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The Southern Company NYSE:SO

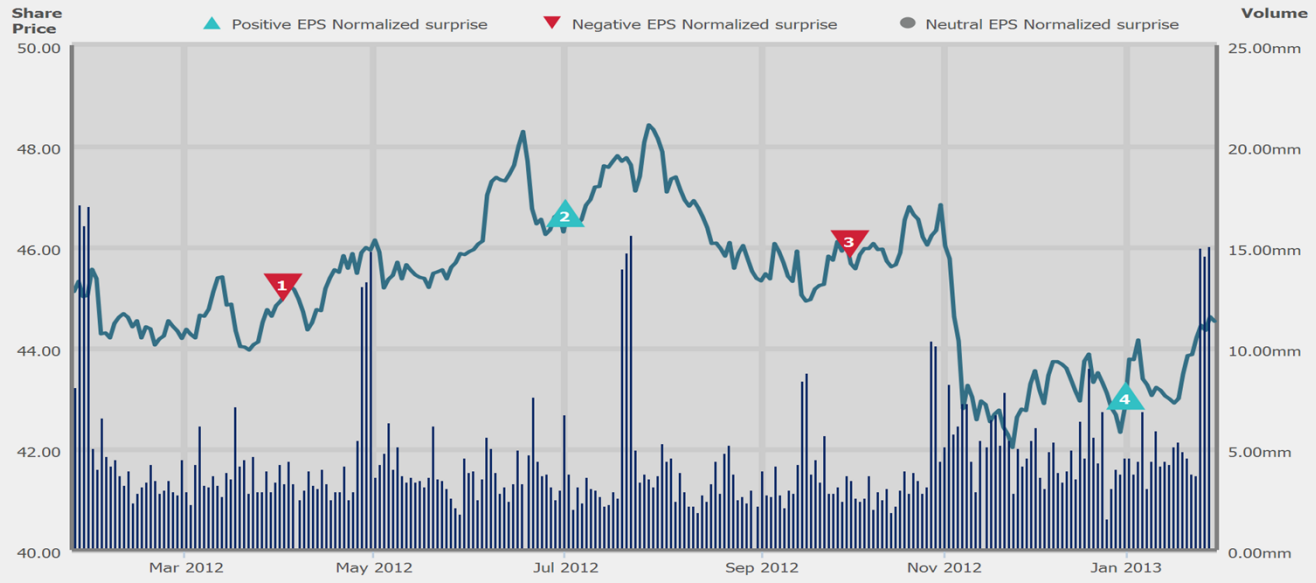
FQ4 2012 Earnings Call Transcripts

Wednesday, January 30, 2013 6:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2012-			-FQ1 2013-	-FY 2012-			-FY 2013-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	0.40	0.44	▲10.00	0.48	2.62	2.68	▲2.29	2.77
Revenue (mm)	4525.29	3703.00	▼(18.17 %)	3870.81	17444.19	16537.00	▼(5.20 %)	18116.70

Currency: USD
Consensus as of Jan-28-2013 11:15 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2012	0.45	0.42	1 (6.67 %)
FQ2 2012	0.68	0.69	2 1.47 %
FQ3 2012	1.13	1.11	3 (1.77 %)
FQ4 2012	0.40	0.44	4 10.00 %

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Presentation

Operator

Good afternoon. My name is Kamika, and I will be your conference operator today. At this time, I would like to welcome everyone to the Southern Company Fourth Quarter 2012 Earnings Call. [Operator Instructions] I would now like to turn the call over to Mr. Dan Tucker, Vice President of Investor Relations and Financial Planning.

Please go ahead, sir.

Daniel S. Tucker
Former Senior VP & Treasurer

Thank you, Kamika. Welcome to Southern Company's Fourth Quarter 2012 Earnings Call. Joining me this afternoon are Tom Fanning, Chairman, President and Chief Executive Officer of Southern Company; and Art Beattie, Chief Financial Officer.

Let me remind you that we will make forward-looking statements today, in addition to providing historical information. Various important factors could cause actual results to differ materially from those indicated in the forward-looking statements, including those discussed in our Form 10-K and subsequent filings.

In addition, we will present non-GAAP financial information on this call. Reconciliations to the applicable GAAP measure are included in the financial information we released this morning as well as the slides for this conference call. To follow along during the call, you can access these slides on our Investor Relations website at www.southerncompany.com. In addition, these slides are now available to download or print.

We plan to cover a lot on today's call. Tom will provide an update on the company's 5 strategic priorities, along with a few highlights of our 2012 operation. Art will then provide an overview of our 2012 financial results and economic outlook and our 2013 sales forecast, highlights of our latest capital expenditure and financing plans and, finally, our earnings guidance and business objectives. After closing remarks from Tom, we will move to Q&A.

As always, our goal will be to engage in a full and open discussion. But we also want to be respectful of your time. Therefore, based on the feedback we have received from many of you, we'll make every effort to end today's conference call no later than 2:15 p.m.

At this time, I'll turn the call over to Tom Fanning.

Thomas A. Fanning
Chairman, President & CEO

Good afternoon, and thank you for joining us. Overall, 2012 was an outstanding year for Southern Company. As we move into 2013 and beyond, I'd like to provide you with an update of our 5 strategic priorities. The first priority is excel at the fundamentals. First and foremost, I want to commend our employees for one of our safest years on record. Nothing is more important than the well-being of our employees, which requires constant focus and an unwavering commitment that we will return each one of them home to their families in good health at the end of each workday. While we were not perfect in this regard in 2012, I'm very proud of our employees' commitment to our Target Zero safety philosophy.

We also recorded another year of outstanding operational results. The peak season equivalent forced outage rate for our fossil/hydro generation fleet has been the leader in the industry for 6 years running and 8 of the last 9. We have also continued our superior performance in transmission and distribution reliability, and our customers continue to benefit from our trend of improvement over the last decade.

We continued the ongoing transformation in our generation mix, generating more energy from natural gas than coal for the first time in our history. Largely as a result of our diverse portfolio and the ability

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to respond to low gas prices, our customers benefited from approximately $1 billion in fuel savings as compared with 2011.

Operational performance, along with our strong commitment to service, resulted in top quartile rankings for customer satisfaction for all 4 of our regulated utilities in 2012. All of these operational accomplishments are evidence of Southern Company excelling at the fundamentals.

The first priority is a broader objective and indicated by any of these metrics. In fact, each of the other 4 priorities I'll discuss is an extension of this first priority.

The second priority is achieving success with our major construction projects, specifically Plant Vogtle Units 3 and 4 and the Kemper Project, both of which are continuing to progress in an outstanding manner. While projects of this scale and magnitude always face unforeseen challenges, we continue to demonstrate our ability to constructively manage those issues and achieve a favorable outcome.

Since our receipt of the first ever combined construction and operating licenses from the NRC in February 2012, significant progress has been made on both units, with construction now approximately 1/3 complete. Specific accomplishments include complete assembly of the Unit 3 containment vessel bottom head, 40% completion of the Unit 3 cooling tower and 90% completion of the Unit 4 containment vessel bottom head. We have also begun assembly of the Unit 4 condenser.

In addition, on Tuesday, the NRC issued no objection letters in response to our preliminary amendment requests. This enables final work to be completed prior to the pouring of the base mat concrete. We intend to pour concrete following the expected issuance of the license amendments later this quarter.

