Risk Factors Comparison 2024-02-15 to 2023-02-16 Form: 10-K

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In addition to the other information in this Form 10- K, including MANAGEMENT' S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL in Item 7, and other documents filed by Southern Company and / or its subsidiaries with the SEC, the following factors should be carefully considered in evaluating Southern Company and its subsidiaries. Such factors could affect actual results and cause results to differ materially from those expressed in any forward- looking statements made by, or on behalf of, Southern Company and / or its subsidiaries. The risk factors discussed below could adversely affect a Registrant' s results of operations, financial condition, liquidity, and cash flow, as well as cause reputational damage. UTILITY REGULATORY, LEGISLATIVE, AND LITIGATION RISKS Southern Company and its subsidiaries are subject to substantial federal, state, and local governmental regulation, including with respect to rates. Compliance with current and future regulatory requirements and procurement of necessary approvals, permits, and certificates may result in substantial costs to Southern Company and its subsidiaries. Laws and regulations govern the terms and conditions of the services the Southern Company system offers, protection of critical electric infrastructure assets, transmission planning, reliability, pipeline safety, interaction with wholesale markets **and retail customers** , and relationships with affiliates, among other matters. The Registrants' businesses are subject to regulatory regimes which could result in substantial monetary penalties if a Registrant is found to be noncompliant. The profitability of the traditional electric operating companies' and the natural gas distribution utilities' businesses is largely dependent on their ability, through the rates that they are permitted to charge, to recover their costs and earn a reasonable rate of return on invested capital. The traditional electric operating companies and the natural gas distribution utilities seek to recover their costs, including a reasonable return on invested capital, through their retail rates, which must be approved by the applicable state PSC or other applicable state regulatory agency. Such regulators, in a future rate proceeding, may alter the timing or amount of certain costs for which recovery is allowed or modify the current authorized rate of return ~~.~~ **;** ~~Rate~~ **rate** refunds may also be required **. The outcome of any such proceeding could be impacted by a variety of factors, including the level of opposition from intervenors, potential impacts to customers, and past or future changes in the political, regulatory, economic, or legislative environment** . Additionally, the rates charged to wholesale customers by the traditional electric operating companies and Southern Power and the rates charged to natural gas transportation customers by Southern Company Gas' pipeline investments must be approved by the FERC. Changes to Southern Power' s and the traditional electric operating companies' ability to conduct business pursuant to FERC market- based rate authority could affect wholesale rates. Also, while a small percentage of transmission ~~revenues~~ **costs** are ~~collected~~ **recovered** through wholesale electric tariffs, the majority are ~~collected~~ **recovered** through retail rates. Transmission planning **and the resulting grid improvements** could be impacted by FERC policy changes **as well as North American Electric Reliability Corporation planning standard changes. The IRA, among other items, imposes a 15 % corporate minimum tax on book income and is subject to the issuance of additional guidance by the U. S. Treasury Department and the IRS. Any rate recovery by the traditional electric operating companies or the natural gas distribution utilities will be determined pursuant to the regulatory processes of the FERC, state PSCs, or other applicable state regulatory agencies. There is no assurance, however, that such tax expense will be recoverable through the applicable regulatory process** . The impact of any future revision or changes in interpretations of existing regulations or the adoption of new laws and regulations applicable to Southern Company or any of its subsidiaries is uncertain. Changes in regulation, the imposition of additional regulations, changes **in application of existing regulations and** in enforcement practices of regulators, or penalties imposed for noncompliance with existing laws or regulations could influence the operating environment of the Southern Company system and may result in substantial costs. The Southern Company system' s costs of compliance with environmental laws and satisfying related AROs are significant. The Southern Company system' s operations are regulated by state and federal environmental agencies through a variety of laws and regulations governing air, GHGs, water, land, avian and other wildlife and habitat protection, and other natural resources. Compliance with existing environmental requirements involves significant capital and operating costs including the settlement of AROs, a major portion of which is expected to be recovered through retail and wholesale rates. There is no assurance, however, that all such costs will be recovered. The Registrants expect future compliance expenditures will continue to be significant. The EPA has adopted and is implementing regulations governing air and GHG emissions under the Clean Air Act and water quality under the Clean Water Act. The EPA and certain states have also adopted and continue to propose regulations governing the disposal and management of CCR at power plant sites **under the Resource Conservation and Recovery Act and applicable state laws** . The cost estimates for AROs related to the disposal of CCR are based on information using various assumptions **I- 15Index to Financial Statements** related to closure and post- closure costs, timing of future cash outlays, inflation and discount rates, and the potential compliance methods. The traditional electric operating companies will continue to periodically update their ARO cost estimates **and those updates could be material** . Additionally, environmental laws and regulations covering the handling and disposal of waste and release of hazardous substances could require the Southern Company system to incur substantial costs to clean up affected sites, including certain current and former operating sites, and locations subject to contractual obligations. Litigation over environmental issues and claims of various types, including property damage, personal injury, and citizen enforcement of environmental requirements has occurred throughout the United States. This litigation has included, but is not ~~I- 15Index to Financial Statements~~ limited to, claims for damages alleged to have been caused by CO_2 and other emissions, CCR, releases of regulated substances, alleged exposure to regulated substances, and / or requests for injunctive relief in connection with such matters. Compliance with any new or revised environmental laws or regulations could affect many areas of operations for the Southern Company system. The Southern Company system' s ultimate environmental compliance strategy and future environmental expenditures will depend on various factors, such as state adoption and implementation of requirements, the availability and cost of any deployed control technology, fuel prices, and the outcome of pending and / or future legal challenges. Compliance costs may result from the installation of additional environmental controls, closure and monitoring of CCR facilities, unit retirements, operational changes, or changing fuel sources for certain existing units, as well as related upgrades to the Southern Company system' s transmission and distribution (electric and natural gas) systems. Environmental compliance spending over the next several years may differ materially from the amounts estimated and could adversely affect the Registrants if such costs cannot continue to be recovered on a timely basis. Further, increased costs that are recovered through regulated rates could contribute to reduced demand for electricity and natural gas. Additionally, many commercial and industrial customers may also be affected by existing and future environmental requirements, which for some may have the potential to reduce their demand for electricity or natural gas. The Southern Company system may be exposed to regulatory and financial risks related to the impact of GHG legislation, regulation, and emission reduction goals. Concern and activism about climate change continue to increase and, as a result, demand for energy conservation and sustainable assets could further increase. Additionally, costs associated with GHG legislation, regulation, and emission reduction goals could be significant **and there is no assurance such costs would be fully recovered through regulated rates or PPAs** . The Southern Company system has ~~robust~~ processes for identifying, assessing, and responding to climate- related risks, including a scenario planning process that is used to inform resource planning decisions in the states in which the traditional electric operating companies operate. This process relies on information **and assumptions** from internal and external sources, which may or may not be accurate