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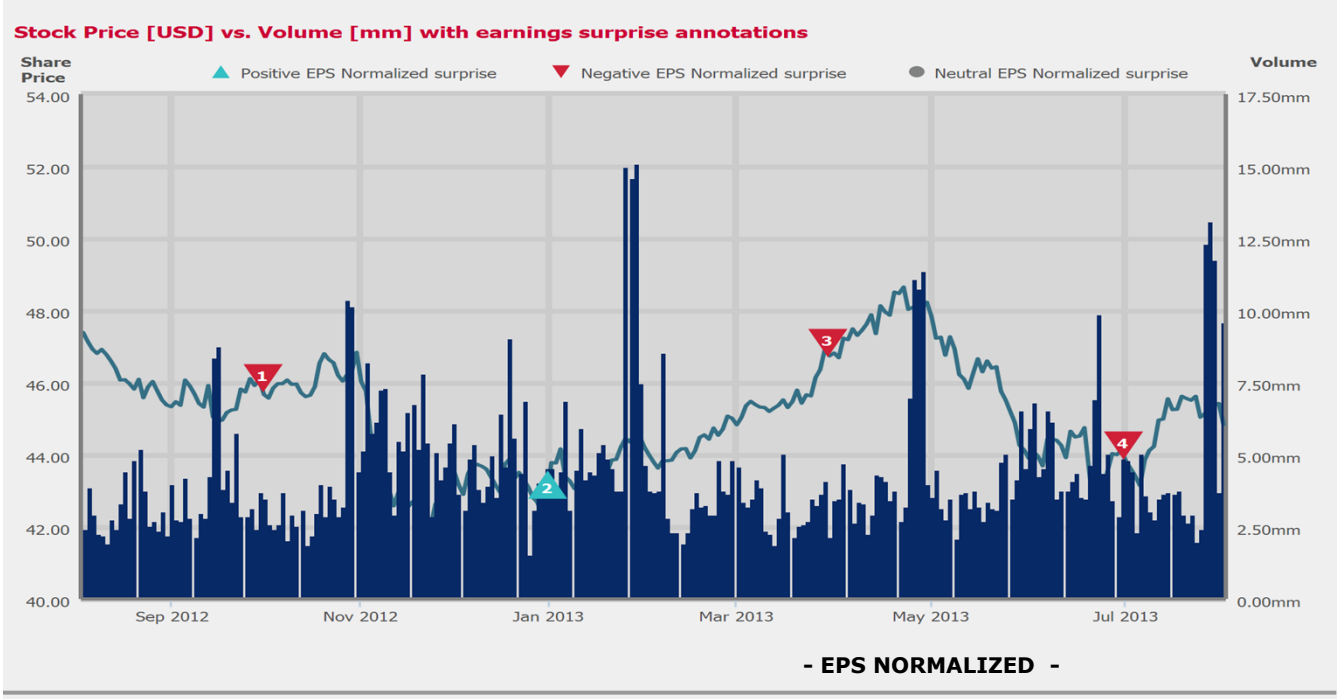
FQ2 2013 Earnings Call Transcripts

Wednesday, July 31, 2013 5:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2013-			-FQ3 2013-	-FY 2013-	-FY 2014-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.68	0.66	(2.94 %)	1.14	2.75	2.87
Revenue (mm)	4299.62	4246.00	(1.25 %)	5390.68	17181.84	17798.26

Currency: USD
Consensus as of Jul-31-2013 4:35 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2012	1.13	1.11	(1.77 %)
FQ4 2012	0.40	0.44	10.00 %
FQ1 2013	0.50	0.49	(2.00 %)
FQ2 2013	0.68	0.66	(2.94 %)

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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's Second Quarter 2013 Earnings Call. [Operator Instructions] As a reminder, this conference is being recorded today, Wednesday, July 31, 2013. 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 Second Quarter 2013 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 in our Investor Relations website at www.southerncompany.com. Tom will open today's call with an update on regulatory activities, as well as the latest from the construction of Plant Vogtle Units 3 and 4 and the Kemper County IGCC project. Art will then provide an overview of our second quarter financial results, as well as the discussion on sales and the economy and a brief update of our financing plans. After closing remarks from Tom, we will move to Q&A.