We are anticipating the Georgia Public Service Commission's response to the seventh Vogtle Construction Monitoring Report on February 19th and expect to file the eighth Construction Monitoring Report in late February.

Meanwhile, the Kemper Project is now 35% complete and remains on track for its May 2014 commercial operation date. To date, approximately $2.5 billion has been spent on the project. The plant is scheduled to begin start-up activities this summer with first fire going to the CTs in June and the first gasifier heat-up taking place in December. Reliable SIM gas is expected to begin flowing to the CTs in February 2014.

As many of you are aware, Mississippi Power signed an agreement with the Mississippi Public Service Commission last week that includes a procedural schedule and framework for cost recovery for the Kemper Project. This settlement demonstrates once again our long-standing practice of engaging with regulators to achieve constructive solutions and provides a greater level of transparency on cost recovery for this project. We held a separate analyst call regarding this settlement last Friday. A replay and related documents can be found on our Investor Relations website.

As an update since that call, Mississippi made its first filing under the settlement agreement this past Friday. The company asked for $172 million in rate relief, which represents a 21% increase in customer bills. If approved, we expect those rates to be implemented as early as April 2013.

Also, the legislation permitting securitization and multiyear rate stabilization has been sponsored by the chairs of the House Public Utilities Committee and the Senate Energy Committee. Both bills have been single referred and passed out of their respective committees earlier today. We look forward to monitoring their progress over the next few weeks.

Overall, we continue to anticipate that Vogtle Units 3 and 4 and the Kemper Project will benefit our customers with clean, safe, reliable and affordable energy for decades to come.

The third priority involves promoting a sensible national energy policy. This is an area that is especially important right now with the fiscal issues the country is facing and the potential for economic recovery on the horizon. We have seen some progress in this area recently with the December passage of a bill that preserves a rational approach for dividend and capital gains taxes, a discussion in which we were particularly active. This development should help maintain our ability to attract capital for future energy infrastructure investments, but more work remains to be accomplished and we will continue to have an

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active voice in those debates. We will continue to argue for a balanced approach to energy resources and emphasis on energy innovation through proprietary research and development and the importance of restoring America's financial integrity, all for the benefit of the customers we serve.

The fourth priority is promoting Smart Energy. As you know, we achieved a major milestone in 2012 with the completion of 4.4 million Smart Meter installations in Georgia, Alabama and Florida. We believe, however, that the concept of Smart Energy involves more than just the building of a Smart Grid. It's a much broader concept that also includes generation, transmission, distribution and beyond the meter uses of electro-technologies. In fact, it's really more than all of that. It's really about energy innovation and the way in which we can use technology to help drive better service and reliability for our customers. We will continue to dedicate ourselves toward achieving that outcome.

The fifth priority, and it's really the foundation of our business, is about valuing and developing our people. We will continue to drive performance and accountability in 2013 while also continuing our emphasis on succession planning and cross-training. Over the past 2 years, we had transferred some 700 employees across system lines, improving the breadth and depth of our expertise and sharpening the skill sets of many of our key leaders. We will continue with this approach in 2013 and beyond.

I'll now turn the call over to Art for a financial and economic review.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Thanks, Tom. As you can see from the materials we released this morning, we had strong 2012 results for both the fourth quarter and the full year. For the fourth quarter of 2012, we earned $0.44 per share compared to $0.30 per share in the fourth quarter of 2011. For the full year 2012, we earned $2.70 per share compared to $2.57 per share in 2011. Our full year 2012 results include a $21 million net benefit, or $0.02 per share, recorded during the second quarter of 2012 for an insurance recovery associated with the 2009 Mirant bankruptcy settlement. Excluding this item, full year 2012 earnings were $2.68 compared with $2.57 per share for 2011. As a reminder, our earnings per share guidance for 2012 was $2.58 to $2.70, and our adjusted results were in the top end of that range.

Several factors affected our year-over-year results for 2012. Two of the most significant drivers were the weather and our ability to respond to it, as reflected in our successful effort to improve operating efficiencies in our business units. Weather in 2012 for our service territory was milder than normal across most of the year, which had a negative impact of $0.11 per share. Weather in 2011 was quite the opposite, driving a positive $0.09 per share impact. This means that weather had a negative $0.20 per share impact year-over-year. Largely offsetting this impact was reduced nonfuel O&M for our traditional operating companies, which drove a positive $0.11 per share contribution for 2012 as compared to 2011.

The other significant driver for 2012 as compared to 2011 was retail revenue effects for our traditional operating companies, which contributed a positive $0.22 per share. In our slides, we have provided a summary of all the year-over-year EPS drivers for 2012. We have also included drivers for the fourth quarter in the appendix for your reference.

Turning now to a discussion of our retail sales results for 2012. Total weather normal retail sales for the full year grew 0.4% over 2011 and 1.7% for the fourth quarter. Industrial sales grew at 0.2% for the full year 2012. After a weak third quarter, fourth quarter industrial sales grew 1.2% over the fourth quarter of 2011. During the fourth quarter of 2012, 6 of our top 7 industrial segments reflected energy sales growth over the same period in 2011. Chemicals, our largest segment, grew 2% for the quarter. Other highlights for the fourth quarter include automotive manufacturing with energy growth -- sales growth of 7%, petroleum refining with 6% and lumber with 9%. This expansion in fourth quarter energy usage was supported by 3% year-over-year growth in manufacturing jobs, twice the national rate, and 1.4% growth in total employment in our geographic footprint.

We ended 2012 with 23,000 additional residential customers. This helped drive weather normal growth of 1.1% in residential sales, our strongest annual growth in that sector since the recession began. While our fourth quarter numbers reflect the benefit of additional customers, they also reflect the expected reversal

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of the year-over-year revenue anomalies to which we alluded in our last earnings call. As a reminder, we explained that Georgia Power had refined its methodology for calculating unbilled sales using Smart Meter data, which provides greater accuracy compared to previous years in which the process required more estimates.

As we peel back the numbers and look across our operating companies, we are very encouraged by what we see in the residential sector with overall growth of 1.1% in 2012, about half of which is accounted by customer growth and the rest by increases in usage, indicative of a strengthening economy. Despite promising trends in industrial residential sales -- in industrial and residential sales, our commercial sales had remained essentially flat on a weather normal basis.

From an economic development standpoint, the potential project pipeline in our service territories remains robust. The current projection includes more than 300 potential projects, representing up to 40,000 jobs and $9 billion in capital investment. The recent announcement of General Motors adding more than 1,000 highly skilled IT jobs in Atlanta for its new IT service center is evidence of the type of projects our jurisdictions pursue. This announcement adds to a string of 1,000-plus job announcements in 2012 that included major companies like Airbus, Caterpillar, Ingalls Shipbuilding and Baxter International. In fact, since the fourth quarter of 2010, we have seen a total of 10 such announcements, representing nearly $6 billion in capital expenditures.

However, many companies continue to delay final decisions on expansions and relocations until Congress further resolves looming fiscal issues. These conditions, which were noted during our last earnings call, continue to persist despite congressional action in December on income, dividend and capital gains taxes.