in predicting future outcomes ~~. Each year, the Southern Company system develops scenarios which look out over a 30- year horizon. In 2022, scenarios included a wide range of fuel prices, load growth, and CO2 prices starting between $ 0 and $ 50 per metric ton of CO2 emitted and escalating over the 30- year horizon~~ . Additional GHG policies, including legislation, may emerge requiring the United States to accelerate its transition to a lower GHG emitting economy. **The** ~~However, the~~ ultimate impact will depend on various factors, such as state adoption and implementation of requirements, natural gas prices, the development, deployment, and advancement of relevant energy technologies, the ability to recover costs through existing ratemaking provisions, and the outcome of pending and / or future legal challenges **. The SEC has proposed new rules relating to the disclosure of climate- related matters. If the proposed rules, or similar rules, are enacted, the Registrants could incur increased costs to comply with these new rules and could face increased risk of litigation related to disclosures made pursuant to the rules** . Because natural gas is a fossil fuel with lower carbon content relative to other fossil fuels, future carbon constraints, including, but not limited to, the imposition of a carbon tax, may create additional demand for natural gas, both for production of electricity and direct use in homes and businesses. However, such demand may be tempered by legislation limiting the use of natural gas in certain ~~situations~~ **circumstances** , ~~such as~~ **including use in** new construction **and certain household appliances** . Additionally, efforts to electrify the transportation ~~and~~ **,** building **, and other** sectors may result in higher electric demand and negatively impact natural gas demand. **For example, Nicor Gas' regulator, the Illinois Commission, has ordered a"** ~~Future~~ **future of natural gas" proceeding to explore the recommendations involved with decarbonization of the gas distribution system in Illinois. In addition, future** GHG constraints, including those related to methane emissions, designed to minimize emissions from natural gas could likewise result in increased costs to the Southern Company system and affect the demand for natural gas as well as the prices charged to customers and the competitive position of natural gas. Southern Company has established an intermediate goal of a 50 % reduction in GHG emissions from 2007 levels by 2030 and a long- term goal of net zero GHG emissions by 2050. Achievement of these goals is dependent on many factors, including natural gas prices and the pace and extent of development and deployment of low- to no- GHG energy technologies and negative carbon concepts. The strategy to achieve these goals also relies on continuing to pursue a diverse portfolio including **I- 16** low- carbon and carbon- free resources and energy efficiency resources **; customer demand for carbon- free energy** ; continuing to transition the Southern Company system' s generating fleet and making the necessary related investments in transmission and distribution systems; continuing research and development with a particular focus on technologies that lower GHG emissions, including methods of removing carbon from the atmosphere; and constructively engaging with policymakers, regulators, investors, customers, and other stakeholders to support outcomes leading to a net zero future **. There can be no guarantee that the Southern Company system will achieve these goals** . See MANAGEMENT' S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL –" Environmental Matters – ~~Global Climate Issues~~ **Environmental Laws and Regulations – Greenhouse Gases** " in Item 7 herein for additional information. ~~I- 16~~ OPERATIONAL RISKS The financial performance of Southern Company and its subsidiaries may be adversely affected if the subsidiaries are unable to successfully operate their facilities or perform certain corporate functions. The financial performance of Southern Company and its subsidiaries depends on the successful operation of the electric generation, transmission, and distribution facilities, natural gas distribution facilities, and distributed generation storage technologies and the successful performance of necessary corporate functions. There are many risks that could affect these matters, including operator error or failure of equipment or processes, accidents, operating limitations that may be imposed by environmental or other regulatory requirements or in connection with joint owner arrangements, labor disputes, physical attacks, fuel or material supply interruptions and / or shortages, transmission disruption or capacity constraints, including with respect to the Southern Company system' s and third parties' transmission, storage, and transportation facilities, inability to maintain reliability consistent with customer expectations as the traditional electric operating companies and Southern Power transition their generating fleets in support of the Southern Company system' s net zero goal, compliance with mandatory reliability standards, including mandatory cyber security standards, implementation of new technologies, technology system failures, cyber intrusions, environmental events, such as spills or releases, supply chain disruptions, inflation, and catastrophic events such as fires, earthquakes, explosions, floods, tornadoes, hurricanes and other storms, droughts, pandemic health events, **wars,** political unrest, or other similar occurrences. Operation of nuclear facilities involves inherent risks, including environmental, safety, health, regulatory, natural disasters, cyber intrusions, physical attacks, and financial risks, that could result in fines or the closure of the nuclear units owned by Alabama Power or Georgia Power and which may present potential exposures in excess of insurance coverage. Alabama Power owns, and contracts for the operation of, two nuclear units and Georgia Power holds undivided interests in, and contracts for the operation of, ~~four~~ **five** existing nuclear units. The ~~six~~ **seven** existing units are operated by Southern Nuclear and represented approximately ~~22~~ **27** % and ~~27~~ **29** % of the total KWHs generated by Alabama Power and Georgia Power, respectively, in the year ended December 31, ~~2022~~ **2023** . In addition, Southern Nuclear, on behalf of Georgia Power and the other Vogtle Owners, is managing the construction and start- up of Plant Vogtle ~~Units~~ - **Unit** ~~3 and~~ 4. Nuclear facilities are subject to environmental, safety, health, operational, and financial risks such as: the potential harmful effects on the environment and human health and safety resulting from a release of radioactive materials; uncertainties with respect to the ability to dispose of spent nuclear fuel and the need for longer term on- site storage; uncertainties with respect to the technological and financial aspects of decommissioning nuclear plants at the end of licensed lives and the ability to maintain and anticipate adequate capital reserves for decommissioning; limitations on the amounts and types of insurance commercially available to cover losses that might arise in connection with nuclear operations; and significant capital expenditures relating to maintenance, operation, security, and repair of these facilities. Damages, decommissioning, or other costs could exceed the amount of decommissioning trusts or external insurance coverage, including statutorily required nuclear incident insurance. The NRC has broad authority under federal law to impose licensing and safety- related requirements for the operation of nuclear facilities. In the event of non- compliance, the NRC has the authority to impose fines and / or shut down any unit, depending upon its assessment of the severity of the situation, until compliance is achieved. NRC orders or regulations related to increased security measures and any future NRC safety requirements could require Alabama Power and Georgia Power to make substantial operating and capital expenditures at their nuclear plants. In addition, if a ~~serious~~ **major** nuclear incident were to occur, it could result in substantial costs to Alabama Power or Georgia Power and Southern Company. A major incident at a nuclear facility anywhere in the world could cause the NRC to ~~delay or prohibit construction of new nuclear units or~~ require additional safety measures ~~at new and existing units~~ . Moreover, a major incident at any nuclear facility in the United States, including facilities owned and operated by third parties, could require Alabama Power and Georgia Power to make material contributory payments. In addition, actual or potential threats of cyber intrusions or physical attacks could result in increased nuclear licensing or compliance costs. **I- 17 Generation, transmission, and distribution of electricity and** ~~Transporting~~ - **transportation** and ~~storing~~ **storage of** natural gas ~~involves~~ - **involve** risks that may result in accidents and other operating risks and costs. **The** Southern Company ~~Gas~~ **system** ' **s electric generation, transmission, and distribution and** natural gas distribution and storage activities involve a variety of inherent hazards and operating risks, such as ~~leaks,~~ accidents, explosions, ~~and~~ **fires,** mechanical problems, ~~which~~ **discharges or releases of toxic or hazardous substances or gases, and other environmental risks. These incidents** could result in serious injury, loss of life, significant damage to property, environmental pollution, and ~~impairment~~ **disruption** of ~~its~~ **the Southern Company system' s** operations. The location of **electric generation, transmission, and distribution infrastructure and natural gas** pipelines and underground natural gas storage facilities near populated areas could increase the level of damage **and liability** resulting from ~~these risks~~ **any incidents** . Additionally, **electric generation, transmission, and distribution infrastructure and natural gas** pipelines and underground natural gas storage facilities are subject to various state and other regulatory requirements. Failure to comply with these requirements could result in substantial monetary penalties. ~~I- 17~~ Physical attacks, both threatened and actual, could impact the ability of the Subsidiary Registrants to operate. The Subsidiary Registrants face the risk of physical attacks, both threatened and actual, against their respective generation and storage facilities and the transmission and distribution infrastructure used to transport energy, which could negatively impact their ability to generate, transport, and deliver power, or otherwise operate their respective facilities, or, with respect to Southern Company Gas, its ability to distribute or store natural gas, or otherwise operate its facilities, in the most efficient manner or at all. **Transmission and distribution infrastructure can be vulnerable to physical attack because it is often unmanned, widely dispersed, and located in isolated areas.** ~~These~~ -- **The** ~~risks~~ - **risk of physical attack** may escalate during periods of heightened geopolitical tensions. In addition, physical attacks against third- party providers could have a similar effect on the Southern Company system. Despite the implementation of robust security measures, all assets are potentially vulnerable to disability, failures, or unauthorized access due to human error, natural disasters, technological failure, or internal or external physical attacks. If assets were to fail, be physically damaged, or be breached and were not restored in a timely manner, the affected Subsidiary Registrant may be unable to fulfill critical business functions. Insurance may not be adequate to cover any associated losses. An information security incident, including a cybersecurity breach, or the failure of, or inability to remotely access, one or more key technology systems, networks, or processes could impact the ability of the Registrants to operate. The Subsidiary Registrants operate in highly regulated industries that require the continued operation of sophisticated technology systems and network infrastructure, which are part of interconnected systems. Because of the critical nature of the infrastructure and the technology systems' inherent vulnerability to disability or failures due to hacking, viruses, denial of service, ransomware, acts of war or terrorism, or other types of data security breaches, the **Registrants** ~~Southern Company system faces~~ - **face** a heightened risk of cyberattack **. Remote working arrangements also increase the Registrants' data security risks. Additionally, the Registrants' field workforces use mobile technology, which have fewer security measures than the Registrants' wired networks. Portions of the Registrants' system data, architecture, and other materials may also be disclosed, either intentionally or unintentionally, to third parties and the public by regulators, employees, contractors, and vendors. This system information may be used by malicious actors to understand the Registrants' systems to prepare for a cyberattack. In addition, unpatched software or network vulnerabilities, including those resulting from the use of end- of- life operating systems, could be leveraged by an attacker** . Cyber actors, including those associated with foreign governments, have attacked and threatened to attack energy infrastructure. Various regulators have increasingly stressed that these attacks, including ransomware attacks, and attacks targeting utility systems and other critical infrastructure, are increasing in sophistication, magnitude, and frequency. ~~Additionally~~ **In particular** , **certain actors, such as nation- state and state- sponsored actors, can deploy significant resources and employ sophisticated methods to plan and carry out attacks. Risk of** these ~~risks~~ **attacks** may escalate during periods of heightened geopolitical tensions **, such as those caused by the war in Ukraine and conflicts in the Middle East** . The Registrants and their third- party vendors have been subject, and will likely continue to be subject, to attempts to gain unauthorized access to their technology systems and confidential data or to attempts to disrupt utility and related business operations. While there have been immaterial incidents of phishing, unauthorized access to technology systems, financial fraud, and disruption of remote access across the Southern Company system, there has been no material impact on business or operations from these attacks. However, the Registrants cannot guarantee that security efforts will **have the maturity to** detect or prevent breaches, operational incidents, or other breakdowns of technology systems and network infrastructure **. This is especially true in the event the Registrants are targeted by a sophisticated attacker with significant resources, such as a nation- state or state- sponsored actor. Further, the Registrants do not have security visibility into all operational technology communications and processes, do not maintain completely exhaustive inventories of assets and applications, and do not centrally manage or monitor all technologies, applications, and environments, which could negatively affect preparation for, investigation of, or response to** ~~and~~ **an information security incident. Accordingly, the Registrants** cannot provide any assurance that ~~such~~ **information security** incidents will not have a material adverse effect in the future. **I- 18** In addition, in the ordinary course of business, Southern Company and its subsidiaries collect and retain sensitive information, including personally identifiable information about customers, employees, and stockholders, and other confidential information. In some cases, administration of certain functions may be outsourced to third- party service providers. Malicious actors may target these providers to disrupt the services they provide to the Registrants, or to use those third parties to attack the Registrants. The Registrants ~~'~~ **do not fully assess the security maturity of all third- party service providers and such** third- party service providers could fail to establish adequate risk management and information security measures with respect to their systems **and / or could fail to timely notify the Registrants of an information security incident** . Internal or external **cyberattacks** ~~cyber attacks~~ may **have wide- reaching impacts due to incomplete segmentation among network assets and / or reliance of segmented networks on a disrupted network,** inhibit the affected Registrant' s ability to fulfill critical business functions, including energy delivery service failures, compromise sensitive and other data, violate privacy laws, and lead to customer dissatisfaction. Any cyber breach or theft, damage, or improper disclosure of sensitive electronic data may also subject the affected Registrant to penalties and claims from regulators or other third parties. Insurance may not be adequate to cover any associated losses. Additionally, the cost and operational consequences of implementing, maintaining, and enhancing system protection measures are significant, and they could materially increase to address ever changing intense, complex, and sophisticated cyber risks. The Southern Company system may not be able to obtain adequate natural gas, fuel supplies, and other resources required to operate the traditional electric operating companies' and Southern Power' s electric generating plants or serve Southern Company Gas' natural gas customers. SCS, on behalf of the traditional electric operating companies and Southern Power, purchases fuel for the Southern Company system' s generation fleet from a diverse set of suppliers. Southern Company Gas' primary business is the distribution of natural gas through the natural gas distribution utilities. Natural gas is delivered daily from different regions of the country. This daily supply is complemented by natural gas supplies stored in both company- owned and third party storage locations. To deliver this daily supply and stored natural gas, the Southern Company system has firm transportation capacity contracted with third party interstate pipelines. Disruption in the supply and / or delivery of fuel as a result of matters such as transportation delays, weather, labor relations, **natural disasters, cyber or physical attacks, other** force majeure events, or environmental regulations affecting fuel suppliers could limit the ability of the traditional electric operating companies and Southern Power to operate certain facilities, which could result in higher fuel and operating costs, and the ability of Southern Company Gas to serve its natural gas customers ~~. I- 18 The Southern Company system is dependent upon natural gas as a fuel source for its power generation needs, which has the potential to impact, among other things, the traditional electric operating companies' and Southern Power' s costs of generation. The robust growth in supply allowed natural gas prices to moderate and remain below $ 3 per mmBtu in recent years; however, demand increases beginning in 2021 and continuing in 2022 resulted in price increases and high volatility. The Henry Hub price averaged $ 6. 