, 2018:	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Net Asset Value as a Practical Expedient (NAV)	Total
		(in millions)		
Assets:				
Domestic equity(*)	$ 3	$ 2	$ —	$ 5
International equity(*)	2	2	—	4
Fixed income:				
U.S. Treasury, government, and agency bonds	—	1	—	1
Corporate bonds	—	2	—	2
Pooled funds	—	1	—	1
Cash equivalents and other	1	—	—	1
Real estate investments	1	—	2	3
Private equity	—	—	1	1
Total	$ 7	$ 8	$ 3	$ 18

(*) Level 1 securities consist of actively traded stocks while Level 2 securities consist of pooled funds.

At December 31, 2017:	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Net Asset Value as a Practical Expedient (NAV)	Total
		(in millions)		
Assets:				
Domestic equity(*)	$ 4	$ 2	$ —	$ 6
International equity(*)	2	2	—	4
Fixed income:				
U.S. Treasury, government, and agency bonds	—	1	—	1
Corporate bonds	—	2	—	2
Pooled funds	—	1	—	1
Cash equivalents and other	1	—	—	1
Real estate investments	1	—	2	3
Private equity	—	—	1	1
Total	$ 8	$ 8	$ 3	$ 19

(*) Level 1 securities consist of actively traded stocks while Level 2 securities consist of pooled funds.

Employee Savings Plan

The Company also sponsors a 401(k) defined contribution plan covering substantially all employees and provides matching contributions up to specified percentages of an employee's eligible pay. Total matching contributions made to the plan for 2018 and 2017 were $5 million each year.

3. CONTINGENCIES AND REGULATORY MATTERS

General Litigation Matters

The Company is subject to certain claims and legal actions arising in the ordinary course of business. In addition, the Company's business activities are subject to extensive governmental regulation related to public health and the environment, such as laws and regulations governing air, water, land, and protection of other natural resources. Litigation over environmental issues and claims of various types, including property damage, personal injury, common law nuisance, and citizen enforcement of environmental laws and regulations has occurred throughout the U.S. This litigation has included claims for damages alleged to have been caused by carbon dioxide and other emissions, CCR, and alleged exposure to hazardous materials, and/or requests for injunctive relief in connection with such matters.

The ultimate outcome of such pending or potential litigation against the Company cannot be predicted at this time; however, for current proceedings not specifically reported herein, management does not anticipate that the ultimate liabilities, if any, arising from such current proceedings would have a material effect on the Company's financial statements.

Environmental Matters

Environmental Remediation

The Company must comply with environmental laws and regulations governing the handling and disposal of waste and releases of hazardous substances. Under these various laws and regulations, the Company could incur substantial costs to clean up affected sites. The Company received authority from the Florida PSC to recover approved environmental compliance costs through the environmental cost recovery clause. The Florida PSC reviews costs and adjusts rates up or down annually.

The Company recognizes a liability for environmental remediation costs only when it determines a loss is probable and reasonably estimable. At December 31, 2018, the Company's environmental remediation liability included estimated costs of environmental remediation projects of approximately $48 million, of which approximately $4 million is included in other regulatory liabilities, current and other current liabilities and approximately $44 million is included in other regulatory assets, deferred and other deferred credits and liabilities. At December 31, 2017, the environmental remediation liability included

estimated costs of approximately $52 million, of which approximately $5 million is included in under recovered regulatory clause revenues and other current liabilities and approximately $47 million is included in other regulatory assets, deferred and other deferred credits and liabilities.

These estimated costs primarily relate to site closure criteria by the Florida Department of Environmental Protection (FDEP) for potential impacts to soil and groundwater from herbicide applications at the Company's substations. The schedule for completion of the remediation projects is subject to FDEP approval. The projects have been approved by the Florida PSC for recovery through the Company's environmental cost recovery clause; therefore, these liabilities have no impact on net income.

The ultimate outcome of these matters cannot be determined at this time; however, as a result of the regulatory treatment for environmental remediation expenses described above, the final disposition of these matters is not expected to have a material impact on the Company's financial statements.

FERC Matters

Open Access Transmission Tariff

On May 10, 2018, Alabama Municipal Electric Authority and Cooperative Energy filed with the FERC a complaint against SCS and the traditional electric operating companies (including the Company) claiming that the current 11.25% base return on equity (ROE) used in calculating the annual transmission revenue requirements of the traditional electric operating companies' (including the Company's) open access transmission tariff is unjust and unreasonable as measured by the applicable FERC standards. The complaint requested that the base ROE be set no higher than 8.65% and that the FERC order refunds for the difference in revenue requirements that results from applying a just and reasonable ROE established in this proceeding upon determining the current ROE is unjust and unreasonable. On June 18, 2018, SCS and the traditional electric operating companies (including the Company) filed their response challenging the adequacy of the showing presented by the complainants and offering support for the current ROE. On September 6, 2018, the FERC issued an order establishing a refund effective date of May 10, 2018 in the event a refund is due and initiating an investigation and settlement procedures regarding the current base ROE. Through December 31, 2018, the estimated maximum potential refund is not expected to be material to the Company's results of operations or cash flows. The ultimate outcome of this matter cannot be determined at this time.

Retail Regulatory Matters

The Company's rates and charges for service to retail customers are subject to the regulatory oversight of the Florida PSC. The Company's rates are a combination of base rates and several separate cost recovery clauses for specific categories of costs. These separate cost recovery clauses address such items as fuel and purchased energy costs, purchased power capacity costs, energy conservation and demand side management programs, and the costs of compliance with environmental laws and regulations. Costs not addressed through one of the specific cost recovery clauses are recovered through the Company's base rates.

Storm Damage Cost Recovery

See Note 1 under "Property Damage Reserve" for information on how the Company maintains a reserve for property damage to cover the cost of damages from major storms to its transmission and distribution lines and the cost of uninsured damages to its generating facilities and other property.

On October 10, 2018, Hurricane Michael made landfall on the Gulf Coast of Florida causing substantial damage in the Company's service territory. The Company estimates the cost of repairing the damages to its transmission and distribution lines and uninsured facilities will total approximately $425 million to $450 million, which primarily will be charged to the Company's property damage reserve or capitalized. As a result, the accumulated reserve had a deficit balance of approximately $255 million at December 31, 2018.

As authorized in the 2017 Rate Case Settlement Agreement, on February 6, 2019, the Company filed a petition with the Florida PSC requesting to recover approximately $342 million from its retail customers through a storm surcharge, which would also replenish the property damage reserve to approximately $40 million. The ultimate outcome of this matter cannot be determined at this time.

Retail Base Rate Cases

On April 4, 2017, the Florida PSC approved the 2017 Rate Case Settlement Agreement among the Company and three intervenors with respect to the Company's request in 2016 to increase retail base rates. Among the terms of the 2017 Rate Case Settlement Agreement, the Company increased rates effective with the first billing cycle in July 2017 to provide an annual overall net customer impact of approximately $54.3 million. The net customer impact consisted of a $62.0 million increase in annual base revenues, less an annual purchased power capacity cost recovery clause credit for certain wholesale revenues of approximately $8

million through December 2019. In addition, the Company continued its authorized retail ROE midpoint (10.25%) and range (9.25% to 11.25%), is deemed to have a maximum equity ratio of 52.5% for all retail regulatory purposes, and implemented new dismantlement accruals effective July 1, 2017. The Company also began amortizing the regulatory asset associated with the investment balances remaining after the retirement of Plant Smith Units 1 and 2 (357 megawatts) over 15 years effective January 1, 2018 and implemented new depreciation rates effective January 1, 2018. The 2017 Rate Case Settlement Agreement also resulted in a $32.5 million write-down of the Company's ownership of Plant Scherer Unit 3 (205 megawatts), which was recorded in the first quarter 2017.