Earlier this month, we reengaged with our economic roundtable participants. As a reminder, this group consists of several regional economists and executives from a handful of our largest customers. The roundtable participants helped to validate the observations we gleaned from our fourth sales results and the assumptions we made in our 2013 forecast, which include forecasted GDP growth of approximately 2%. Most of the economist's believe that most of this growth will be driven by the higher than 2% growth in the second half of 2013, offsetting what is likely to be a slow start for 2013 while Congress contemplates its fiscal issues.

Most outlooks include an assumption for an improved global economy in 2013, which could positively affect exports out of our region. Industrial production is seen as improving with an emphasis on business-oriented goods. Participants also observed that housing markets in the region are continuing to rebound with foreclosures decreasing and inventories of developed lots falling towards replacement levels. These trends, along with continued positive migration into the region, bode well for continued residential customer growth in our markets. Finally, our roundtable participants were cautious in their outlook for the commercial sector but do see growth emerging, particularly in the private sector.

That brings us to our forecast of total retail sales for 2013, which we are projecting at 1%. This forecast is essentially the midpoint of a potential -- a range of potential economic scenarios that result in sales growth of between 0.7% and 1.3%. Industrial sales growth is projected to be 2% for 2013. This growth rate is reflective of previously announced industrial expansions as well as a continuation of some of the increased activity we saw in the fourth quarter of 2012. Commercial sales growth is projected to be 0.5% while residential sales are expected to grow at 0.6%. Our residential customer growth assumptions for 2013 are consistent with our 2012 results of 23,000 new customers.

Now I'd like to update you on our latest capital expenditure forecast and our financing plan. Our 3-year forecast for capital expenditures totals $16.5 billion. As in previous years, the largest component of our forecast is maintenance, which totals $4.2 billion for the 3-year period. Environmental compliance spending, including our capital cost to comply with the MATS rule, is also significant at $3.6 billion.

Of the $2.4 billion 3-year total CapEx for Southern Power, approximately $2 billion is allocated as placeholders for potential acquisitions for new self-build projects that fit Southern Power's rigid investment criteria, including the requirement for long-term contracts with creditworthy counterparties. These placeholders contemplate additional solar projects, primarily in the Southwestern United States, and efficient natural gas generation projects, which are a prominent part of Southern Power's portfolio. As

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mentioned in our last earnings call, we are exploring opportunities to apply our low-risk business model in other regions of the country where co-ops, municipals and perhaps even other investor-owned utilities would benefit from securing long-term capacity through bilateral agreements.

Moving now to our financing plan, our forecast assumes long-term security issuances of $9 billion for 2013 to 2015. This financing plan does not assume any refunding or refinancing of existing securities, something we have done extensively over the past few years to lower the average cost of our portfolio to 3.8% while lengthening the average maturity to 15 years.

We continue to target a consolidated equity ratio of approximately 44%. Based on the capital expenditure forecast of our traditional operating companies alone, we do not anticipate any equity need for the 3-year period. To the extent Southern Power finds projects that meet its rigorous investment criteria, we could need as much as $300 million in any 1 year.

Now I'd like to share our earnings guidance for 2013. For 2013, we are establishing an annual guidance range of $2.68 to $2.80. This represents a growth rate of approximately 4% over our 2012 EPS guidance range and encompasses numerous planning scenarios for normal variances in weather, the economy and operating expenses. Our long-term earnings growth rate is 4% to 6%, represented by a range extrapolated from the top and bottom of our 2013 guidance -- annual guidance. This slight revision in our long-term growth rate is consistent with the significant reduction we've seen in environmental compliance capital, which had been further reduced in our latest update to reflect the longer compliance horizon for potential coal ash and water rules and the cumulative effect of slow economic growth over the past few years.

One final note on our earnings outlook, our first quarter 2013 earnings per share estimate is $0.51.

As most Southern Company investors know, our common dividend has been a key component of our value proposition for decades. 2012 marked the 11th year in a row that our dividend was increased, a practice that continued even during the difficult economic times of just a few years ago. We have always taken the long-term view of dividend and recognize that the informational content of our policy around dividends and actions is important. Supported by the earnings growth assumed in our guidance, our financial plan contemplates a growing dividend, consistent with the path chartered over the past several years.

I'll now turn the call back over to Tom for his closing remarks.

Thomas A. Fanning
Chairman, President & CEO

Thanks, Art. I am always proud and almost never surprised by our ability to deliver superior results. For more than a decade now, Southern Company has maintained a singular, steadfast commitment to a low-risk, customer-focused business model that, in turn, has resulted in an outstanding track record of operational and financial performance. Our ability to sustainably deliver clean, safe, reliable and affordable electricity continues to be the foundation for our success.

We maintain that same focus for Southern Power, remaining committed to a low-risk business model that delivers exceptional value to shareholders.

As we do with our traditional operating companies, we keep it very simple with Southern Power. In short, we require Southern Power to: first, sign long-term bilateral contracts; second, partner with creditworthy counterparties, primarily co-ops and municipals; and third, take no or minimal fuel or transmission risk. Sticking to this model has produced solid results for Southern Power since it was formed in 2001 and has kept that business unit poised to deliver continued value and growth going forward.

Our ultimate objective is to deliver superior risk-adjusted total shareholder return. Over the last decade, this has been driven by strong earned returns for our traditional operating companies, steadily growing cash flow and earnings at Southern Power, stable earnings per share growth and, finally, a sustainable, growing dividend, all of this while maintaining the best overall financial integrity and credit ratings in the industry.

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In today's uncertain world, none of us in this industry know what challenges may lie ahead. Southern Company has demonstrated a track record of anticipating future challenges and managing them successfully for the benefit of our customers and our investors.
We appreciate your interest in Southern Company, and we take seriously our obligation to build successfully for the future. We are now ready to take your questions. So operator, we'll now take the first question.

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Question and Answer

Operator

[Operator Instructions] Our first question is from the line of Greg Gordon with ISI Group.

Gregory Harmon Gordon
ISI Group Inc., Research Division

So I guess when I look at the -- when I look at your earnings growth forecast for 2 -- for the next several years, as articulated by the growth rate, your growth rate, the high end, is slightly lower; you're at 4.4% to 6% versus what you thought you could do on a multiyear basis off of last year's base earnings, which is 4% to 7%. And I know a lot of stuff moves around in your CapEx forecast, where you're spending money, how you're financing it, but if you could summarize what are the key factors that have caused you to reduce the high end of the growth rate for us, that would be helpful.

Thomas A. Fanning
Chairman, President & CEO

Yes, it was simple. What we said last year -- I know we got a lot of questions before about, "How do you hit 7% growth year-over-year-over-year?" And it really dealt with the outcome on the MATS compliance. Remember last year and even the years before, we were projecting, with the proposed MATS rule, something like 17 baghouses. As a result of the final rule, recall there were like 11 comments, 11 major segments of comments, that were filed by EEI that we were pretty influential in. One of those dealt with schedule. 10 of them dealt with some technical issues that were critically important. And as a result of the resolution of at least 4 of those 10, it's caused us not to build 17 baghouses but 4. There were other corresponding changes, but the net effect is that CapEx over the 3-year period is less than what we would have projected. The other thing that is in our CapEx that you will notice is that we have pushed out CapEx associated with ash and water. So we'll see how that resolves itself, but in the 3-year period, we're not showing any CapEx associated with proposed rules there. That...