38 per mmBtu in 2022. Current forecasts for 2023 are approximately $ 3. 30. Forward market prices for 2024 and beyond indicate expectations, absent unforeseen developments, that prices will modestly increase. With the majority of natural gas production being from shale gas formations, any limitation on shale gas production would be expected to have a material impact on the supply availability as well as the cost of natural gas. In addition, new demand, in particular exports to Mexico and those from LNG facilities, has grown significantly and is having greater impact on the traditional electric operating companies' and Southern Power' s natural gas markets~~ . The traditional electric operating companies are also dependent on coal, and related coal supply contracts, for a portion of their electric generating capacity. The counterparties to coal supply contracts may not fulfill their obligations to supply coal because of financial or technical problems. In addition, the suppliers and / or railroads may be delayed in supplying or delivering or may not be required to supply or deliver coal under certain circumstances, such as in the event of a natural disaster. If the traditional electric operating companies are unable to obtain their contracted coal requirements, they may be required to purchase additional coal at higher prices or limit coal generation, and these increased costs may not be recoverable through rates if deemed to be imprudently incurred. ~~The~~ **Coal deliveries continued to be delayed early in 2023, which has largely been attributed to labor shortages in the** railroad industry **. Service levels improved over the course of 2023 and** ~~has been experiencing labor shortages, which has led to delays in coal~~ deliveries **returned to normal levels by the end of 2023** . As coal- fired generating facilities are retired, the demand for coal is expected to continue to decline. As a result, railroads may commit fewer resources to coal transportation, which could increase these risks. Whereas fuel oil directly provides only a small portion of the Southern Company system' s annual generation, its importance to the reliability of the Southern Company system' s generation portfolio continues to grow. Over the last few years, related cost increases and supply chain challenges have become more common and may increase the risk of reliability challenges. In addition to fuel supply, the traditional electric operating companies and Southern Power also need adequate access to water, which is drawn from nearby sources, to aid in the production of electricity. Any impact to their water resources could also limit the ability of the traditional electric operating companies and Southern Power to operate certain facilities, which could result in higher fuel and operating costs. The revenues of Southern Company, the traditional electric operating companies, and Southern Power depend in part on sales under PPAs, the success of which depend on PPA counterparties performing their obligations, Southern Company subsidiaries satisfying minimum requirements under the PPAs, and renewal or replacement of the PPAs for the related generating capacity. Most of Southern Power' s generating capacity has been sold to purchasers under PPAs with Southern Power' s top three customers comprising approximately ~~22~~ **19** % of Southern Power' s total revenues for the year ended December 31, ~~2022~~ **2023** . The traditional electric operating companies have entered into PPAs with non- affiliated parties for the sale of generating capacity. **I- 19** The revenues related to PPAs are dependent on the continued performance by the purchasers of their obligations. Although the credit evaluations undertaken and contractual protections implemented by Southern Power and the traditional electric operating companies take into account the possibility of default by a purchaser, actual exposure to a default by a purchaser may be greater than predicted or specified in the applicable contract. Additionally, neither Southern Power nor any traditional electric operating company can predict whether the PPAs will be renewed at the end of their respective terms or on what terms any renewals may be made. If **a** ~~one of these Registrants~~ **Registrant** is unable to replace expiring PPAs with an acceptable new revenue contract, it may be required to sell the power produced by the facility at wholesale prices and be exposed to market fluctuations and risks, or the affected site may temporarily or permanently cease operations. The failure to satisfy minimum operational or availability requirements under these PPAs, including PPAs related to projects under construction, could result in payment of damages or termination of the PPAs. Increased competition from other companies that supply energy or generation and storage technologies and changes in customer demand for energy could negatively impact Southern Company and its subsidiaries. The traditional electric operating companies operate under a business model that invests capital to serve customers and recovers those investments and earns a return for investors through state regulation. Southern Power' s business model is primarily focused on investing capital or building energy assets to serve creditworthy counterparties using a bilateral contract model. A key premise of these business models is that generating power at power plants achieves economies of scale and produces power at a competitive cost. Customers and stakeholders are increasingly focused on the Registrants' ability to meet rapidly changing demands for new and varied products, services, and offerings. Additionally, the risk of global climate change continues to shape customers' and stakeholders' sustainability goals and energy needs. ~~I- 19~~ New technologies such as distributed energy resources and microgrids and increased customer and stakeholder demand for sustainable assets could change the type of assets constructed and / or the methods for cost recovery. Advances in these technologies or changes in laws or regulations could reduce the cost of distributed generation storage technologies or other alternative methods of producing power to a level that is competitive with that of most power generation production or result in smaller- scale, more fuel efficient, and / or more cost effective distributed generation that allows for increased self- generation by customers. Broader use of distributed generation by retail energy customers may also result from customers' changing perceptions of the merits of utilizing existing generation technology or tax or other economic incentives. Additionally, a state PSC or legislature may modify certain aspects of the traditional electric operating companies' business as a result of these advances in technology, which may provide for further competition from these alternative sources of generation. It is also possible that rapid advances in power generation technology could reduce the value of the current electric generating facilities owned by the traditional electric operating companies and Southern Power. Changes in technology could also alter the channels through which electric customers buy or utilize power. Southern Company Gas' business is dependent on natural gas prices remaining competitive as compared to other forms of energy. Southern Company Gas' gas marketing services segment also is affected by competition from other energy marketers providing similar services in Southern Company Gas' unregulated service territories, most notably in Illinois and Georgia. If new technologies become cost competitive and achieve sufficient scale, the market share of the Subsidiary Registrants could be eroded, and the value of their respective electric generating facilities or natural gas distribution facilities could be reduced. Additionally, these technology and customer- induced changes to the ~~electric generation~~ **Subsidiary Registrants'** business models could change the risk profile of the Southern Company system' s historical capital investments. Southern Company Gas' market share could be reduced if Southern Company Gas cannot remain price competitive in its unregulated markets. The Subsidiary Registrants are subject to workforce factors that could affect operations. The Southern Company system must attract, train, and retain a workforce to meet current and future needs. Events such as an aging workforce without appropriate replacements, increased cost or reduced supply of labor, mismatch of skill sets to future needs, or unavailability of contract resources may lead to operating challenges such as lack of resources, loss of knowledge, and a lengthy time period associated with skill development, including workforce needs associated with ~~major~~ construction projects and ongoing operations. The Southern Company system may be subject to **continuing** workforce trends occurring in the United States triggered