As a continuation of the 2017 Rate Case Settlement Agreement, on March 26, 2018, the Florida PSC approved a stipulation and settlement agreement among the Company and three intervenors addressing the retail revenue requirement effects of the Tax Reform Legislation (Tax Reform Settlement Agreement). The Tax Reform Settlement Agreement resulted in an annual reduction to the Company's revenues of $18.2 million from base rates and $15.6 million from environmental cost recovery rates beginning April 1, 2018 and also provided for a one-time refund of $69.4 million for the retail portion of unprotected (not subject to normalization) deferred tax liabilities through a reduced fuel cost recovery rate over the remainder of 2018. As a result of the Tax Reform Settlement Agreement, the Florida PSC also approved an increase in the Company's maximum equity ratio from 52.5% to 53.5% for all retail regulatory purposes.

On October 30, 2018, the Florida PSC approved a $9.6 million annual reduction in base rate revenues effective January 2019 following a limited scope proceeding in connection with the Tax Reform Settlement Agreement to address protected deferred tax liabilities consistent with Internal Revenue Service (IRS) normalization principles. At December 31, 2018, the Company had deferred $8 million of related 2018 tax benefits as a regulatory liability to be refunded to retail customers in 2019 through the Company's fuel cost recovery rate.

Cost Recovery Clauses

On November 5, 2018, the Florida PSC approved the Company's annual clause rate request for its fuel, purchased power capacity, environmental, and energy conservation cost recovery factors for 2019. The net effect of the approved changes is a $38 million decrease in annual revenues effective in January 2019, the majority of which will be offset by related expense decreases.

Revenues for all cost recovery clauses, as recorded on the financial statements, are adjusted for differences in actual recoverable costs and amounts billed in current regulated rates. Accordingly, changes in the billing factor for fuel and purchased power will have no significant effect on the Company's revenues or net income, but will affect annual cash flow. The recovery provisions for environmental compliance and energy conservation include related expenses and a return on net average investment.

Retail Fuel Cost Recovery

The Company has established fuel cost recovery rates as approved by the Florida PSC. If, at any time during the year, the projected year-end fuel cost over or under recovery balance exceeds 10% of the projected fuel revenue applicable for the period, the Company is required to notify the Florida PSC and indicate if an adjustment to the fuel cost recovery factor is being requested.

At December 31, 2018, the over recovered fuel balance was approximately $28 million, which is included in other regulatory liabilities, current on the balance sheet. At December 31, 2017, the under recovered fuel balance was approximately $22 million, which is included in under recovered regulatory clause revenues on the balance sheet.

Purchased Power Capacity Recovery

The Company has established purchased power capacity cost recovery rates as approved by the Florida PSC. If the projected year-end purchased power capacity cost over or under recovery balance exceeds 10% of the projected purchased power capacity revenue applicable for the period, the Company is required to notify the Florida PSC and indicate if an adjustment to the purchased power capacity cost recovery factor is being requested.

At December 31, 2018, the over recovered purchased power capacity balance was $2 million, which is included in other regulatory liabilities, current on the balance sheet. At December 31, 2017, the under recovered purchased power capacity balance was approximately $2 million, which is included in under recovered regulatory clause revenues on the balance sheet.

Environmental Cost Recovery

The Florida Legislature adopted legislation for an environmental cost recovery clause, which allows an electric utility to petition the Florida PSC for recovery of prudent environmental compliance costs that are not being recovered through base rates or any other recovery mechanism. Such environmental costs include operations and maintenance expenses, emissions allowance expense, depreciation, and a return on net average investment. This legislation also allows recovery of costs incurred as a result of

an agreement between the Company and the FDEP for the purpose of ensuring compliance with ozone ambient air quality standards adopted by the EPA.

Annually, the Company seeks recovery of projected costs including any true-up amounts from prior periods. At December 31, 2018, the over recovered environmental balance of approximately $15 million, along with the current portion of projected environmental expenditures, is included in other regulatory liabilities, current on the balance sheet.

At December 31, 2017, the over recovered environmental balance of approximately $11 million, along with the current portion of projected environmental expenditures of approximately $14 million, was included in under recovered regulatory clause revenues on the balance sheet.

Energy Conservation Cost Recovery

Every five years, the Florida PSC establishes new numeric conservation goals covering a 10-year period for utilities to reduce annual energy and seasonal peak demand using demand-side management programs. After the goals are established, utilities develop plans and programs to meet the approved goals. The costs for these programs are recovered through rates established annually in the energy conservation cost recovery (ECCR) clause.

At December 31, 2018, the over recovered ECCR balance was immaterial. At December 31, 2017, the under recovered ECCR balance was immaterial.

4. JOINT OWNERSHIP AGREEMENTS

The Company and Mississippi Power jointly own Plant Daniel Units 1 and 2, which together represent capacity of 1,000 megawatts. Plant Daniel is a generating plant located in Jackson County, Mississippi. In accordance with the operating agreement, Mississippi Power acts as the Company's agent with respect to the construction, operation, and maintenance of these units.

The Company and Georgia Power jointly own the 818-megawatt capacity Plant Scherer Unit 3. Plant Scherer is a generating plant located near Forsyth, Georgia. In accordance with the operating agreement, Georgia Power acts as the Company's agent with respect to the construction, operation, and maintenance of the unit.

At December 31, 2018, the Company's percentage ownership and investment in these jointly-owned facilities were as follows:

	Plant Scherer Unit 3 (coal)	Plant Daniel Units 1 & 2 (coal)
	(in millions)	
Plant in service	$ 392	$ 705
Accumulated depreciation	156	243
Construction work in progress	21	6
Company ownership	25%	50%

The Company's proportionate share of its plant operating expenses is included in the corresponding operating expenses in the statements of income and the Company is responsible for providing its own financing.

In conjunction with Southern Company's sale of the Company, Mississippi Power and the Company have committed to seek a restructuring of their 50% undivided ownership interests in Plant Daniel such that each of them would, after the restructuring, own 100% of a generating unit. On January 15, 2019, the Company provided notice to Mississippi Power that the Company will retire its share of the generating capacity of Plant Daniel on January 15, 2024. Mississippi Power has the option to purchase the Company's ownership interest for $1 on January 15, 2024, provided that Mississippi Power exercises the option no later than 120 days prior to that date. The ultimate outcome of these matters remains subject to Mississippi Power's decision with respect to its purchase option and applicable regulatory approvals, including the FERC and the Mississippi PSC, and cannot now be determined. See Note 1 under "General" for information regarding the sale of the Company.

5. INCOME TAXES

On behalf of the Company, Southern Company files a consolidated federal income tax return and various combined and separate state income tax returns. Under a joint consolidated income tax allocation agreement, each Southern Company subsidiary's current and deferred tax expense is computed on a stand-alone basis and no subsidiary is allocated more current expense than would be paid if it filed a separate income tax return. In accordance with IRS regulations, each company is jointly and severally liable for the federal tax liability.

Federal Tax Reform Legislation

Following the enactment of the Tax Reform Legislation, the SEC staff issued Staff Accounting Bulletin 118 – "Income Tax Accounting Implications of the Tax Cuts and Jobs Act" (SAB 118), which provided for a measurement period of up to one year from the enactment date to complete accounting under GAAP for the tax effects of the legislation. Due to the complex and comprehensive nature of the enacted tax law changes and their application under GAAP, the Company considered all amounts recorded in the financial statements as a result of the Tax Reform Legislation "provisional" as discussed in SAB 118 and subject to revision prior to filing its 2017 tax return in the fourth quarter 2018. As of December 31, 2018, the Company considered the measurement of impacts from the Tax Reform Legislation on deferred income tax assets and liabilities, primarily due to the impact of the reduction of the corporate income tax rate, to be complete.