Gregory Harmon Gordon
ISI Group Inc., Research Division

Got you. Got you. And so it's -- it doesn't -- but it doesn't have to do in any meaningful way with a reevaluation of what you think your authorized returns will be or whether or not certain assets are going to go fully into rates over time, like Vogtle, or the way that the Kemper County plant is going to be treated?

Thomas A. Fanning
Chairman, President & CEO

It has absolutely nothing to do with those issues.

Operator

Our next question is from the line of Paul Ridzon with KeyBanc.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

Can you just comment, your expectations for O&M relative to '12 and your '13 guidance? And then secondly, probably 5 years, 6 years back, you were pretty bullish on the outlook for Southern Power, and then you tapered expectations a little bit. It sounds like you're getting more positive. Is that a fair read of your commentary?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

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Yes, Paul, let me deal with your O&M question first. And in spite -- if you look over the last 3 or 4 years, none of those years was normal in terms of our O&M spend. We were either holding back or spending more because of good weather, so it's an excellent question. But let's approach it this way from giving you a baseline to work with. If you take 2012 nonfuel O&M and you add from -- you add $200 million to $250 million back to that number and then grow that number by 3.5% to 4%, we think you're going to be in the ballpark of what a normal level of nonfuel O&M would be that we're expecting. Now the second part of your question relates to Southern Power.

Thomas A. Fanning
Chairman, President & CEO

So let me jump on that one. I guess it's on your slide package. On Page 20, we have some charts that show a variety of statistics, including Southern Power net income. You may note that in 2012, we had our best year ever, earning net income at $175 million. We did have one downturn, that was in '10, and that was really associated with the downturn in the economy. So that kind of explains that. Yes, we are bullish for Southern Power. They have this wonderful, I think, business model that we've replicated to have a risk profile similar to our traditional operating companies whereby we have long-term bilateral contracts, creditworthy counterparties, little or no fuel or transmission risk. We think that works wonderfully. We think, frankly, we've been turning down business kind of outside the Southeast. And we think that we're willing to consider some projects outside the Southeast but which meet our rigorous business model. Frankly, we think this is a gap that we can help fill in some of the deregulated markets, particularly, in the near term, Texas and MISO. So let's just see what happens there. Otherwise, we've been reasonably active in the renewable space. So you've noticed our announcements on solar projects. We've done the biomass deal. We've been immensely successful there in Texas. So I think we can continue that track record and continue to build for the future.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

And just your financing plans. Excluding any opportunities to Southern Power, did I hear you say there's no equity needs? Does that mean no DRIP or new program shares? How should I interpret that?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, we would -- in 2012, Paul, we actually bought back some shares with the proceeds from stock options that basically left us at a close to a 0 point in 2012. We would expect to do the same thing outside of Southern Power's equation in '13 through '15 as well.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

So basically, again, excluding your assumptions around Southern Power, a flattish share count for the next few years?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, yes.

Operator

Our next question is from the line of Ali Agha with SunTrust.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Listen, when I look at your -- again, going back to your '13 guidance, if I look at 2012, you reported $2.68, and then you told us that weather, which was normal, hurt you by about $0.11. So on a weather-normalized basis, you would have been around $2.79, if my math is right. So your '13 guidance, $2.68 to

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$2.80, suggests that, at best, you're flat and really could be down if you would take the midpoint or lower. I know Art talked about O&M, but is there anything else that's causing -- assuming normalized weather, why would you guys be flat at best in '13 versus '12?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, Ali, again, we talked a lot in the last call about the uncertainty around the economic outcomes in '13, and we're still allowing for, I guess, some of that downside effect because there are still a lot of unknowns out there. There are still a lot of people on the sidelines waiting for signals to move ahead. And that has nothing to do with -- you've added back weather to the number without considering what we would have done with O&M. And the facts are we cut a drastic amount of O&M in 2012 in order to offset that weather impact. And so you can't make the single assumption that your earnings would have been, if weather had been normal, just adding back that piece. It just doesn't work that way.

Thomas A. Fanning
Chairman, President & CEO

I mean, think about it. We improved earnings by $0.11, and we had headwinds of year-over-year weather of $0.20. So we've kind of been through this before, I think. We do manage our O&M based on the stress of the system, based on weather. Also, with the advent of weather-related revenues, we take advantage to, in essence, fix the roof while the sun is out and actually add more maintenance. The evidence that this all works is borne by the fact that our operational performance in terms of our generation fleet, in terms of our transmission distribution, in terms of our customer satisfaction numbers are spectacular.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Okay. And Tom, if I will it a little bit further because in your assumptions, you have assumed 1% weather-normalized sales growth kind of midpoint for '13. As I recall the old equation, that equates to about $0.08 or $0.09 of earnings incrementally in '13. So it looks to me that it's all coming back to the cost side, going back, Art, to your point about the comparisons. Is that fair? I mean, because you're getting weather-normalized sales growth in there, and yet, again, you're seeing flattish comparisons. Is it all coming on the cost side?

Thomas A. Fanning
Chairman, President & CEO

I hate to say that it's all coming on one side. I think what we've been able to demonstrate on the cost side is that we've been able to manage our business exceptionally well from an operational and customer standpoint and respond to changing conditions, be they economic, be they weather, be whatever. This notion of Value Line, counting Southern as one of a handful of companies they follow, is having an earnings predictability score of 100%, but we can never predict the future. We've been able to provide our earnings per share growth over the years that is regular, predictable, sustainable, and that strategy has enabled us to have a dividend policy that likewise is regular, predicable and sustainable and allows us to have dividend increases even during downturns in the economy when a lot of people pull back. I think the strategy we're putting forward here, with earnings per share range that we have and forward expectations of 4% to 6% earnings per share growth, will enable us to continue in that vein for years to come.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, I think there's another element there as well. I mean, when you think about economic growth, we certainly didn't get the weather normal sales growth we expected in '12. So you're starting from a lower base there. And our growth rate around the economy and our sales growth continues to be less than historical levels. So until we get back -- all of our segments back into full engagement, it's going to be difficult to move the range higher than what we have outlined here.

Ali Agha

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SunTrust Robinson Humphrey, Inc., Research Division

And just for Tom, one quick one on the contractor dispute at Vogtle. Any updates to share?

Thomas A. Fanning
Chairman, President & CEO

Not really. I really don't have much to say there.

Operator

Our next question is from the line of Daniel Eggers with Credit Suisse.

Kevin Cole
Crédit Suisse AG, Research Division

This is actually Kevin, on his team, sorry for he couldn't appear. I guess another question on demand growth. So I guess we fully appreciate your comments regarding uncertainty around D.C. policy and the evolution of your tone from cautiously optimistic to just cautious last quarter. But nonetheless, it sure seemed like the Southeast continues to outpace the rest of the country. And so how should we think about the visible industrial recovery kind of working into a residential demand recovery? And what do you think the likelihood is, is that we're actually receiving the residential recovery today, but...