by decisions of employees to leave the workforce and / or their employer ~~at~~ **in** higher rates **during recent years** as compared to prior years and challenges competing with other employers offering more flexible or fully- remote work options. The Southern Company system' s costs, including costs for contractors to replace employees, productivity costs, and safety costs, may rise. **The Southern Company system is also subject to risks associated with the** ~~Failure~~ **failure to adequately manage contract resources. In addition, the failure** to hire and adequately obtain replacement employees, including the ability to transfer significant internal historical knowledge and expertise to the new employees, or the future availability and cost of contract labor may adversely affect Southern Company and its subsidiaries' ability to manage and operate their businesses. **I- 20** Supply chain disruptions and inflation could negatively impact operations. The Southern Company system' s operations and business plans depend on the global supply chain to procure equipment, materials, and other resources. The delivery of components, materials, equipment, and other resources that are critical to the Southern Company system' s operations has been impacted by ~~ongoing~~ domestic and global supply chain disruptions. **Future pandemic health events or continued** ~~International~~ **international** tensions, including the ramifications of regional ~~conflict~~ **conflicts , such as those in Ukraine and the Middle East** , could further exacerbate global supply chain disruptions. These disruptions and shortages could adversely impact business operations. The constraints in the supply chain also could restrict availability and delay construction, maintenance, or repair of items needed to support normal operations or to continue planned capital investments. Supply chain disruptions have contributed to higher prices of components, materials, equipment, and other needed commodities, and these inflationary increases may continue. ~~While~~ **Further** inflation ~~in the United States had been relatively low in recent years~~ , **a** ~~its impact became more significant during 2021 and~~ continued **elevated interest rate environment,** ~~in 2022. Uncertainty around inflationary impacts continues to increase in the near- term outlook for economic activity. Rapid inflation~~ or other economic factors may negatively affect **operations and** the timely recovery of costs ~~. The impacts of the COVID- 19 pandemic continue. The effects of the continued COVID- 19 pandemic and related global, federal, state, and local responses could include new or extended disruptions to capital markets, further reduced labor availability and productivity, and new or prolonged reductions in economic activity. These effects could have a variety of adverse impacts on the Registrants, including, but not limited to, new or prolonged reductions in demand for energy, particularly from commercial and industrial customers, impairment of goodwill or long- lived assets, reductions in investments recorded at fair value, further increases in costs of necessary equipment, and further challenges to the development, construction, and / or operation of the Subsidiary Registrants' facilities, including electric I- 20 generation, transmission, and distribution assets, the performance of necessary corporate and customer service functions, and access to funds from financial institutions and capital markets. The effects of the COVID- 19 pandemic also could further disrupt or delay construction, testing, supervisory, and support activities at Plant Vogtle Units 3 and 4, as discussed in Note 2 to the financial statements under" Georgia Power – Nuclear Construction" in Item 8 herein~~ . CONSTRUCTION RISKS The Registrants have incurred and may incur additional costs or delays in the construction of new plants or other facilities and may not be able to recover their investments. Also, existing facilities of the Subsidiary Registrants require ongoing expenditures, including those to meet AROs and other environmental standards and goals. The businesses of the Registrants require substantial expenditures for investments in new facilities as well as capital improvements, including transmission, distribution, and generation facilities for the traditional electric operating companies, generation facilities for Southern Power, and capital improvements to natural gas distribution facilities for Southern Company Gas. These expenditures also include those to settle AROs and meet environmental standards and goals. The traditional electric operating companies and Southern Power are in the process of constructing new generating facilities and / or adding environmental and other modifications to certain existing generating facilities and Southern Company Gas is replacing certain pipe in its natural gas distribution system. The traditional electric operating companies also are in the process of closing ash ponds to comply with the CCR Rule and, where applicable, state CCR rules. The Southern Company system intends to continue its strategy of developing and constructing new electric generating facilities, expanding and improving the electric transmission and electric and natural gas distribution systems, and undertaking projects to comply with environmental laws and regulations. These projects are long- term in nature and in some cases may include the development and construction of facilities with designs that have not been finalized or previously constructed. Completion of these types of projects without delays or significant cost overruns is subject to substantial risks that have occurred or may occur, including labor costs, availability, and productivity; challenges with the management of contractors or vendors; subcontractor performance; adverse weather conditions; shortages, delays, increased costs, or inconsistent quality of equipment, materials, and labor; contractor or supplier delay; the impacts of inflation; delays due to judicial or regulatory action; nonperformance under construction, operating, or other agreements; operational readiness, including specialized operator training and required site safety programs; engineering or design problems or any remediation related thereto; design and other licensing- based compliance matters ~~including, for Plant Vogtle Unit 4, inspections and the timely submittal by Southern Nuclear of the ITAAC documentation and the related investigations, reviews, and approvals by the NRC necessary to support NRC authorization to load fuel~~ ; challenges with start- up activities, including major equipment failure, or system integration; and / or operational performance; ~~continued~~ challenges related to ~~the COVID- 19 pandemic or future~~ pandemic health events; continued public and policymaker support for projects; environmental and geological conditions; delays or increased costs to interconnect facilities to transmission grids; and increased financing costs as a result of changes in interest rates or as a result of project delays. If a Subsidiary Registrant is unable to complete the development or construction of a project or decides to delay or cancel construction of a project, it may not be able to recover its investment in that project and may incur substantial cancellation payments under equipment purchase orders or construction contracts, as well as other costs associated with the closure and / or abandonment of the construction project. In addition, partnership and joint ownership agreements may provide partners or co- owners with certain decision- making authority in connection with projects under construction, including **the** ~~rights~~ **right** to ~~change ownership allocations and / or~~ cause the cancellation of a construction project under certain circumstances. Any failure by a partner or co- owner to perform its obligations under the applicable agreements could have a material negative impact on the applicable project under construction. Southern Power participates in partnership agreements with respect to a majority of its renewable energy projects and Georgia Power jointly owns Plant Vogtle ~~Units~~ **Unit** ~~3 and~~ 4 with other co- owners. See Note 5 to the financial statements under" Joint Ownership Agreements" in Item 8 herein for additional information regarding other jointly- owned facilities. If construction projects are not completed according to specification, a Registrant may incur liabilities and suffer reduced plant efficiency, higher operating costs, and reduced net income. Furthermore, construction delays associated with renewable projects could result in the loss of otherwise available tax credits and incentives. Even if a construction project (including a joint venture construction project) is completed, the total costs may be higher than estimated **or deemed imprudent** and may **be disallowed or otherwise** not ~~be~~ recoverable through regulated rates, if applicable. In **I- 21** addition, construction delays and contractor performance shortfalls can result in the loss of revenues. The largest construction project currently underway in the Southern Company system is Plant Vogtle ~~Units~~ **Unit** ~~3 and~~ 4. Southern Company and Georgia Power recorded ~~total~~ **cumulative** pre- tax charges to income of $ 3. ~~3~~ **2** billion ($ 2. 