However, the IRS continues to issue regulations that provide further interpretation and guidance on the law and each state's adoption of the provisions contained in the Tax Reform Legislation remains uncertain. The regulatory treatment of certain impacts of the Tax Reform Legislation is subject to the discretion of the FERC. The ultimate impact of this matter cannot be determined at this time. See Note 3 for additional information.

Current and Deferred Income Taxes

Details of income tax provisions are as follows:

	2018	2017
	(in millions)	
Federal -		
Current	**$ (26)**	$ 19
Deferred	**(2)**	58
	(28)	77
State -		
Current	**(1)**	(1)
Deferred	**9**	14
	8	13
Total	**$ (20)**	$ 90

The tax effects of temporary differences between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases, which give rise to deferred tax assets and liabilities, are as follows:

	2018	2017
	(in millions)	
Deferred tax liabilities-		
Accelerated depreciation	**$ 557**	$ 552
Property basis differences	**119**	105
Employee benefit obligations	**37**	38
Regulatory assets associated with employee benefit obligations	**42**	44
Regulatory assets associated with asset retirement obligations	**45**	38
Property damage reserve	**65**	—
Other	**26**	35
Total deferred income tax liabilities	**891**	812
Deferred tax assets-		
Federal effect of state deferred taxes	**41**	25
Employee benefit obligations	**61**	66
Other property differences	**81**	98
Asset retirement obligations	**45**	38
Deferred state tax assets	**12**	—
Other	**29**	48
Total deferred income tax assets	**269**	275
Net deferred income tax liabilities	**$ 622**	$ 537

The implementation of the Tax Reform Legislation significantly reduced accumulated deferred income taxes in 2017, partially offset by bonus depreciation provisions in the Protecting Americans from Tax Hikes Act. The Tax Reform Legislation also significantly reduced tax-related regulatory assets and increased tax-related regulatory liabilities.

The Company has tax-related regulatory assets (deferred income tax charges) and regulatory liabilities (deferred income tax credits). The regulatory assets are primarily attributable to tax benefits flowed through to customers in prior years, deferred taxes previously recognized at rates lower than the current enacted tax law, and taxes applicable to capitalized interest. The regulatory liabilities are primarily attributed to deferred taxes previously recognized at rates higher than the current enacted tax law. See Note 1 for the Company's related balances at December 31, 2018 and 2017.

At December 31, 2018, the Company had state of Florida net operating loss (NOL) carryfowards totaling approximately $224 million, resulting in a net deferred tax asset of approximately $10 million. The NOLs will begin expiring in 2036. The ultimate outcome of this matter cannot be determined at this time.

Effective Tax Rate

A reconciliation of the federal statutory income tax rate to the effective income tax rate is as follows:

	2018	2017
Federal statutory rate	**21.0%**	35.0%
State income tax, net of federal deduction	**4.4**	3.7
Non-deductible book depreciation	**0.5**	0.2
Flowback of excess deferred income taxes	**(39.4)**	—
Other	**(0.6)**	0.5
Effective income tax (benefit) rate	**(14.1)%**	39.4%

The Company's effective tax rate for 2018 varied significantly as compared to 2017 due to the 14% lower 2018 federal tax rate resulting from the Tax Reform Legislation and the flowback of excess deferred income taxes.

Unrecognized Tax Benefits

The Company has no material unrecognized tax benefits for the periods presented. The Company classifies interest on tax uncertainties as interest expense. Accrued interest for unrecognized tax benefits was immaterial and the Company did not accrue any penalties on uncertain tax positions.

It is reasonably possible that the amount of the unrecognized tax benefits could change within 12 months. New audit findings or settlements associated with ongoing audits could result in significant unrecognized tax benefits. At this time, a range of reasonably possible outcomes cannot be determined.

The IRS has finalized its audits of Southern Company's consolidated federal income tax returns through 2017. Southern Company is a participant in the Compliance Assurance Process of the IRS. The audits for the Company's state income tax returns have either been concluded, or the statute of limitations has expired, for years prior to 2015.

6. FINANCING

Securities Due Within One Year

At December 31, 2018 and 2017, the Company had no long-term debt due within one year.

Maturities through 2023 applicable to total long-term debt include $175 million in 2020, $141 million in 2022, and $33 million in 2023. There are no scheduled maturities in 2019 or 2021.

Senior Notes

At December 31, 2018 and 2017, the Company had a total of $990 million of senior notes outstanding. These senior notes are effectively subordinate to all secured debt of the Company, which totaled approximately $41 million at both December 31, 2018 and 2017.

Pollution Control Revenue Bonds

Pollution control revenue bond obligations represent loans to the Company from public authorities of funds derived from sales by such authorities of revenue bonds issued to finance pollution control and solid waste disposal facilities. The Company is required to make payments sufficient for the authorities to meet principal and interest requirements of such bonds. The amount of tax-exempt pollution control revenue bond obligations outstanding at December 31, 2018 and 2017 was $309 million.

Outstanding Classes of Capital Stock

The Company has preferred stock, Class A preferred stock, preference stock, and common stock authorized. The Company's preferred stock and Class A preferred stock, without preference between classes, would rank senior to the Company's preference stock and common stock with respect to payment of dividends and voluntary or involuntary dissolution. No shares of preferred stock or Class A preferred stock were outstanding at December 31, 2018. The Company's preference stock would rank senior to the common stock with respect to the payment of dividends and voluntary or involuntary dissolution. No shares of preference stock were outstanding at December 31, 2018.

Dividend Restrictions

The Company can only pay dividends out of retained earnings or paid-in-capital.

Assets Subject to Lien

The Company has granted a lien on its property at Plant Daniel in connection with the issuance of two series of pollution control revenue bonds with an aggregate outstanding principal amount of $41 million as of December 31, 2018. There are no agreements or other arrangements among the Southern Company system companies under which the assets of one company have been pledged or otherwise made available to satisfy obligations of Southern Company or any of its subsidiaries.

Bank Credit Arrangements

At December 31, 2018, committed credit arrangements with banks were as follows:

Expires					Executable Term Loans		Expires Within One Year	
2019	2020	2021	Total	Unused	One Year	Two Years	Term Out	No Term Out
(in millions)			*(in millions)*		*(in millions)*		*(in millions)*	
$ 45	$ 235	$ —	$ 280	$ 280	$ 45	$ —	$ 45	$ —

In November 2018, the Company amended $20 million of its multi-year credit arrangements to extend the maturity dates from 2018 to 2019.

Most of the bank credit arrangements require payment of commitment fees based on the unused portion of the commitments. Commitment fees average less than $^1/_4$ of 1% for the Company.

Subject to applicable market conditions, the Company expects to renew or replace its bank credit arrangements as needed, prior to expiration. In connection therewith, the Company may extend the maturity dates and/or increase or decrease the lending commitments thereunder.

Most of these bank credit arrangements contain covenants that limit the Company's debt level to 65% of total capitalization, as defined in the arrangements. For purposes of these definitions, debt excludes certain hybrid securities. At December 31, 2018, the Company was in compliance with these covenants.

Most of the $280 million of unused credit arrangements with banks provide liquidity support to the Company's pollution control revenue bonds and commercial paper program. The amount of variable rate pollution control revenue bonds outstanding requiring liquidity support as of December 31, 2018 was approximately $82 million. In addition, at December 31, 2018, the Company had $58 million of fixed rate pollution control revenue bonds outstanding that were required to be remarketed within the next 12 months.