Thomas A. Fanning
Chairman, President & CEO

Yes. Yes, Dan, I wish you guys could see how we obsessively prepare for these calls, I mean, really work our language and try -- we really struggled with what our language should be about our expectations, and I forget when we say we're optimistically cautious this time. Listen, we are seeing signs of recovery here. While we did see kind of a flattening in the last half of '12 of industrial sales, when we look at our economic development backlog and we have -- think about this. Only 0.3% of manufacturing facilities employ 1,000 people or more. The Southeast over the last 2 years has gotten 10 of those. And in fact, we've gotten 5 recently, and some of those could be significant. Airbus has 1,000 people, direct employees, but, we think, 4,000 indirect. You add on top of that Caterpillar and Baxter and Ingalls and a variety of other things, GM IT workers, and we're starting to see, I think, in the residential and the customer growth numbers the fact that we are adding jobs in the Southeast. Look, we could be conservative here. I mean, I'll admit that. But let me give you one more comment on the fiscal side. When we gave you the comments in October on that call -- I have to compliment our economic forecasting guys and the marketing people at Southern that are very close to their customers. I think we were right on the money with what happened in the economy in the Southeast. And I feel good kind of about where we are now. I think the issues -- remember we talked about uncertainty related to fiscal issues and the fiscal cliff and all that. We did avoid the fiscal cliff in a so-called way, but I would argue what we really did was a tax patch. It was helpful and certainly helpful to our industry and any dividend-related investment, but we still have fiscal issues to deal with. The constructive kind of evolution of that discussion really goes through the notion, I think, that Congress will not use the national debt ceiling as hostage in these deliberations, rather moving to a more constructive approach of proposing solutions, for example, that are sensible like requiring the Senate to come up with a budget. So we still have big issues, but I think the issues are being handled in a more constructive manner. And I think, therefore, our kind of color on where we believe the economy is headed is slightly more bullish than we were, say, in the third quarter. We are expecting a back-end loaded economic recovery, but I feel pretty good about it right now based on what we see.

Kevin Cole
Crédit Suisse AG, Research Division

Okay. And I guess [indiscernible] I guess with the -- I guess give us -- you have visibility into getting like backlog of industrial jobs coming to your region. And then, like to Greg's question, it seems like the growth rate today was lower due to a deferral of CapEx versus an abandonment of CapEx. And so should we assume that the growth rate -- and I guess the legacy growth rate of 5% to 7%, we could possibly return for the next guidance season of -- for 2014?

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Thomas A. Fanning
Chairman, President & CEO

Who knows what will happen in the future? But yes, I mean, the near term -- the Greg Gordon answer was exactly the right answer. I mean, how we got to 7% before was building a lot of baghouses with 17. It was that kind of CapEx environment because we were successful in arguing some of the technical issues on HAPs MACT for the benefit of our customers. We're not going to spend as much CapEx complying with MATS. And therefore, because we're deploying less capital, the growth rate dropped on the top side from 7% to 6%. But the fundamentals of our business remain strong. Who knows what happens outside the 3-year period? And recall, the CapEx associated with ash and with 316(b) and a variety of those issues are really out of this 3-year period, so the presumption, as you're making, is they're in the next 3-year period. We'll see. We only comment on the 3-year period we see ahead. Look, I think the fundamentals for our business are exceedingly strong. And I think the cards we have, while we all have challenges, I'm very bullish on our ability to deal with the challenges of the future and maintain this kind of growth rate. I think our track record speaks for itself.

Operator

Our next question is from the line of Kit Konolige with BGC.

Kit Konolige
Konolige Research, LLC

How -- with regard to Southern Power, does your interest in other regions now have anything to do with a perception that there's a lower growth rate in the core region?

Thomas A. Fanning
Chairman, President & CEO

Yes. I mean, not really. But, I mean, it is a little slower when you think about kind of our focus is on either renewables -- and that has been where the renewables are, desert Southwest largely, a little bit in Texas. Otherwise, gas-fired generation. When you look at, I think, some of the flaws of the deregulated markets, the so-called organized markets, they've not been able to build within those market structures long-term capacity commitments. We think we have demonstrated success in a business model which permits those kinds of investments to occur. So we see some attractive markets available. Southern Power has brought some of those deals back to us, and we have kind of said no, that we like where we are. The question we've been asking ourselves over the past year or so is, "Why not? Why shouldn't we pursue those kinds of opportunities so long as we can still meet the rigorous business model that we have in place?" I think we can do that.

Kit Konolige
Konolige Research, LLC

And can you give us a little more color on the -- a kind of a little closer view of what types of projects you'd be looking at, what regions? I think you mentioned Texas and MISO.

Thomas A. Fanning
Chairman, President & CEO

Well, Kit, it would be similar to what we've been doing. Southern Power's capacity is something like 95% gas fired. So it's going to be combined cycle, maybe some CTs. And the other thing I would just add to you, when we think about the Southern Power strategy, this is not a significant contributor in the next year or 2 or 3. Rather, our strategy here positions us well long term. Said another way, we're going to be able to hit the 4% to 6% growth even without Southern Power adding new projects in any other region.

Operator

Our next question is from the line of Mark Barnett with Morningstar.

Mark Barnett
Morningstar Inc., Research Division

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Just a couple of quick questions. I know this is kind of a ball that's going stay up in the air until it doesn't. But do you have any kind of update in your expectations for those DOE loans for Vogtle, I mean, whether around timing or size? I know you can replace them pretty easily, but just some general thoughts there.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, Mark, this is Art. We continue to negotiate with DOE. We have extended those discussions officially through midyear. We've had some recent positive movement in those discussions, and we still remain hopeful that we'll be able to come to an agreement. But at the end of the day, we're still looking, too, at the fact that we've been able to finance a lot of Georgia Power's needs at record level of interest rates. So we still have to make the judgments about what's in the best interest of our customer. So we continue to move in that direction, and hopefully, we can come to some agreement with them on the loans this year. But we'll hear -- we'll be hearing more about that throughout the year.

Mark Barnett
Morningstar Inc., Research Division

Okay. And I guess in terms of maybe a follow-up to some of the other questions about Southern Power. You mentioned if there's going to be some upside, it's obviously going to be beyond the 3-year window. Does that mean that you're not currently participating in any RFPs, whether in the Southeast or outside?

Thomas A. Fanning
Chairman, President & CEO

Really, I don't want to comment on anything they're doing from a commercial standpoint, I mean, in terms of participating with RFPs and everything else. If you just look at the trajectory of net income in the package that we've given you, I would follow -- if I were doing planning assumptions, I would follow that trajectory.

Operator

[Operator Instructions] Our next question is from the line of Paul Patterson with Glenrock Associates.

Paul Patterson
Glenrock Associates LLC

Yes, I apologize if I missed this, but the -- I noticed that your growth -- I was wondering whether that 0.6% sort of sales growth for GDP was still the case with your 2013 sales growth forecast. And if I am -- if it is, am I looking at it in that you guys are assuming something between -- something basically at the top end of about 2.2%; and something more likely in the midpoint, under 2%, is for your GDP assumption?

Thomas A. Fanning
Chairman, President & CEO

GDP growth assumption is around 2%.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Around 2%, yes.

Thomas A. Fanning
Chairman, President & CEO

And therefore, our sales growth assumption is around 1% with a range around that.

Paul Patterson
Glenrock Associates LLC

Okay. So you guys are now using about 50% is -- the 0.6% number is basically what you guys are still using, is that basically the way to think about it? Is there no change in that?

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Thomas A. Fanning
Chairman, President & CEO

Yes, yes, yes. And so you can argue that formulation. We'd like to be a little conservative.