4 billion after tax) through December 31, ~~2022~~ **2023** to reflect Georgia Power' s revised estimate to complete ~~I- 21~~ construction and start- up of Plant Vogtle Units 3 and 4. See Note 2 to the financial statements under" Georgia Power – Nuclear Construction" in Item 8 herein for information regarding Plant Vogtle Units 3 and 4. ~~Also see Note 2 to the financial statements under" Alabama Power – Certificates of Convenience and Necessity" in Item 8 herein for information regarding Alabama Power' s construction of Plant Barry Unit 8.~~ Once facilities become operational, ongoing capital expenditures are required to maintain **safe and** reliable levels of operation. Significant portions of the traditional electric operating companies' existing facilities were constructed many years ago. Older equipment, even if maintained in accordance with good engineering practices, may require significant expenditures to maintain efficiency, to comply with environmental requirements, to provide safe and reliable operations, and / or to meet related retirement obligations. FINANCIAL, ECONOMIC, AND MARKET RISKS The electric generation and energy marketing operations of the traditional electric operating companies and Southern Power and the natural gas operations of Southern Company Gas are subject to changes in energy prices and fuel costs. The generation, energy marketing, and natural gas operations of the Southern Company system are subject to changes in energy prices and fuel costs, which could increase the cost of producing power, decrease the amount received from the sale of energy, and / or make electric generating facilities and natural gas distribution systems less competitive. The market prices for these commodities may fluctuate significantly over relatively short periods of time as a result of changes in supply and / or demand, which could increase the expenses and / or reduce the revenues of the Registrants. For the traditional electric operating companies and Southern Company Gas' regulated gas distribution operations, such impacts may not be fully recoverable through rates. **Southern Power and the traditional electric operating companies purchase natural gas as a fuel source for their power generation needs and the natural gas distribution utilities purchase natural gas for sale to their customers. Accordingly, the price of natural gas affects, among other things, Southern Power' s and the traditional electric operating companies' costs of generation and the natural gas distribution utilities' cost of natural gas. Natural gas remains a volatile commodity. Slight supply and demand imbalances can quickly result in significant price moves both up and down. These price movements may be short- lived, but the impacts can be pronounced. Natural gas supplies, primarily from the Permian and Haynesville regions, have continued to grow; however, this growth has been accompanied by LNG export growth. Forward curves project prices will remain in the range of mid- to high- $ 3 per mmBtu, approaching $ 4 per mmBtu, through 2030; however, short- term price volatility is expected and future prices could be materially impacted by various factors, including unexpected geopolitical events as well as government policies related to natural gas infrastructure development, production, and exports.** The traditional electric operating companies and Southern Company Gas from time to time have experienced and may continue to experience underrecovered fuel and **purchased power and** / or purchased gas cost balances. While the traditional electric operating companies and Southern Company Gas are generally authorized to recover fuel **and purchased power** and / or purchased gas costs through cost recovery clauses, recovery may be delayed or may be denied if costs are deemed to be imprudently incurred. The Registrants are subject to risks associated with a changing economic environment, customer behaviors, including increased energy conservation, and adoption patterns of technologies by the customers of the Subsidiary Registrants. The consumption and use of energy are linked to economic activity. This relationship is affected over time by changes in the economy, customer behaviors, and technologies. **An economic downturn could be caused by a variety of factors, including wars, geopolitical instability, acts of terrorism, political or financial crises, pandemic health events, or cyclical economic factors.** Any economic downturn could negatively impact customer growth and usage per customer. Additionally, any economic downturn or disruption of financial markets, both nationally and internationally, could negatively affect the financial stability of customers and counterparties of the Subsidiary Registrants. Outside of economic disruptions, changes in customer behaviors in response to energy efficiency programs, changing conditions and preferences, legislation, or changes in the adoption of technologies could affect the relationship of economic activity to the consumption of energy. For example, some ~~cities~~ **jurisdictions** in the United States have banned the use of natural gas in new construction. Both federal and state programs exist to influence how customers use energy, and several of the traditional electric operating companies and natural gas distribution utilities have **state** PSC or other applicable state regulatory agency mandates to promote energy efficiency. Customers could also voluntarily reduce their consumption of energy in response to decreases in their disposable income, increases in energy prices, or individual conservation efforts. **I- 22** In addition, the adoption of technology by customers can have both positive and negative impacts on sales. Many new technologies utilize less energy than in the past. However, electric and natural gas technologies such as electric and natural gas vehicles can create additional demand. The Southern Company system **seeks** ~~uses best available methods and experience~~ to incorporate the effects of changes in customer behavior, state and federal programs, **state** PSC or other applicable state regulatory agency mandates, and technology, but the Southern Company system' s planning processes may not accurately estimate and incorporate these effects. The operating results of the Registrants are affected by weather conditions and may fluctuate on a seasonal basis. In addition, catastrophic events could result in substantial damage to or limit the operation of the properties of a Subsidiary Registrant. Electric power and natural gas supply are generally seasonal businesses. The Subsidiary Registrants have historically sold less power and natural gas when weather conditions are milder. Volatile or significant weather events could result in substantial damage to the transmission and distribution lines of the traditional electric operating companies, the generating facilities of the traditional electric operating companies and Southern ~~I- 22~~ Power, and the natural gas distribution and underground storage facilities of Southern Company Gas, which is likely to negatively impact revenue. The Subsidiary Registrants have significant investments in the Atlantic and Gulf Coast regions and Southern Power and Southern Company Gas have investments in various states that could be subject to severe weather and natural disasters, including hurricanes and wildfires. Further, severe drought conditions can reduce the availability of water and restrict or prevent the operation of certain generating facilities. These volatile weather events may result in unexpected increases in customer load, requiring procurement of additional power at wholesale prices, or create other grid reliability issues. In the event a traditional electric operating company or Southern Company Gas experiences any of these weather events or any natural disaster or other catastrophic event, recovery of costs in excess of reserves and insurance coverage is subject to the approval of its state PSC or other applicable state regulatory agency. The traditional electric operating companies from time to time have experienced and may continue to experience deficits in their storm cost recovery reserve balances. Additionally, the applicable state PSC or other applicable state regulatory agency may deny or delay recovery of any portion of such costs. In addition, damages resulting from significant weather events occurring within a Subsidiary Registrant' s service territory or otherwise affecting its customers may result in the loss of customers and reduced demand for energy for extended periods and may impact customers' ability to perform under existing PPAs. Acquisitions, dispositions, or other strategic ventures or investments may not result in anticipated benefits and may present risks, including risks not originally contemplated. Southern Company and its subsidiaries have made significant acquisitions, dispositions, and investments in the past and may continue to do so. Such actions cannot be assured to be completed or beneficial to Southern Company or its subsidiaries. Southern Company and its subsidiaries continually seek opportunities to create value through various transactions, including acquisitions or sales of assets. Specifically, Southern Power continually seeks opportunities to execute its strategy to create value through various transactions, including acquisitions, dispositions, and sales of partnership interests, development and construction of new generating facilities, and entry into PPAs primarily with investor- owned