For short-term cash needs, the Company borrows primarily through a commercial paper program that has the liquidity support of the Company's committed bank credit arrangements described above. The Company may also borrow through various other arrangements with banks. Commercial paper and short-term bank loans are included in notes payable on the balance sheets. The Company had no short-term borrowings outstanding at December 31, 2018. At December 31, 2017 the Company had $45 million of commercial paper outstanding at a weighted average interest rate of 2.0%.

7. COMMITMENTS

Fuel and Purchased Power Agreements

To supply a portion of the fuel requirements of its generating plants, the Company has entered into various long-term commitments for the procurement and delivery of fossil fuel not recognized on the balance sheets. In 2018 and 2017, the Company incurred fuel expense of $421 million and $427 million, respectively, the majority of which was purchased under long-term commitments. The Company expects that a substantial amount of its future fuel needs will continue to be purchased under long-term commitments.

In addition, the Company has entered into various long-term commitments for the purchase of capacity, energy, and transmission, some of which are accounted for as operating leases. The energy-related costs associated with PPAs are recovered through the fuel cost recovery clause. The capacity and transmission-related costs associated with PPAs are recovered through the purchased power capacity cost recovery clause. Capacity expense under a PPA accounted for as an operating lease was $74 million for 2018 and $75 million for 2017.

Estimated total obligations under non-affiliate PPAs accounted for as operating leases at December 31, 2018 were as follows:

	(in millions)
2019	$ 79
2020	79
2021	79
2022	79
2023 and thereafter	33
Total	$ 349

SCS may enter into various types of wholesale energy and natural gas contracts acting as an agent for the Company and all of the other traditional electric operating companies and Southern Power. Under these agreements, each of the traditional electric operating companies and Southern Power may be jointly and severally liable. Accordingly, Southern Company has entered into keep-well agreements with the Company and each of the other traditional electric operating companies to ensure the Company will not subsidize or be responsible for any costs, losses, liabilities, or damages resulting from the inclusion of Southern Power as a contracting party under these agreements.

Operating Leases

In addition to the operating lease PPAs discussed above, the Company has entered into operating leases with Southern Linc and other third parties for the use of cellular tower space. These agreements have initial terms ranging from five to 10 years and renewal options of up to five years. The Company also has other operating lease agreements with various terms and expiration dates. Total lease payments were $10 million for each of 2018 and 2017. The Company excludes contingent rent but includes any step rents, fixed escalations, lease concessions, and lease extension to cover the expected life of the facility in the computation of minimum lease payments.

At December 31, 2018, estimated minimum lease payments under operating leases were as follows:

	Minimum Lease Payments		
	Affiliate Operating Leases[(a)]	Non-Affiliate Operating Leases[(b)]	Total
	(in millions)		
2019	$ 2	$ 2	$ 4
2020	2	1	3
2021	2	—	2
2022	2	—	2
2023	—	—	—
2024 and thereafter	4	—	4
Total	$ 12	$ 3	$ 15

(a) Includes operating leases for cellular tower space.

(b) Includes operating leases for barges, facilities, and other equipment.

The Company also has operating lease agreements for railcars, barges, and towboats for the transport of coal. The Company has the option to renew the leases at the end of the lease term. The Company's lease costs, charged to fuel inventory and recovered through the retail fuel cost recovery clause, were $6 million in 2018 and $7 million in 2017. The Company's annual barge and towboat payments for 2019 are expected to be approximately $1 million.

8. STOCK-BASED COMPENSATION

Stock-based compensation primarily in the form of Southern Company performance share units (PSU) and restricted stock units (RSU) may be granted through the Omnibus Incentive Compensation Plan to the Company's management employees. At December 31, 2018, there were 131 current and former employees participating in stock-based compensation programs.

Employees immediately vest in PSUs and RSUs upon retirement. As a result, compensation expense for employees that are retirement eligible at the grant date is recognized immediately, while compensation expense for employees that become retirement eligible during the vesting period is recognized over the period from grant date to the date of retirement eligibility. The

compensation cost related to the grant of Southern Company stock-based compensation to the Company's employees is recognized in the Company's financial statements with a corresponding credit to equity, representing a capital contribution from Southern Company. In addition, the Company recognizes forfeitures as they occur. The financial statement impact of the Company's stock-based compensation awards was immaterial for all periods presented. As of December 31, 2018, the unrecognized compensation cost of stock-based compensation awards was immaterial.

All unvested stock-based awards vest immediately upon a change in control where Southern Company is not the surviving corporation or in the event of a subsidiary change in control. In accordance with the change in control provisions of the Omnibus Incentive Compensation Plan, at the effective time of the sale of the Company on January 1, 2019, all active Company employees' unvested 2017 and 2018 granted stock-based awards vested at 100% of the target number of share units granted. In the first quarter 2019, all vested performance share and restricted stock units were paid in cash. Unexercised stock options of active Company employees at the time of sale will be exercisable through their original 10-year exercise period.

9. FAIR VALUE MEASUREMENTS

Fair value measurements are based on inputs of observable and unobservable market data that a market participant would use in pricing the asset or liability. The use of observable inputs is maximized where available and the use of unobservable inputs is minimized for fair value measurement and reflects a three-tier fair value hierarchy that prioritizes inputs to valuation techniques used for fair value measurement.

- Level 1 consists of observable market data in an active market for identical assets or liabilities.
- Level 2 consists of observable market data, other than that included in Level 1, that is either directly or indirectly observable.
- Level 3 consists of unobservable market data. The input may reflect the assumptions of the Company of what a market participant would use in pricing an asset or liability. If there is little available market data, then the Company's own assumptions are the best available information.

In the case of multiple inputs being used in a fair value measurement, the lowest level input that is significant to the fair value measurement represents the level in the fair value hierarchy in which the fair value measurement is reported.

At December 31, 2018 and 2017, assets and liabilities measured at fair value on a recurring basis during the period, together with their associated level of the fair value hierarchy, were as follows:

	Fair Value Measurements Using			
At December 31, 2018:	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
		(in millions)		
Liabilities:				
Energy-related derivatives	$ —	$ 6	$ —	$ 6

	Fair Value Measurements Using			
At December 31, 2017:	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
		(in millions)		
Assets:				
Cash equivalents	21	—	—	21
Liabilities:				
Energy-related derivatives	$ —	$ 21	$ —	$ 21

Valuation Methodologies

The energy-related derivatives primarily consist of exchange-traded and over-the-counter financial products for natural gas and physical power products, including, from time to time, basis swaps. These are standard products used within the energy industry

and are valued using the market approach. The inputs used are mainly from observable market sources, such as forward natural gas prices, power prices, implied volatility, and overnight index swap interest rates. Interest rate derivatives are also standard over-the-counter products that are valued using observable market data and assumptions commonly used by market participants. The fair value of interest rate derivatives reflects the net present value of expected payments and receipts under the swap agreement based on the market's expectation of future interest rates. Additional inputs to the net present value calculation may include the contract terms, counterparty credit risk, and occasionally, implied volatility of interest rate options. The interest rate derivatives are categorized as Level 2 under Fair Value Measurements as these inputs are based on observable data and valuations of similar instruments. See Note 10 for additional information on how these derivatives are used.

As of December 31, 2018 and 2017, other financial instruments for which the carrying amount did not equal fair value were as follows:

	Carrying Amount	Fair Value
	(in millions)	
Long-term debt:		
2018	**$ 1,286**	**$ 1,309**
2017	$ 1,285	$ 1,334

The fair values are determined using Level 2 measurements and are based on quoted market prices for the same or similar issues or on the current rates available to the Company.