Paul Patterson
Glenrock Associates LLC

Okay. And then when we look at...

Thomas A. Fanning
Chairman, President & CEO

Hey, hey, hey Paul, let me add one thing, it's just kind of interesting, we always try and get lagniappe. There has been great interest in net of energy efficiency, are we still seeing consumption growth, and, in fact, we are. We've done more science on that work that we showed a lot of you-all in October -- or I guess it was November at the financial conference. And in fact, what we're seeing is, for the Southeast anyway, energy efficiency has almost no influence on the consumption of our customers. 88% or so of usage can be explained by either the income growth of our customers, the price of our product and weather. If you account for those 3 things, you're speaking for, virtually, all of the usage growth.

Paul Patterson
Glenrock Associates LLC

Okay, so you're seeing very little impact from energy efficiency in your service charge rate so far?

Thomas A. Fanning
Chairman, President & CEO

We are seeing energy efficiency, make no mistake. It's just not reducing usage. You may want to think about it as producing, in essence, a dividend to disposable personal income, and, therefore, people having more money to spend on more stuff.

Paul Patterson
Glenrock Associates LLC

Oh, I got you. So what they don't -- so what they save with various appliances, they're respending on other electric consumption. Is that the way to think about it?

Thomas A. Fanning
Chairman, President & CEO

Yes. And just think about where the economy is going. We all have these goofy devices. We all have iPads and iPhones and bigger plasma TVs and everything else. And when we see the progression of people moving from small homes to apartments into now primary housing, we see growth in kind of square footage per person, if you will. We also have seen, associated with a recovering economy, growth in personal income. All of these things contribute to usage growth.

Paul Patterson
Glenrock Associates LLC

Okay. Now with the residential sales growth, just it seemed very strong in the fourth quarter, and I'm sorry if I missed this again, why was it so strong in the fourth quarter? Was it because of the employment figures you were talking about? I wasn't clear on that exactly. It's 5%, if that's right.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Paul, that -- you'll recall in the third quarter call we talked about a lot of that unbilled issue that we thought was going to rebound in the fourth quarter, and that in fact is what happened. If you look back at the third quarter for residential sales, it was like negative 2.1%. In the fourth quarter, it was positive around 5%, I think.

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Thomas A. Fanning
Chairman, President & CEO

Yes, it's a little over 5%.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

So what you saw here is a rebound. Now the percentages aren't alike, but they shouldn't be because you're moving kilowatt-hours out of a very heavy quarter of usage into a quarter of usage which is rather light, so the percentages are going to get skewed.

Paul Patterson
Glenrock Associates LLC

Okay. And just on an annual basis, we don't have to alleviate that. Is that all evened up for the year pretty much?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, I think you're more comfortable and more safe looking at the year-to-date number.

Operator

I'm sorry, our next question will come from the line of Brian Chin with Citigroup.

Brian James Chin
Citigroup Inc, Research Division

More of a federal policy question. There's been a lot of media chatter since the inauguration speech about Obama's inclusion of climate change in that. And Tom, obviously, you're pretty close with a number of the key opinion makers in Congress and on Capitol Hill. With regards to the spot that the executive branch could try to resuscitate carbon regulation or carbon tax, can you sort of update your thoughts there that you can give us relative to what you told us at EPI?

Thomas A. Fanning
Chairman, President & CEO

Yes. So I think there's very little chance of anything like that getting through Congress. So you're right to kind of look at, will EPA be able to put something in place that will advance that cause. So right now, we know that EPA is evaluating or has made a proposal on new sources. Interestingly, you know that Southern's the only company still committed to robust proprietary research and development. We developed our own technology. The Kemper County plant actually meets and exceeds the proposed new standards for carbon for new generation. So that's kind of interesting. We'll see how that goes. There's lots of comments going in, and we'll wait eagerly to see what the final rule looks like. But it is pretty clear that if the proposed rule is anything like -- I mean, the final rule is anything like the proposed rule, conventional coal generation is just not doable. So they're really making an energy policy statement there. One of the things that I've been pretty vocal about here lately, and that is this energy policy issue, I've been very clear that energy policy is the purview of Congress. Congress has the portfolio, really, as we do, in thinking broadly about the ramifications of such policy mechanisms. For example, we say we need clean, safe, reliable, affordable energy. EPA will tend to focus on clean without taking into account perhaps all the other issues that are so important to balance our customers' welfare. I go back to the families we serve, 48% of which make $40,000 or less. Those folks make tough kitchen table economic decisions every day. Their demand for energy is relatively inelastic. And so anything the EPA does which adds cost to energy tends to slow down our economic recovery and causes them to make choices for things like housing, health care, food and education. These are broad policy areas that are better handled in Congress rather than a single regulatory agency. We'll be enjoying in this discussion as it evolves in the months ahead.

Brian James Chin

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Citigroup Inc, Research Division

Great. And any thoughts on carbon regulation for preexisting plans being executed by EPA without Congressional study?

Thomas A. Fanning
Chairman, President & CEO

We'll see. Nothing to say at this point.

Operator

Our next question is from the line of Michael Lapides with Goldman Sachs Asset Management.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Two questions unrelated to each other. First question, can you talk little about Vogtle just in terms of there was some testimony in the seventh monitoring report regarding just potential delays, especially if the concrete pour didn't occur in the fourth quarter of 2012. Just kind of give a broad update in terms of just where you are versus the schedule and how the schedule may or may not move. And then second, when you think about Southern Power, there are more infrastructure funds and various energy funds out there than there probably are projects. And you have what is a collection of very good assets that many of which are contracted for a very long time. Just curious if you've thought about monetizing that business in terms of is that a business that's potentially better off in the hands of an entity that might capitalize it with significantly more leverage than a publicly traded utility company might use?

Thomas A. Fanning
Chairman, President & CEO

Yes. So Mike, let me hit that last one first. We've kind of chatted about that for years. Wait a minute, we are EVA-driven here. In other words, we always kind of look at what is the return on invested capital versus our cost of capital. If we can beat our cost of capital, we create value for shareholders with every dollar we invest. So that's kind of how we think about Southern Power. And from time to time, there do kind of develop in the market opportunities to monetize those assets. We certainly consider that. And you remember one time, it got pretty hot. My caution to you there would be that we remain customer focused. And many of our customers are co-ops and munis who had entrusted us with full requirements obligations for long periods of time. We want to honor the relationship we have with those customers. That's why we get the business. And so we're not going to just transact to get the next dollar. We want to be very careful to take a long-term view on developing the customer base and growing as much value in a sensible way as possible. With respect to Vogtle, we talked a lot about that in the past, and I'm going to kind of point you to the VCM 8 that you're very aware of -- I mean, in terms of VCM 7 testimony, you obviously are very aware of, and there was a lot of discussion back and forth about that. And recall that we were reluctant to kind of weigh in, in a very specific way. In the VCM 7 discussion, it was clear that our contractors were operating on kind of a mid-'17, mid-'18 schedule. There was a schedule that our contractors were following. We had not agreed to that schedule. Recall that the commercial dispute we have of our contractors deals with delays that came from the licensing, from the DCD to the COL, and how that may manifest itself in the project. What I would do, I think, most constructively here, is point you to our filing in VCM 8, which will be at the end of February, in which we will provide more clarity about our point of view on schedule.