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. Our company continues to excel in its long-standing mission of providing clean, safe, reliable and affordable energy to the customers and communities we serve, and our 26,000 employees remain committed to the customer-focused philosophy that has been the firm foundation of our company's first 100 years. Throughout our business, we are developing innovative solutions to the energy challenges that confront our region and our nation. We also continue through our traditional operating companies to engage constructively with elected and appointed officials at all levels of government. In fact, all of our operating companies have significant state regulatory activity and progress during 2013.

Here's a summary: Alabama Power completed a series of informal hearings 2 weeks ago to review the rate stabilization and equalization, or RSE, rate-setting process. These hearings included constructive engagement by the Public Service commissioners, staff, intervenors and the public. We believe that Alabama Power demonstrated that its return on total invested capital is fair and reasonable and serves its customers' long-term interest. We expect to learn the results of this review later this summer.

Georgia Power has arguably the busiest calendar for the year, with 3 major regulatory filings. First, Georgia Power filed its integrated resource plan in February, which was recently approved by the Public Service Commission. This was an important step forward in affirming Georgia Power's plans for complying with the Mercury and Air Toxic Standards or MATS rule. Included in the PSC ruling was the decertification of approximately 2,100 megawatts of older coal generation units and fuel switching for another 1,400 megawatts.

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Second, Georgia Power filed its eighth Vogtle Construction Monitoring, or VCM report, in February and is currently in hearings regarding its request. Georgia Power is seeking approval for actual costs of $209 million incurred from July through December of 2012. As yet another demonstration of our constructive regulatory environment, Georgia Power entered into a stipulation with the PSC staff today to waive the requirement to amend the certified cost during construction. This agreement, which is subject to PSC approval, recognizes that the VCM process already addresses the verification and approval of actual expenditures every 6 months. This stipulation also avoids the debating of issues that may be pertinent to Georgia Power's ongoing commercial dispute with the Vogtle 3 and 4 contractors. The decision, which will now only address actual costs through December 2012, is scheduled for October 15.

Third, Georgia Power has proposed a 3-year rate plan and has asked to increase base rate by $482 million, with a onetime increase in January 2014. Hearings are scheduled to be held in October and November, with the decision by the Georgia PSC scheduled for December 17.

Meanwhile, Gulf Power has filed for a base rate increase of $74 million. These rates will become effective in April of 2014. We currently expect hearings to conclude in December, with a decision in the first quarter of 2014.

Finally, at Mississippi Power, a hearing has been scheduled for October 1 to address the 7-year rate plan for Kemper County IGCC. As a reminder, this rate plan will cover the cost of the facilities for the first 7 years of operation, consistent with the settlement agreement we reached with the Mississippi PSC in January of this year.

Finally, I'd like to give you an update on our Vogtle and Kemper County projects. Firstly, on Vogtle. Our progress at Plant Vogtle Units 3 and 4 remains strong, with more than 50% of construction now complete. Since our last earnings call, the Unit 3 containment vessel bottom head has been set and wall structures have taken shape throughout the nuclear island. The Unit 3 containment vessel lower ring is more than 75% complete and the middle ring is more than 40% complete.

Meanwhile, at Unit 4, the nuclear island waterproofing and mud mat activities were completed and the installation of basement rebar is progressing well, applying lessons learned from the same activity conducted for Unit 3. Assembly of the Unit 4 containment vessel bottom head is also complete. Outside the nuclear island, work is proceeding in the turbine building foundation, cooling tower structures and water intake structure, and modifications are being made to existing switchyard and transmission equipment.

Upcoming major milestones expected to be completed in the fourth quarter include the setting of the Unit 3 auxiliary building module, also known as CA-20, and the placement of the first nuclear concrete in the Unit 4 nuclear island. Vogtle remains a great value to Georgia Power's customers. Recall that our original estimate was for a 12% rate increase for capital costs related to Vogtle 3 and 4. However, taking into account all the benefits that have been realized since certification, that estimate has been reduced to a range between 6% and 8%. As well, the remaining annual increases are expected to be less than 1% per year.