10. DERIVATIVES

The Company is exposed to market risks, primarily commodity price risk and interest rate risk. To manage the volatility attributable to these exposures, the Company nets its exposures, where possible, to take advantage of natural offsets and may enter into various derivative transactions for the remaining exposures pursuant to the Company's policies in areas such as counterparty exposure and risk management practices. The Company's policy is that derivatives are to be used primarily for hedging purposes and mandates strict adherence to all applicable risk management policies. Derivative positions are monitored using techniques including, but not limited to, market valuation, value at risk, stress testing, and sensitivity analysis. Derivative instruments are recognized at fair value in the balance sheets as either assets or liabilities and are presented on a net basis. See Note 9 for additional information. In the statements of cash flows, any cash impacts of settled energy-related and interest rate derivatives are recorded as operating activities.

The Company adopted ASU 2017-12 as of January 1, 2018. See Note 1 under "Recently Adopted Accounting Standards – Other" for additional information.

Energy-Related Derivatives

The Company enters into energy-related derivatives to hedge exposures to electricity, natural gas, and other fuel price changes. However, due to cost-based rate regulations and other various cost recovery mechanisms, the Company has limited exposure to market volatility in energy-related commodity prices. The Company manages fuel-hedging programs, implemented per the guidelines of the Florida PSC, through the use of financial derivative contracts, which are expected to continue to mitigate price volatility. With respect to wholesale generating capacity, the Company has limited exposure to market volatility in energy-related commodity prices because long-term sales contracts shift substantially all fuel cost responsibility to the purchaser. However, the Company may be exposed to market volatility in energy-related commodity prices to the extent any uncontracted capacity is used to sell electricity. The Florida PSC approved a stipulation and agreement that prospectively imposed a moratorium on the Company's fuel-hedging program in October 2016 through December 31, 2017. In connection with the 2017 Rate Case Settlement Agreement, the Florida PSC extended the moratorium on the Company's fuel-hedging program until January 1, 2021. The moratorium does not have an impact on the recovery of existing hedges entered into under the previously-approved hedging program.

Energy-related derivative contracts are accounted for under one of three methods:

- *Regulatory Hedges* — Energy-related derivative contracts which are designated as regulatory hedges relate primarily to the Company's fuel-hedging programs, where gains and losses are initially recorded as regulatory liabilities and assets, respectively, and then are included in fuel expense as the underlying fuel is used in operations and ultimately recovered through the fuel cost recovery clause.

- *Cash Flow Hedges* — Gains and losses on energy-related derivatives designated as cash flow hedges (which are mainly used to hedge anticipated purchases and sales) are initially deferred in AOCI before being recognized in the statements of income in the same period and in the same income statement line item as the earnings effect of the hedged transactions.
- *Not Designated* — Gains and losses on energy-related derivative contracts that are not designated or fail to qualify as hedges are recognized in the statements of income as incurred.

Some energy-related derivative contracts require physical delivery as opposed to financial settlement, and this type of derivative is both common and prevalent within the electric industry. When an energy-related derivative contract is settled physically, any cumulative unrealized gain or loss is reversed and the contract price is recognized in the respective line item representing the actual price of the underlying goods being delivered.

At December 31, 2018, the net volume of energy-related derivative contracts for natural gas positions totaled 6 million mmBtu (million British thermal units) for the Company, with the longest hedge date of 2020 over which it is hedging its exposure to the variability in future cash flows for forecasted transactions.

In addition to the volume discussed above, the Company enters into physical natural gas supply contracts that provide the option to sell back excess gas due to operational constraints. The maximum expected volume of natural gas subject to such a feature is 2 million mmBtu for the Company.

Interest Rate Derivatives

The Company may also enter into interest rate derivatives to hedge exposure to changes in interest rates. The derivatives employed as hedging instruments are structured to minimize ineffectiveness. Derivatives related to existing variable rate securities or forecasted transactions are accounted for as cash flow hedges where the derivatives' fair value gains or losses are recorded in OCI and are reclassified into earnings at the same time and presented in the same income statement line item as the earnings effect of the hedged transactions.

At December 31, 2018, there were no interest rate derivatives outstanding.

The estimated pre-tax gains related to interest rate derivatives that will be reclassified from accumulated OCI to interest expense for the 12-month period ending December 31, 2019 are immaterial. Deferred gains and losses related to interest rate derivatives are expected to be amortized into earnings through 2027.

Derivative Financial Statement Presentation and Amounts

The Company enters into derivative contracts that may contain certain provisions that permit intra-contract netting of derivative receivables and payables for routine billing and offsets related to events of default and settlements. The fair value amounts of derivative assets and liabilities in the balance sheets are presented net to the extent that there are netting arrangements or similar agreements with the counterparties.

At December 31, 2018 and 2017, all energy-related derivatives were designated as hedging instruments for regulatory purposes. The related fair values totaled $6 million and $21 million, respectively, at December 31, 2018 and 2017 and were reflected in the balance sheets as other current liabilities and other deferred credits and liabilities as follows:

	Other Current Liabilities	Other Deferred Credits and Liabilities	Total
		(in millions)	
December 31, 2018	**$ 6**	**— $**	**6**
December 31, 2017	$ 14	$ 7 $	21

Energy-related derivatives not designated as hedging instruments were immaterial at December 31, 2018 and 2017.

At December 31, 2018 and 2017, the pre-tax effects of unrealized derivative losses arising from energy-related derivative instruments designated as regulatory hedging instruments and deferred were as follows:

		Unrealized Losses	
Balance Sheet Location		**2018**	2017
		(in millions)	
Other regulatory assets, current	**$**	**(6)**	$ (14)
Other regulatory assets, deferred		**—**	(7)
Total energy-related derivative losses	**$**	**(6)**	$ (21)

For the years ended December 31, 2018 and 2017, the pre-tax effects of energy-related derivatives and interest rate derivatives designated as cash flow hedging instruments and energy-related derivatives not designated as hedging instruments on the statements of income were immaterial. Also, there was no material ineffectiveness recorded in earnings for any period presented.

Upon the adoption of ASU 2017-12, beginning in 2018, ineffectiveness was no longer separately measured and recorded in earnings. See Note 1 for additional information.

Contingent Features

The Company does not have any credit arrangements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade. There are certain derivatives that could require collateral, but not accelerated payment, in the event of various credit rating changes of certain affiliated companies. At December 31, 2018, the Company had no collateral posted with derivative counterparties to satisfy these arrangements.

At December 31, 2018, the fair value of derivative liabilities with contingent features was immaterial. However, because of joint and several liability features underlying these derivatives, the maximum potential collateral requirements arising from the credit-risk related contingent features, at a rating below BBB- and /or Baa3, were $3 million, and include certain agreements that could require collateral in the event that one or more Southern Company power pool participants has a credit rating change to below investment grade. Following the sale of the Company to NextEra Energy, the Company is continuing to participate in the Southern Company power pool for a defined transition period that, subject to certain potential adjustments, is scheduled to end on January 1, 2024.

Generally, collateral may be provided by a Southern Company guaranty, letter of credit, or cash. If collateral is required, fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral are not offset against fair value amounts recognized for derivatives executed with the same counterparty.

The Company is exposed to losses related to financial instruments in the event of counterparties' nonperformance. The Company only enters into agreements and material transactions with counterparties that have investment grade credit ratings by Moody's Investors Service, Inc. and S&P Global Ratings, a division of S&P Global Inc., or with counterparties who have posted collateral to cover potential credit exposure. The Company has also established risk management policies and controls to determine and monitor the creditworthiness of counterparties in order to mitigate the Company's exposure to counterparty credit risk.