Operator

Our next question is from the line of Jonathan Arnold with Deutsche Bank.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

Tom, one question I have just on the growth story is, you described 2013 as being a weak first half, and then something of a rebound in the second half and then sort of it nets out to 1%. So what kind of

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sales growth are you embedding in your 4% to 6% earnings growth assumption beyond '13? And how do the segment pieces look here versus what you've shown us on '13, which I guess is a bit weighted to industrial and less residential?

Thomas A. Fanning
Chairman, President & CEO

The longer term -- I guess the longer -- the question will go to, Jonathan -- I'll make sure I'm answering this right -- is kind of a longer-term GDP expectation. And we kind of think that our electricity sales will migrate upwards into, say, a 1.4%, 1.5% kind of range for years beyond this year. Is that helpful?

Jonathan P. Arnold
Deutsche Bank AG, Research Division

So that's kind of what underpins your 4% to 6%? So if we see that, could that nudge you back up again? Or is that...

Thomas A. Fanning
Chairman, President & CEO

Yes, yes, yes. So...

Jonathan P. Arnold
Deutsche Bank AG, Research Division

But is...

Thomas A. Fanning
Chairman, President & CEO

I'm sorry. Go ahead.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

No. So just to be clear, the 4% to 6% is predicated on 1% or more like 1.5%? Or am I getting too cute with the numbers?

Thomas A. Fanning
Chairman, President & CEO

You're a little cute, but it's 1% this year. And beyond this year, kind of 1.4% going forward. But the bigger indicator, I think, is watch CapEx. If you look at rate-based growth based on the CapEx we're showing, roughly $5.5 billion a year. Augmented by whatever Southern Power does opportunistically, I feel very confident in our 4% to 6% range.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

Okay, that's helpful, Tom. And then in the -- can I also ask on Vogtle, and there've been these press reports about their vessel being stranded in the port and issues with the railcar. Can you kind of give us your sort of version of what's going on with that story? How big an issue is it; is it not an issue?

Thomas A. Fanning
Chairman, President & CEO

Yes, I hope I don't offend anybody here. I think that's been overreported a bit. The vessel never really left the car. We turned the car back up. We've put it back in the port, and they're managing it. It provides interesting pictures, but I don't think it's particularly important. We'll be able to manage that little bump in the road -- excuse the pun -- and we'll continue with our progress in an outstanding way.

Jonathan P. Arnold

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Deutsche Bank AG, Research Division

So not something that'll influence you one way or the other really?

Thomas A. Fanning
Chairman, President & CEO

No, sir.

Operator

Our next question is from the line of Anthony Crowdell with Jefferies.

Anthony Christopher Crowdell
Jefferies LLC, Research Division

A question on Kemper. In the press, some of the utility press, it had a story about, on Monday, about the Supreme Court in Mississippi was questioning the constitutionality of the, I guess, the settlement you entered into last Thursday. Can you provide any color on that?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, Anthony, this is Art. There are a couple of issues at Supreme Court, one being the Sierra Club's appeal. There is another issue that is brought by an individual out of Hattiesburg that is challenging the constitutionality of the Base Load Act, basically, that would provide for cash CWIP before the plan was operational.

Thomas A. Fanning
Chairman, President & CEO

And then the third one was the issue of actually the company -- it was really kind of muted by the company and the commission agreeing with the settlement agreement. And in front of the Supreme Court, those folks basically put that issue in abeyance. Our expectation is, ultimately, that case will be dismissed. So of the 3 pieces, one has kind of been muted by the settlement agreement. We think it'll be dismissed in the future. The second is an individual from Hattiesburg on the other side of the Attorney General of Mississippi. And then the third is just...

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Sierra Club.

Thomas A. Fanning
Chairman, President & CEO

Sierra Club appealing the second amended certificate, which we think is fine.

Anthony Christopher Crowdell
Jefferies LLC, Research Division

Is there a time frame when the Supreme Court has to act on this? Or they actually don't have a window when they have to give of a decision on it?

Thomas A. Fanning
Chairman, President & CEO

No time frame that we know of.

Operator

Our next question is from the line of Andrew Weisel with Macquarie Capital.

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Agnieszka Anna Storozynski
Macquarie Research

It's actually Angie Storozynski. I -- most of my questions have been asked and answered, but I have a question regarding the O&M reduction in the fourth quarter. Could you tell us how much of that was associated with the Hurricane Sandy?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, Angie, there was a number of things that influenced the fourth quarter, and one of those was -- you hit it right on the head -- was our sending -- I can't remember the number...

Thomas A. Fanning
Chairman, President & CEO

2,400.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

People up north. For some, some were there for up to 2 weeks. So that helped offset some O&M that we expected to be spent in our service territory...

Thomas A. Fanning
Chairman, President & CEO

That was about $0.01, a little under $0.01, but you round up to $0.01.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Some other issues were bad debt expense was way down. It was not only down in the fourth quarter, but it was actually down throughout the quarter compared to year-over-year. That provided basically another $0.01 of benefit.

Thomas A. Fanning
Chairman, President & CEO

And that was lower bills. So you had the benefit of lower fuel expense, you had mild weather, you had personal income growth associated with the economy. So as essentially disposable income went up, bad debt expense went down.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. And then there were a variety of small accounting adjustments that might add to $0.005, maybe a little more. I won't go into that detail, but the -- we also had lower O&M than expected. We kind of back-ended our activities on O&M through the third and fourth quarter, and so that's why you saw more of it in the fourth. But the facts are that because we ran so much gas generation last year, we were able to push a lot of maintenance outages that may have been scheduled on some of our coal units because they just weren't needed as much, and we had some room to work there.

Thomas A. Fanning
Chairman, President & CEO

In fact -- where was it -- our Eastern coal units had a capacity factor in the high 20.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Exactly.

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Thomas A. Fanning
Chairman, President & CEO

So they just weren't stressed very much. The other thing is, along with Smart Grid, along with our Smart Meters, along with a variety of other initiatives that we have in place, the system is just operating more efficiently. We make systematic improvements in our business practices, we create optionality in our expenses and I think our 26,000 employees did a great job.

Agnieszka Anna Storozynski
Macquarie Research

Okay. Secondly, the share buyback in the fourth quarter, I might have missed that in previous quarters. Have you done those before?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, we were trying to target our -- match our equity with what was going on in our construction program, and we target approximately a 44% equity ratio. So in order to get there, we had talked about -- I guess, 2 quarters ago, 2 calls ago, about buying back some of that equity that was being issued to keep us at a certain target. We ended up the year at a 43.7% equity ratio, which is kind of right where we'd like to see it. So we're right on target with where we expect it.

Thomas A. Fanning
Chairman, President & CEO

And that's the second time we -- we also funded our pension. How much?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, that's true. We've put $445 million into our pension this year, at the end of 2012. Our PBO funding ratio was at 90% for the pension liability, and it's 84% when you throw in the non-qualified liabilities.

Thomas A. Fanning
Chairman, President & CEO

So we're in great shape.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

So we're in great shape in that respect.

Thomas A. Fanning
Chairman, President & CEO

So we really took advantage of the good performance. I'm sorry. Go ahead, I'm sorry.

Agnieszka Anna Storozynski
Macquarie Research

My last question is the low-growth assumptions. I heard your views on energy efficiency. When you look at the EIA, so Department of Energy's expectations of low growth, I mean, even they expect about 1% or even slightly below 1%. So your 1.4% assumption, is that a function of migration into the Southeast?