utilities, IPPs, municipalities, and other load- serving entities, as well as commercial and industrial customers. Additionally, Southern Company Gas has made significant investments in existing pipelines, most of which are operated by third parties. If one of these agents fails to perform in a proper manner, the value of the investment could decline and Southern Company Gas could lose part or all of its investment. In addition, Southern Company Gas is required to fulfill capital obligations to pipeline joint ventures. Southern Company and its subsidiaries may face significant competition for transactional opportunities and anticipated transactions may not be completed on acceptable terms or at all. In addition, these transactions are intended to, but may not, result in the generation of cash or income, the realization of savings, the creation of efficiencies, or the reduction of risk. These transactions also involve risks, including that they may not result in an increase in income or provide adequate or expected ~~funds~~ **cash flows** or return on capital or other anticipated benefits; they may result in Southern Company or its subsidiaries entering into new or additional lines of business, which may have new or different business or operational risks; they may not be successfully integrated into the acquiring company' s operations, internal control processes, and / or accounting systems; the due diligence conducted prior to a transaction may not uncover situations that could result in financial or legal exposure or may not appropriately evaluate the likelihood or quantify the exposure from identified risks; they may result in **impairment or** decreased earnings, revenues, or cash flow **; they may result in credit rating downgrades for Southern Company or its subsidiaries** ; they may involve retained obligations in connection with transitional agreements or deferred payments related to dispositions that subject Southern Company or its subsidiaries to additional risk; Southern Company or the applicable subsidiary may not be able to achieve the expected financial benefits from the use of funds generated by any dispositions; expected benefits of a transaction may be dependent on the cooperation, performance, or credit risk of a counterparty; minority investments in growth companies may not result in a positive return on investment; or, for the traditional electric operating **I- 23** companies and Southern Company Gas, costs associated with such investments that were expected to be recovered through regulated rates may not be recoverable. Southern Company and Southern Company Gas are holding companies and Southern Power owns many of its assets indirectly through subsidiaries. Each of these companies is dependent on cash flows from their respective subsidiaries to meet their ongoing and future financial obligations. Southern Company and Southern Company Gas are holding companies and, as such, they have no operations of their own. Substantially all of Southern Company' s and Southern Company Gas' and many of Southern Power' s respective consolidated assets are held by subsidiaries. Southern Company' s, Southern Company Gas' and, to a certain extent, Southern Power' s ability to meet their respective financial obligations, including making interest and principal payments on outstanding indebtedness, and, for Southern Company, to pay dividends on its common stock, is dependent on the net income and cash flows of their respective subsidiaries and the ability of those subsidiaries to pay upstream dividends or to repay borrowed funds. Prior to funding Southern Company, Southern Company Gas, or Southern Power, the respective subsidiaries have financial obligations and, with respect to Southern Company and Southern Company Gas, regulatory restrictions that must be satisfied, including among others, debt service. In addition, Southern Company, Southern Company Gas, and Southern Power may provide capital ~~I- 23~~ contributions or debt financing to subsidiaries under certain circumstances, which would reduce the funds available to meet their respective financial obligations, including making interest and principal payments on outstanding indebtedness, and to pay dividends on Southern Company' s common stock. A downgrade in the credit ratings of any of the Registrants, Southern Company Gas Capital, or Nicor Gas could negatively affect their ability to access capital at reasonable costs and / or could require posting of collateral or replacing certain indebtedness. There are numerous factors that rating agencies evaluate to **determine** ~~arrive at~~ credit ratings for the Registrants, Southern Company Gas Capital, and Nicor Gas, including capital structure, regulatory environment, the ability to cover liquidity requirements, other commitments for capital, and certain other controllable and uncontrollable events. The Registrants, Southern Company Gas Capital, and Nicor Gas could experience a downgrade in their ratings if any rating agency concludes that the level of business or financial risk of the industry or the applicable company has deteriorated. Changes in ratings methodologies by the agencies could also have a negative impact on credit ratings. If one or more rating agencies downgrade any Registrant, Southern Company Gas Capital, or Nicor Gas, borrowing costs likely would increase, including potential automatic increases in interest rates or fees under applicable term loans and credit facilities, the pool of investors and funding sources would likely decrease, and, particularly for any downgrade to below investment grade, significant collateral requirements may be triggered in a number of contracts. Any credit rating downgrades could require altering the mix of debt financing currently used and could require the issuance of secured indebtedness and / or indebtedness with additional restrictive covenants binding the applicable company. Uncertainty in demand for energy can result in lower earnings or higher costs. The traditional electric operating companies and Southern Power each engage in a long- term planning process to estimate the optimal mix and timing of new generation assets required to serve future load obligations. Southern Company Gas engages in a long- term planning process to estimate the optimal mix and timing of building new pipelines, replacing existing pipelines, and entering new markets and / or expanding in existing markets. These planning processes must project many years into the future to accommodate the long lead times associated with the permitting and construction of new generation and associated transmission facilities and natural gas distribution facilities. Inherent risk exists in predicting demand as future loads are dependent on many uncertain factors, including economic conditions, customer usage patterns, efficiency programs, and customer technology adoption. Because regulators may not permit the traditional electric operating companies or the natural gas distribution utilities to adjust rates to recover the costs of new generation and associated transmission assets and / or new pipelines and related infrastructure in a timely manner or at all, these subsidiaries may not be able to fully recover these costs or may have exposure to regulatory lag associated with the time between the incurrence of costs and the recovery in customers' rates. In addition, under Southern Power' s model of selling capacity and energy at negotiated market- based rates under long- term PPAs, Southern Power might not be able to fully execute its business plan if market prices drop below original forecasts. Southern Power and / or the traditional electric operating companies may not be able to extend or replace existing PPAs upon expiration, or they may be forced to market these assets at prices lower than originally intended. The traditional electric operating companies are currently obligated to supply power to retail customers ~~and~~ **, as well as** wholesale customers under long- term PPAs. Southern Power is currently obligated to supply power to wholesale customers under long- term PPAs. At peak times, the demand for power required to meet this obligation could exceed the Southern Company system' s available generation capacity. Market or competitive forces may require that the traditional electric operating companies purchase capacity in the open market or build additional generation and transmission facilities and that Southern Power purchase energy or capacity in the open market. Because regulators may not permit the traditional electric operating companies **I- 24** to pass all of these purchase or construction costs on to their customers, the traditional electric operating companies may not be able to recover some or all of these costs or may have exposure to regulatory lag associated with the time between the incurrence of costs of purchased or constructed capacity and the traditional electric operating companies' recovery in customers' rates. Under Southern Power' s long- term fixed price PPAs, Southern Power may not be able to recover all of these costs. ~~I- 24~~ The businesses of the Registrants and Nicor Gas are dependent on their ability to successfully access capital through capital markets and financial institutions. The Registrants and Nicor Gas rely on access to both short- term and longer- term capital markets as a significant source of liquidity to meet capital requirements not satisfied by the cash flow from their respective