The Company does not anticipate a material adverse effect on the financial statements as a result of counterparty nonperformance.

11. REVENUE FROM CONTRACTS WITH CUSTOMERS

The Company generates revenues from a variety of sources, some of which are excluded from the scope of ASC 606, such as leases, derivatives, and certain cost recovery mechanisms. See Note 1 under "Recently Adopted Accounting Standards – Revenue" for additional information on the adoption of ASC 606 for revenue from contracts with customers and under "Revenues" and "Other Taxes" for additional information on the revenue policies of the Company.

The following table disaggregates revenue sources for the year ended December 31, 2018:

		2018
Operating revenues		
Retail revenues[(a)]		
Residential	$	698
Commercial		379
Industrial		131
Other		5
Total retail electric revenues	$	1,213
Wholesale energy revenues[(b)]		160
Wholesale capacity revenues		26
Other revenues[(c)]		66
Total operating revenues	$	1,465

(a) Retail revenues include a net reduction of $60 million related to certain cost recovery mechanisms that are not accounted for as revenue under ASC 606. See Note 3 for additional information on cost recovery mechanisms.

(b) Wholesale revenues include $4 million accounted for as derivatives primarily related to physical energy sales in the wholesale electricity market. See Note 10 for additional information on energy-related derivative contracts.

(c) Other revenues includes $6 million of revenues not accounted for under ASC 606.

Remaining Performance Obligations

The Company has long-term contracts with customers in which revenues are recognized as performance obligations are satisfied over the contract term primarily related to PPAs whereby the Company provides electricity and generation capacity to a customer. The revenue recognized for the delivery of electricity is variable; however, certain PPAs include a fixed payment for fixed generation capacity over the term of the contract. At December 31, 2018, revenues from contracts with customers related to these remaining performance obligations totaling $22 million are expected to be recognized in 2019.

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APPENDIX C

OPINION OF FORMER BOND COUNSEL

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April 15, 2014

Mississippi Business Finance Corporation
Jackson, Mississippi

Edward D. Jones & Co., L.P.
St. Louis, Missouri

Gulf Power Company
Pensacola, Florida

The Bank of New York Mellon Trust Company, N.A., as trustee
Atlanta, Georgia

Re: $29,075,000 Mississippi Business Finance Corporation Pollution Control Revenue Refunding Bonds, First Series 2014 (Gulf Power Company Project)

To the Addressees:

We have acted as Bond Counsel in connection with the issuance by the Mississippi Business Finance Corporation, a public body corporate and politic of the State of Mississippi (the "Issuer"), of $29,075,000 in aggregate principal amount of Mississippi Business Finance Corporation Pollution Control Revenue Refunding Bonds, First Series 2014 (Gulf Power Company Project) dated April 15, 2014 (the "Bonds"). We have examined the law and such certified proceedings, including a certified copy of the transcript of the validation proceeding concluded in the Chancery Court of the First Judicial District of Hinds County, Mississippi, with respect to the Bonds and certain other obligations, and other papers as we have deemed necessary to render this opinion. In all such examinations, we have assumed the genuineness of signatures on original documents and the conformity to original documents of all copies submitted to us as certified, conformed or photographic copies and, as to certificates of public officials, we have assumed the same to have been properly given and to be accurate.

The Bonds are being issued pursuant to Sections 57-10-201 et seq., Mississippi Code of 1972, as amended, and resolutions and actions of the Issuer adopted on August 8, 2012 and September 19, 2012 and are being sold pursuant to a Purchase Contract, dated April 8, 2014 (the "Purchase Contract"), between the Issuer and Edward D. Jones & Co., L.P. (the "Underwriter").

The proceeds of the Bonds are being loaned pursuant to a Loan Agreement, dated as of April 1, 2014 (the "Agreement"), between the Issuer, as lender, and Gulf Power Company, a Florida corporation (the "Company"), as borrower, for the purpose of refunding all of the outstanding Mississippi Business Finance Corporation Pollution Control Revenue Refunding Bonds, Series 2003 (Gulf Power Company Project) dated April 15, 2003 (the "Refunded Bonds"). The Refunded Bonds were issued for the purpose of refinancing the cost of the acquisition, construction, installation and equipping of the Company's interest in certain air and water pollution control facilities (collectively, the "Facilities") at the Victor J. Daniel, Jr. Steam Electric Generating Plant in Jackson County, Mississippi (the "Plant").

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The obligation of the Company to repay the loan made pursuant to the Agreement is evidenced by a promissory note, dated the date of this opinion (the "Note"), from the Company to the Issuer, under the terms of which the Company has agreed to make payments sufficient to provide for the payment of the principal of, redemption premium (if any) on and interest on, and the purchase price of, the Bonds as the same become due and payable. The Company has also agreed to pay certain administrative expenses in connection with the Bonds.

As security for the payment of the Bonds, the Issuer has, pursuant to a Trust Indenture, dated as of April 1, 2014 (the "Indenture"), between the Issuer and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), assigned to the Trustee and pledged to the payment of the principal of, redemption premium (if any) on and interest on the Bonds, the trust estate (the "Trust Estate") for the Bonds which includes all rights, title and interest of the Issuer in the Agreement (except for certain amounts payable to the Issuer with respect to indemnification and expenses) and the Note, as well as its rights with respect to the funds established under the Indenture.

As to questions of fact material to our opinion, we have relied upon (a) representations of the Issuer and the Company, (b) certified proceedings and other certifications of public officials furnished to us, (c) certifications by officials of the Company and (d) representations of the Company relating to the use of the proceeds of the Bonds and the obligations refunded thereby, the design, scope, function, cost and economic useful life of the Facilities and the relationship of the Facilities to the Plant, contained in certificates of the Company without undertaking to verify the same by independent investigation.

We express no opinion with respect to (a) the corporate status and good standing of the Company, (b) the corporate power of the Company to enter into the Agreement and the Note, (c) the authorization, execution and delivery of the Agreement and the Note by the Company and (d) the Agreement and the Note being binding and enforceable upon the Company. As to such matters, we refer you to the opinion of even date of Beggs & Lane, a Registered Limited Liability Partnership, General Counsel for the Company, and Troutman Sanders LLP, Atlanta, Georgia, counsel for the Company.

We have relied solely upon an opinion of even date of Balch & Bingham LLP, Jackson Mississippi, counsel to the Issuer, with respect to the filing of a UCC-1 financing statement covering the granting of a security interest under the Indenture in all rights, title and interest of the Issuer in the Agreement (except for certain amounts payable to the Issuer with respect to indemnification and expenses) and the Note, and the fact that there are no other properly indexed financing statements or liens of record affecting the property in which such security interest has been granted.

Based upon our examination, we are of the opinion that as of the date hereof and under existing law:

1. The Issuer is a duly created and validly existing public corporation of the State of Mississippi with the full power and authority (a) to issue and sell the Bonds, (b) to loan the proceeds from the sale of the Bonds to the Company for the purpose of refunding the Refunded Bonds and (c) to execute, deliver and perform its obligations under the Indenture, the Agreement and the Purchase Contract.