Thomas A. Fanning
Chairman, President & CEO

Well, EIA does not account for weather. When you account for weather -- in fact, if EIA dialed down their national projections for the Southeast and then you account for weather, they are right on where we are. That's the difference.

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Arthur P. Beattie
Former Executive VP & Chief Risk Officer

I think it's also point to out that nationally, there's a lot of talk about weather being hotter than normal last year. Actually, in the Southeast, it was very mild. So that's something that's influencing their numbers as well.

Thomas A. Fanning
Chairman, President & CEO

That's the point.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes.

Thomas A. Fanning
Chairman, President & CEO

So when you look at a hot weather year and then you go to a normal weather year, the assumption would be from EIA that growth is low. Well, but when we do it, when we strip all of the stuff out, and we can get very granular, I really believe our numbers.

Agnieszka Anna Storozynski
Macquarie Research

I was actually referring to longer-term numbers, but that's fine.

Thomas A. Fanning
Chairman, President & CEO

Yes, that's the same thing. Okay. Thank you.

Operator

Our next question is from the line of Ashar Khan with Visium.

Ashar Khan

Tom, can I just ask you? I might have missed it, I apologize. Southern Power's profile of earnings starting from what you reported '12 going forward is -- what is incorporated in this 3-year outlook or in the growth rate? I apologize, I might be repeating the question.

Thomas A. Fanning
Chairman, President & CEO

I don't think we really specifically said anything about that. We're kind of -- they were $175 million this year. We're kind of looking at $190 million, $175 million, $190 million. We're looking at some projected growth every year out of those guys. We generally don't comment on anything beyond the current year for them. But you should expect some continued growth trajectory.

Ashar Khan

Okay. So you're saying this year, between $175 million and $190 million?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes.

Thomas A. Fanning
Chairman, President & CEO

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We're going to hold them accountable in their pay for improving on their performance in 2012.

Ashar Khan

Okay, okay. Because I was just trying to think, right, you're putting in like nearly 15% of your CapEx dollars into the subs, so there has to be some return coming from that CapEx dollars.

Thomas A. Fanning
Chairman, President & CEO

So it depends on what the projects are. So like if you do solar projects, which typically are much more kind of near-term oriented in terms of their cash flow as a result of tax benefits, you tend to get more of a near-term pop. If you're dealing with the gas combined cycle, those tend to have a longer construction period and longer-term profiles. So it just depends on what kind of projects they do.

Ashar Khan

Yes, but let me ask you, wouldn't you be more inclined to -- like even my home utility over here in New York has gone into solar. Isn't like solar in near term getting that more -- something more on your wish list versus building or getting, acquiring a gas plant?

Thomas A. Fanning
Chairman, President & CEO

You know what? We really like long-term results. We are always cautious, as a matter of corporate dogma, not to invest in tax-advantaged investments as a primary strategy because that tends to be addictive behavior. In order to provide a long-term growth trajectory, you have near-term pops and you've got to double it for the next year and double it for the next year and double it for the next year. Then you'll find yourself some years, because of storm activity or a variety of other things, in tax carryforward positions. And therefore, your tax benefits aren't worth what you thought they might be. I don't like particularly tax-advantaged investing as a long-term, good corporate growth strategy. The other thing is they could disappear with the hands of Congress at any time, right? We know that we're in a revenue-hungry Congress. And how long can Congress afford to hand out preferential treatment to the renewables industry? So there will be some tax-advantaged investing in the form of solar investments, I get that, but we really like building long-term books of business that we've done successfully in the past.

Ashar Khan

Okay, okay. And then can I just -- can you just -- Tom, I guess there was this corporation that you guys did with Turner, right? Where does that stand in this whole scheme of things?

Thomas A. Fanning
Chairman, President & CEO

Turner has been a great partner with us and co-investing. I guess what is the ratio? 90:10?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes.

Thomas A. Fanning
Chairman, President & CEO

So we invest 90%, they invest 10%.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Right.

Thomas A. Fanning

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Chairman, President & CEO

And they're great guys.

Ashar Khan

So how much investment has gone into the joint venture; can I ask?

Thomas A. Fanning
Chairman, President & CEO

We don't disclose that. It's not much from their side. I mean, what we do disclose, yes, are the projects we've done, so...

Operator

Our next question will come from the line of Dan Jenkins with State of Wisconsin Investment Board.

Dan Jenkins

I was wondering, when we think about O&M, you talked a little bit about what's going on. But I -- you've also announced a number of plant retirements, particularly small coal plants and so forth. I mean, and how should we think about that affecting O&M, will that just be replaced with some other costs, or will those costs go away related to those plants?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, they're factored into our plan. They'll disappear as we move through time. But they're -- those units are -- probably have capacity factors that are well below the number Tom mentioned a moment ago. So their O&M levels and operation levels aren't very high to begin with. But they'll be factored into our plan and are reflected in our earnings growth rate.

Dan Jenkins

Okay. And then I was curious, in your last quarter, you included a couple of slides that showed some upcoming construction for both Vogtle and Ratcliffe, and I just wondered if you could give us an update. Are those still the key items that we should be thinking about in the first half of '13, or are there any revisions to those slides?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, we are, Dan, we're -- Tom already mentioned, I think, in his -- some of this remarks, we'll begin to finish up the rebar under this preliminary amendment request that we have been given by the -- approved by the NRC. We'll -- we plan to pour our first nuclear concrete somewhere in March. And after that, we can set the cradle, which will hold the bottom head, and those are expected to be done in the second quarter of the year. So that will move things within the Nuclear Island on along a good bit. So that's kind of where we expect to go with -- at least this version of milestones.

Dan Jenkins

And when do you -- given that you had the shipping problem with the vessel, when does that -- is that on site yet, or when will that be on site?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

I would expect it's going to be on site within the next few weeks. The -- sometime within the quarter.

Dan Jenkins

When is it critical that it would be there, just so we could monitor that?

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Arthur P. Beattie
Former Executive VP & Chief Risk Officer

It's not critical at all. It's way down the list.

Dan Jenkins

Okay. How about with Ratcliffe? You had a number of items that you listed there.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, I think the pictures that we showed you on some of the slides will do more justice than any of the specific descriptions, because you can see just by the pictures alone, year-over-year, that plant has come a long, long way. We've got specific work on the gasifiers going on. That's going to be completed sometime within the next quarter. And that is a critical piece of it. We still have piping that is being installed as well. So those are kind of the critical elements at this point.

Operator

Thank you. And at this time, there are no further questions, sir. Are there any closing remarks?

Thomas A. Fanning
Chairman, President & CEO

Yes, thanks very much, operator. I just want to thank everybody on the phone, and I appreciate everybody's kind of economy in their questions. We love to engage you in a very transparent way. We hope we've done that on this call. Certainly, if there's any follow-up, Dan Tucker, Art, myself, Jimmy Stuart, others are glad to engage you on any other issues you want to follow up on.

Thank you for following our company. We'll do our best to earn your trust in the months ahead. Thanks very much.

Operator
Thank you, sir. Ladies and gentlemen, this does conclude the Southern Company Fourth Quarter 2012 Earnings Call. You may now disconnect.

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