operations. If any of the Registrants or Nicor Gas is not able to access capital at competitive rates or on favorable terms, its ability to implement its business plan will be limited due to weakened capacity to fund capital investments or acquisitions that it may otherwise rely on to achieve future earnings and cash flows. In addition, the Registrants and Nicor Gas rely on committed credit facilities as back- up liquidity for access to low cost money markets. Certain market disruptions, **whether in the United States or globally,** including an economic downturn or uncertainty, continued increases in interest rates, bankruptcy or financial distress at an unrelated utility company, financial institution, or sovereign entity, capital markets volatility and disruption, either nationally or internationally, changes in tax policy, volatility in market prices for electricity and natural gas, actual or threatened cyber or physical attacks on facilities within the Southern Company system or owned by unrelated utility companies, future impacts of ~~the COVID- 19 pandemic or other~~ pandemic health events **, geopolitical instability** , war or threat of war, or the overall health of the utility and financial institution industries, may increase the cost of borrowing or adversely affect the ability to raise capital through the issuance of securities or other borrowing arrangements or the ability to secure committed bank lending agreements used as back- up sources of capital. Furthermore, some financial institutions may be limited in their ability to provide capital to the Registrants as a result of such financial institution' s investment criteria, including criteria related to GHG. ~~Additionally, since a portion of the Registrants' and Southern Company Gas Capital' s indebtedness bears interest at variable rates based on LIBOR, uncertainty related to its announced phase out and alternative reference rates may adversely affect financing costs. Any replacement benchmark rates may be relatively new, fundamentally different from LIBOR, and / or more volatile than other benchmark or market rates. SOFR has been identified as the current replacement benchmark rate for LIBOR in the United States, although the SOFR market is not yet fully developed.~~ If sources of capital for the Registrants or Nicor Gas are reduced, capital costs could increase materially. Failure to comply with debt covenants or conditions could adversely affect the ability of the Registrants, SEGCO, Southern Company Gas Capital, or Nicor Gas to execute future borrowings. The debt and credit agreements of the Registrants, SEGCO, Southern Company Gas Capital, and Nicor Gas contain various financial and other covenants. Georgia Power' s loan guarantee agreement with the DOE contains additional covenants, events of default, and mandatory prepayment events relating to the **ongoing operation and / or** construction of Plant Vogtle Units 3 and 4. Failure to meet those covenants beyond applicable grace periods could result in accelerated due dates and / or termination of the agreements. Volatility in the securities markets, interest rates, and other factors could substantially increase defined benefit pension and other postretirement plan costs and **affect** the funding available for nuclear decommissioning. The costs of providing pension and other postretirement benefit plans are dependent on a number of factors, such as the rates of return on plan assets, discount rates, the level of interest rates used to measure the required minimum funding levels of the plan, changes in actuarial assumptions, government regulations, and / or life expectancy, and the frequency and amount of the Southern Company system' s required or voluntary contributions made to the plans. Changes in actuarial assumptions and differences between the assumptions and actual values, as well as a significant decline in the value of investments that fund the pension and other postretirement plans, if not offset or mitigated by a decline in plan liabilities, could increase pension and other postretirement expense, and the Southern Company system could be required from time to time to fund the pension plans with significant amounts of cash. See MANAGEMENT' S DISCUSSION AND

ANALYSIS – ACCOUNTING POLICIES –" Application of Critical Accounting Policies and Estimates – Pension and Other Postretirement Benefits" in Item 7 herein and Note 11 to the financial statements in Item 8 herein for additional information regarding the defined benefit pension and other postretirement plans. Additionally, Alabama Power and Georgia Power each hold significant assets in their nuclear decommissioning trusts to satisfy obligations to decommission their nuclear plants. The rate of return on assets held in those trusts can significantly impact both the funding available for decommissioning and the funding requirements for the trusts. See Note 6 to the financial statements under" Nuclear Decommissioning" in Item 8 herein for additional information. Shareholder activism could cause Southern Company to incur significant expense, hinder execution of Southern Company' s business strategy, and impact Southern Company' s stock price. Shareholder activism, which can take many forms and arise in a variety of situations, could result in substantial costs and divert management' s and Southern Company' s board' s attention and resources. Additionally, such shareholder activism could give rise to perceived uncertainties as to Southern Company' s future, adversely affect the Southern Company system' s relationships with its employees, customers, regulators, or service providers, and make it more difficult to attract and retain qualified personnel. Also, Southern Company may be required to incur significant fees and other expenses related to activist shareholder matters, I- 25 including for third-party advisors. Southern Company' s stock price could be subject to significant fluctuation or otherwise be adversely affected by the events, risks, and uncertainties of any shareholder activism. The Registrants are subject to risks associated with their ability to obtain adequate insurance at acceptable costs. The financial condition of some insurance companies, actual or threatened physical or cyber attacks, natural disasters, and an increased focus on climate issues, among other things, could have disruptive effects on insurance markets. The availability of insurance may decrease, and the insurance that the Registrants are able to obtain may have higher deductibles, higher premiums, and more restrictive policy terms. Further, the insurance policies may not cover all of the potential exposures or the actual amount of loss incurred. The use of derivative contracts by Southern Company and its subsidiaries in the normal course of business could result in financial losses that negatively impact the net income of the Registrants or in reported net income volatility. Southern Company and its subsidiaries use derivative instruments, such as swaps, options, futures, and forwards, to manage their commodity and interest rate exposures and, to a lesser extent, manage **weather and** foreign currency exchange rate exposure and engage in limited trading activities. The Registrants could recognize financial losses as a result of volatility in the market values of these contracts or if a counterparty fails to perform. These risks are managed through risk management policies, limits, and procedures, which might not work as planned and cannot entirely eliminate the risks associated with these activities. In addition, derivative contracts entered into for hedging purposes might not offset the underlying exposure being hedged as expected, resulting in financial losses. In the absence of actively quoted market prices and pricing information from external sources, the valuation of these financial instruments can involve management' s judgment or use of estimates. The factors used in the valuation of these instruments become more difficult to predict and the calculations become less reliable further into the future. As a result, changes in the underlying assumptions or use of alternative valuation methods could affect the reported fair value of these contracts. See Notes 13 and 14 to the financial statements in Item 8 herein for additional information. Future impairments of goodwill or long- lived assets could have a material adverse effect on the Registrants' results of operations. Goodwill is not amortized, but is evaluated for impairment at least annually or more frequently if impairment indicators are present that would more likely than not reduce the fair value of a reporting unit below its carrying amount and long- lived assets are tested for impairment whenever events or circumstances indicate that an asset group' s carrying amount may not be recoverable. At December 31, ~~2022~~ **2023** , goodwill was $ 5. 2 billion and $ 5. 0 billion for Southern Company and Southern Company Gas, respectively. In addition, Southern Company and its subsidiaries have long-lived assets recorded on their balance sheets. To the extent the carrying amount of goodwill or long- lived assets become impaired, the affected Registrant may be required to incur impairment charges that could have a material impact on their results of operations. See Notes 1, 7, 9, and 15 to the financial statements in Item 8 herein for information regarding certain impairment charges at Southern Company and Southern Company Gas.