Meanwhile, construction at the Kemper County energy facility is also progressing well. Since our last earnings call, the lignite mine has been placed into service and the final heavy lift, as well as a significant portion of the start-up activities for the combined cycling units, has been completed. Recognizing that piping is a key area of focus at this stage of the project, it's important to note that 90% of the piping has been fabricated and almost half is installed, and that we have been achieving our key installation target for steel and pipes.

Looking ahead for the remainder of 2013, start-up activities include the first fire of the first combustion turbine in late August, syncing the steam turbine to the grid in October and heating up the first gasifier by year end. Our May '14 in-service date, to which our construction start-up plans are tied, remains achievable.

Yesterday afternoon, Mississippi Power filed its latest project update with the Mississippi Public Service Commission. This update reflects the results of the most recent review of project activities and costs,

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which included input from additional industry construction specialists. The result of this review is an increase of $450 million to the project completion estimate, which is reflected in the financial results we released this morning. About half of this increase is for expected costs to achieve the schedule, which is centered on 2 key dates, the first gasifier heat-up in late December and the in-service date of May 2014. About 30% of the increase is related to changes in materials and the remaining 20% is related to additional project contingency.

As a reminder, we are honoring our commitment to the Mississippi Power's customers and regulator and are not seeking recovery of plant costs above the $2.88 billion cost cap, net of DOE grants and exceptions to the cost cap.

While productivity, start-up and systems integration remain the most significant risk to the cost estimate and schedule, the Kemper Project team remains focused on executing our plans and safely completing this facility to provide Mississippi Power's customers a clean, safe, reliable and affordable generation resource for decades to come.

I'll now turn the call over to Art for our financial and economic overview.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Thanks, Tom. For the second quarter of 2013, we earned $0.34 per share compared to $0.71 per share in the second quarter of 2012, a decrease of $0.37 per share. For the 6 months ended June 30, 2013, we earned $0.43 per share compared to $1.14 per share for the same period in 2012, a decrease of $0.71 per share. Our results for the second quarter 2013 include an after-tax charge against earnings of $278 million or $0.32 per share related to the increased cost estimates for construction of the Kemper Project. Recall that for the first quarter of 2013, we announced a similar after-tax charge of $333 million or $0.38 per share. This brings the total of after-tax charges related to the Kemper Project to $611 million or $0.70 per share for the 6-month ended June 30, 2013.

As explained previously, Mississippi Power will not seek recovery of estimated cost to complete the facility above the $2.88 billion cost cap, net of DOE grants and exceptions to the cost cap.

Year-to-date, 2013 also included an after-tax charge of $16 million or $0.02 per share for the restructuring of a leverage lease investment recorded in the first quarter of 2013. Also affecting year-over-year comparisons is a $21 million or $0.02 per share of an insurance recovery related to the 2009 litigation settlement with MC Asset Recovery, LLC recorded during the second quarter of 2012.

Excluding these items, earnings for the second quarter of 2013 were $0.66 per share compared with $0.69 per share for the second quarter of 2012, a decrease of $0.03 per share. Earnings for the 6 months ended June 30, 2013, excluded these items -- excluding these items were $1.15 per share compared with $1.12 per share for the same period in 2012, an increase of $0.03 per share.

The primary driver for our second quarter results was milder-than-expected weather resulting in a decrease of $0.04 per share on a quarter-over-quarter basis. Weather was actually $0.03 per share below normal compared with $0.01 per share above normal for the same period a year ago.

As a point of interest, the second quarter of 2013 featured the seventh highest level of rainfall in the past 50 years across all of Georgia and Alabama. While this lowered temperatures and contributed negatively to our earnings, it also enabled us to increase hydroelectric generation by more than 400% compared to the second quarter of 2012. Including the results of the first quarter, this has resulted in fuel cost savings per customers of approximately $70 million this year, further evidence of the significant value provided to our customers by a truly diverse generation portfolio. A more detailed summary of our quarter-over-quarter drivers is included in the slide deck.