2. The Indenture, the Agreement and the Purchase Contract have been duly authorized, executed and delivered by the Issuer, and the Indenture and the Agreement are valid and binding obligations of the Issuer enforceable against the Issuer. The Note has been assigned by the Issuer to the Trustee. The Indenture creates a valid security interest in the Trust Estate, as defined in the Indenture, including all rights, title and interest of the Issuer in the Agreement (except for certain amounts payable to the Issuer with respect to indemnification and expenses) and the Note, subject to no equal, prior or other lien, charge or encumbrance, and a financing statement has been filed as required by the Uniform Commercial Code of Mississippi in order to perfect such security interest in the Agreement, and such security interest will continue in full force and effect as a perfected security interest for the benefit of the holders of the Bonds for a period of 30 years from the date of filing thereof. We have not undertaken any responsibility for filing continuation statements, if any, or other similar filings after the date hereof with respect to such security interests.

3. The Bonds have been duly authorized, executed and delivered by the Issuer and are valid, binding limited obligations of the Issuer, secured by the Indenture and payable solely from the Trust Estate, including payments to be received by the Issuer pursuant to the Note.

4. No authorization, approval, consent or other order of any governmental authority or agency is required for the valid authorization, execution, issuance and sale of the Bonds by the Issuer and the valid authorization, execution and delivery of the Indenture, the Agreement and the Purchase Contract by the Issuer, except for the authorizations, consents or approvals as have been obtained or may be required under state securities or Blue Sky laws.

5. Under existing statutes, rulings and court decisions, and under applicable regulations and proposed regulations, the interest on the Bonds is not includable in gross income for federal income tax purposes except for interest on any Bond for during any period while it is held by a "substantial user" of the Facilities or a "related person" within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Furthermore, interest on the Bonds will not be treated as an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations: however, with respect to certain corporations (as defined for federal tax purposes), such interest will be taken into account in determining adjusted current earnings in computing the alternative minimum tax on such corporations. We express no opinion regarding any other federal tax consequences caused by the receipt or accrual of interest on, or ownership of, the Bonds. In rendering this opinion, we have

assumed the continued compliance by the Issuer and the Company with their respective covenants regarding certain requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that the interest on the Bonds be and continue to be excluded from gross income for federal income tax purposes. Failure to comply with such covenants could cause interest on the Bonds to be included in federal gross income retroactive to the date of issuance of the Bonds.

6. Under existing statutes, the interest on the Bonds is exempt from all present State of Mississippi income taxation.

The rights of the holders of the Bonds and the enforceability of the Bonds, the Agreement, the Indenture and the Purchase Contract may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting the enforcement of creditors' rights generally and principles of equity applicable to the availability of specific performance or other equitable relief. We have not undertaken to notify you, the owners of the Bonds, the Trustee or any other person or entity of any change in law or fact after the date hereof which might affect any of the opinions expressed herein.

Very truly yours,

Butler Snow LLP

BUTLER SNOW LLP

ButlerSnow 20651997v3

APPENDIX D

OPINION OF BOND COUNSEL ON CONVERSION

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April 15, 2019

Mississippi Business Finance Corporation
735 Riverside Drive, Ste 300
Jackson, MS 39202
Attention: Executive Director

SunTrust Robinson Humphrey
333 Peachtree Road, 11th Floor
Atlanta, Georgia
Attn: Tax-Exempt Finance

U.S. Bank National Association
Global Corporate Trust
Two Midtown Plaza
1349 W. Peachtree Street NW, Suite 1050
Atlanta, GA 30309
Attn: Jack Ellerin

Re: $29,075,000 Mississippi Business Finance Corporation Pollution Control Revenue Refunding Bonds, First Series 2014 (Gulf Power Company Project)

We are serving as bond counsel to Gulf Power Company ("Gulf Power") in connection with a conversion of the interest rate mode applicable to the above-referenced bonds (the "Bonds"), as described in this opinion. The Bonds were issued by the Mississippi Business Finance Corporation (the "Issuer") for the benefit of Gulf Power. We have examined such laws and other documents as we have deemed necessary to render this opinion, including the Trust Indenture, dated as of April 1, 2014 (the "Indenture"), between the Issuer and U.S. Bank National Association, as successor trustee (the "Trustee"). This opinion is given pursuant to the requirements of Sections 2.02(b)(1) and 2.02(d) of the Indenture. Capitalized terms used but not otherwise defined herein shall have the meanings assigned to such terms in the Indenture.

On March 13, 2019, Gulf Power Company delivered notice as required by the Indenture to change the Determination Method for the Bonds on April 15, 2019 from the current Long-Term Interest Rate to a Daily Rate. We are of the opinion as of the date hereof and under existing law that the adjustment of the interest rate applicable to the Bonds from the current Long-Term Interest Rate to a Daily Rate is permitted by the laws of the State of Mississippi and the Indenture and will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds pursuant to the Internal Revenue Code of 1986, as amended.

Except as described in the preceding paragraph, we have not been engaged, nor have we undertaken, any investigation as to the use of the proceeds of the Bonds or the continuing exclusion of interest on the Bonds from gross income for federal income tax purposes, and we express no opinion with respect thereto.

This letter is furnished by us for the sole benefit of the addressees, and no other person or entity shall be entitled to rely upon this opinion, to quote from this opinion in whole or in part, or to use this opinion for any other purpose without our express written consent in each instance.

MAYNARD, COOPER & GALE, P.C.

By:_____
J. Hobson Presley, Jr.

APPENDIX E

FORM OF AMENDED AND RESTATED RULE 15C2-12 UNDERTAKING

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GULF POWER COMPANY

AMENDED AND RESTATED 15C2-12 UNDERTAKING

This Amended and Restated 15c2-12 Undertaking (the "Disclosure Undertaking") is dated April 15, 2019 by GULF POWER COMPANY (the "Company"), in connection with the sale of $29,075,000 aggregate principal amount of Mississippi Business Finance Corporation Pollution Control Revenue Refunding Bonds, First Series 2014 (Gulf Power Company Project) (the "Bonds"). The Bonds are issued pursuant to a Trust Indenture dated as of April 1, 2014 (the "Indenture"), between the Mississippi Business Finance Corporation (the "Issuer") and U.S. Bank National Association, as successor to The Bank of New York Mellon Trust Company, N.A. (the "Trustee"). The proceeds of the Bonds are provided by the Issuer to the Company pursuant to a Loan Agreement dated as of April 1, 2014 (the "Loan Agreement") between Company and the Issuer. This Disclosure Undertaking amends and restates the 15c2-12 Undertaking entered into by the Company in connection with the Bonds as of April 15, 2014 (the "Original Undertaking").

Section 1. Purpose of the Disclosure Undertaking. This Disclosure Undertaking is being executed and delivered by the Company for the benefit of the Beneficial Owners (defined below) and in order to assist the Participating Underwriter in complying with the Rule (defined below). The Company acknowledges that the Issuer has undertaken no responsibility with respect to any reports, notices or disclosures provided or required under this Disclosure Undertaking, and the Issuer has no liability to any person, including any Beneficial Owner, with respect to any such reports, notices or disclosures.

Section 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Undertaking unless otherwise defined in this Section 2, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean the information described in Section 3(a) hereof or a Form 10-K (as defined in Section 3(b) hereof)..

"Beneficial Owner" shall mean, while the Bonds are held in a book-entry only system, the actual purchaser of each Bond, the ownership interest of which is to be recorded on the records of the direct and indirect participants of DTC, and otherwise shall mean the holder of Bonds.

"Commission" shall mean the Securities and Exchange Commission, or any successor body thereto.

"EMMA" shall mean the Electronic Municipal Market Access system and the EMMA Continuing Disclosure Service of MSRB, or any successor thereto approved by the United States Securities and Exchange Commission, as a repository for municipal continuing disclosure information pursuant to the Rule.

"Financial Obligation" means a (a) debt obligation; (b) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) guarantee of (a) or (b); provided that "financial obligation" shall not include municipal securities as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

"Listed Events" shall mean any of the events listed in Section 4(a) of this Disclosure Undertaking.

"MSRB" means the Municipal Securities Rulemaking Board, or any successor thereto.

"Participating Underwriter" shall mean the original underwriter of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Commission under the Securities Exchange Act of 1934 (the "Exchange Act"), as the same may be amended from time to time.

Section 3. Provision of Financial Information.

(a) With respect to the Company's fiscal years ending December 31, 2019 and thereafter, if a Form 10-K (as defined below) is not filed with the Commission, the Company shall provide to the MSRB audited financial statements prepared in accordance with generally accepted accounting principles (GAAP)of the type set forth in the Reoffering Circular dated April 5, 2019, delivered with respect to the reoffering of the Bonds, not later than one hundred twenty (120) days after the end of the Company's fiscal year.

(b) If the Company shall file with the Commission, with respect to the Company's fiscal years ending December 31, 2019 and thereafter, reports on Form 10-K under Sections 13 or 15(d) of the Exchange Act, including any successor provisions thereto (the "Form 10-K"), then the Company shall provide to the MSRB (i) a copy of such Form 10-K or (ii) notice on an annual basis that the Form 10-K constitutes the annual financial information with respect to the Company required under the Rule, not later than one hundred twenty (120) days after the end of the Company's fiscal year.

(c) The Company shall, in a timely manner, provide to the MSRB notice of failure by the Company to file any Annual Report by the date due.

Section 4. Reporting of Events.

(a) The Company shall provide, in a timely manner not in excess of ten business days after the occurrence of the event, to the MSRB notice of the occurrence of any of the following events with respect to the Bonds:

(1) principal and interest payment delinquencies;

(2) non-payment related defaults, if material;

(3) any unscheduled draws on debt service reserves reflecting financial difficulties;

(4) unscheduled draws on credit enhancement facilities reflecting financial difficulties;

(5) substitution of credit or liquidity providers or their failure to perform;

(6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;

(7) modifications to rights of the holders of the Bonds, if material;

(8) bond calls, if material, and tender offers;

(9) defeasances;

(10) release, substitution, or sale of property securing repayment of the Bonds, if material;

(11) rating changes;

(12) bankruptcy, insolvency, receivership or similar event of the Company;

(13) the consummation of a merger, consolidation, or acquisition involving the Company or the sale of all or substantially all of the assets of the Company, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;

(14) appointment of a successor or additional trustee or the change of name of a trustee, if material;

(15) Incurrence of (a) a Financial Obligation of the Company, if material, or (b) an agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the Company, any of which affect security holders, if material; and

(16) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the Company, any of which reflect financial difficulties.

(b) Neither the terms of the Loan Agreement, the Indenture nor the Bonds require that any debt service reserve fund be established.

Section 5. Termination of Reporting Obligation. The Company's obligations under this Disclosure Undertaking shall terminate upon the defeasance, prior redemption or payment in full of all of the Bonds. If the Company's obligations under the Loan Agreement and this Disclosure Undertaking are assumed in full by some other entity, such entity shall be responsible for compliance with this Disclosure Undertaking in the same manner as if it were the Company and the Company shall have no further responsibility hereunder. The Company shall provide timely notice to the MSRB of the termination of the Company's obligations under this Disclosure Undertaking pursuant to an assumption of its obligations hereunder.

Section 6. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Undertaking, the Company may amend this Disclosure Undertaking with the written consent of the Trustee (and the Trustee shall agree to any amendment so requested by the Company that does not change the duties of the Trustee hereunder, provided it receives indemnity satisfactory to it) or waive any provision hereof, but only in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the obligor with respect to the Bonds or the type of business conducted by said obligor, provided that (1) the undertaking, as amended or following such waiver, would have complied with the requirements of the Rule on the date of an adjustment of the Interest Rate Period, after taking into account any amendments to the Rule as well as any change in circumstances, and (2) the amendment or waiver does not materially impair the interests of the holders of Bonds, in the opinion of the Trustee or counsel expert in federal securities laws reasonably satisfactory to both the Company and the Trustee, or is approved by not less than the Beneficial Owners of a majority in aggregate principal amount of the outstanding Bonds.

In the event of any amendment to the type of financial or operating data provided in an Annual Report provided pursuant to Section 3(b) hereof, or any change in accounting principles reflected in such Annual Report, the Company agrees that the Annual Report will explain, in narrative form, the reasons for the amendment or change and the effect of such change, including comparative information, where appropriate. To the extent not otherwise included in such Annual Report, the Company will also provide timely notice of any change in accounting principles to the MSRB.

Section 7. Additional Information. Nothing in this Disclosure Undertaking shall be deemed to prevent the Company from disseminating any other information, using the means of dissemination set forth in this Disclosure Undertaking or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Undertaking. If the Company chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Undertaking, the Company shall have no obligation under this Disclosure Undertaking to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 8. Default. In the event of a failure of the Company to comply with any provision of this Disclosure Undertaking, the Trustee may (and, at the request of the Beneficial

Owners of not less than fifty-one percent (51%) of the aggregate principal amount of outstanding Bonds, shall) subject to the same conditions, limitations and procedures that would apply under the Indenture if the breach were an event of default under the Indenture (each, an "Event of Default"), or any Beneficial Owner may, take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Company to comply with its obligations under this Disclosure Undertaking; provided, that, to the extent permitted by the securities laws, any Beneficial Owner's right to challenge the adequacy of the information provided in accordance with the undertaking of the Company described in Section 3 and Section 4 hereof shall be subject to the same limitations as those set forth in Article X of the Indenture with respect to Events of Default thereunder. A default under this Disclosure Undertaking shall not be deemed an Event of Default under the Indenture or the Loan Agreement, and the sole remedy under this Disclosure Undertaking in the event of any failure of the Company to comply with this Disclosure Undertaking shall be an action to compel performance. The Trustee shall be entitled to rely conclusively upon any written evidence provided by the Company regarding the provision of information to the MSRB.

The Company agrees to pay the Trustee from time to time reasonable compensation for services provided by the Trustee in connection with this Disclosure Undertaking and to pay or reimburse the Trustee upon request for all reasonable fees, expenses, disbursements and advances incurred or made in accordance with this Disclosure Undertaking (including reasonable compensation and the expenses and disbursements of its counsel and of all agents and other persons regularly in its employ) or as a result of the Company's failure to perform its obligations hereunder, except to the extent that any such fees, expenses, disbursement or advance is due to the negligence or willful misconduct of the Trustee.

Section 9. Beneficiaries. This Disclosure Undertaking shall inure solely to the benefit of the Issuer, the Company, the Trustee, the Participating Underwriter, and Beneficial Owners, and shall create no rights in any other person or entity.

Section 10. Submission of Documents to the MSRB. Unless otherwise required by law, all documents provided to the MSRB pursuant to this Disclosure Undertaking shall be provided to the MSRB in an electronic, word-searchable format and shall be accompanied by identifying information, in each case as prescribed by the MSRB.

Section 11. Amendment and Restatement. This Disclosure Undertaking amends, restates and supersedes the Original Undertaking in all respects.

Section 12. Governing Law. This Disclosure Undertaking shall be governed by and construed in accordance with the laws of the State of New York.

[signatures on following page]

IN WITNESS WHEREOF, the Company has duly executed and delivered this Disclosure Undertaking as of the day and year first written above.

GULF POWER COMPANY

By:_____
Name:
Title:

ACCEPTED AND AGREED:

U.S. BANK NATIONAL ASSOCIATION

By:_____
Name:
Title:

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