Turning now to a discussion of our economic outlook for the remainder of the year. 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 group agreed that the national economic recovery is advancing, but at a very slow pace. GDP in the first quarter grew at 1.8%,

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and estimates indicate the growth in the second quarter was slightly less than 1.5%. GDP growth in the second half of 2013, meanwhile, is expected to be in the 1.5% to 2% range, becoming slightly higher than that in 2014. Economic uncertainty continues to hinder the recovery, with businesses focusing on issues, such as global economic health, costs associated with the Affordable Care Act and U.S. fiscal and monetary policy. We believe that all of these issues are affecting electricity usage among all 3 of Southern Company's customer categories.

The roundtable participants also reaffirmed, however, that the Southeast is once again on track to outpace the national recovery, with the state of Georgia setting the pace. In our region's commercial and residential sectors, real estate developers and retailers are more upbeat based on consistent sales levels, increased construction activity and upward pressure on land and property pricing. Industrial customers, meanwhile, have had a somewhat more tempered outlook on the second half of 2013, driven by the recent slowing of exports and cautious inventory management. However, there is good news in certain segments, with auto production shifting from Asia to the U.S. and increased reshoring activity in appliances and textiles.

In terms of retail sales results for 2013, year-to-date, weather normal sales for all customer classes reflect a decline of 0.7% versus 2012. Adjusted for the leap year effect, overall sales growth is essentially flat.

Focusing on the second quarter total weather normal, retail sales decreased 0.5% when compared with the same period in 2012. Industrial sales grew 0.6% for the second quarter of 2013 compared to the second quarter of 2012. Of our top 8 segments representing more than 70% of second quarter industrial sales, 6 reflected positive growth. Perhaps more importantly, 7 of the 8 reflected better year-over-year growth in the second quarter of 2013 than they did in the first quarter, even when adjusting for the leap year effect. Segments exhibiting the highest growth during the second quarter were primarily in the housing-related segments, such as textiles at 4.2%; lumber at 12.2%; and stone, clay and glass at 5.9%.

Residential sales declined 0.5% and commercial sales declined 1.6% during the second quarter of 2013 on a weather normal basis compared with the second quarter of 2012. From an economic development standpoint, the positive momentum of last year has carried over into 2013, as the Southeast continues to be successful in attracting new industry. The state of Georgia, for instance, is bringing in manufacturing, distribution and new corporate headquarters, as well as communications, IT and life sciences industries. PulteGroup, a construction company and PointClear Solutions, a bioscience firm, are relocating their headquarters to Atlanta. While General Motors, InfoSystems, Ernst & Young and athenahealth are all bringing well-paying IT jobs to Atlanta.

Georgia is also bringing new film studios into the state with the help of tax incentives. For instance, Medient Studios is building a studio complex outside of Savannah and is expected to create 1,200 jobs. While Pinewood Shepperton plc, the producer of the James Bond series, is building a $1 billion movie studio near Atlanta.

According to the Institute of Supply Management, 19 states are leading the U.S. manufacturing resurgence, and Alabama and Mississippi are amongst those at the top. As expressed recently by the Chairman of Airbus Americas, Alabama puts forth an exceptional and well-coordinated effort in locating new industries, such as Airbus, Austal, Mercedes-Benz and ThyssenKrupp, just to name a few. This focus on economic development is basic to our DNA across all of our traditional operating companies, as we continue to work together to encourage economic growth for our region.

Moving now to an update of our financing plan for 2013. We have so far this year issued $1.4 billion of debt securities, with an average life of 19 years at an average rate of 3.1%. Our plans include issuing another $2 billion of debt by year end.

Turning now to our equity issuances. Factoring in the updated Kemper cost estimates, we have updated our financing plan to include approximately $520 million for the remainder of 2013 and approximately $600 million in 2014. We plan to begin issuing new shares through our employee and dividend reinvestment plans in August, shortly after filing our second quarter 10-Q. We should be well positioned relative to our long-term equity ratio of approximately 44% by year-end 2014. Our industry-leading

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financial integrity and A credit ratings continue to be priorities for us, as they have served our customers and investors so well for years.

Now I'd like to share our earnings estimate for the third quarter of 2013, which will be $1.13 per share.

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

Thomas A. Fanning
Chairman, President & CEO

Thanks, Art. As our business environment evolves, Southern Company remains the same, an enterprise that succeeds by excelling at the fundamental and relying on the knowledge, skills and dedication of our people. As always, we continue to focus on the long term, with customers at the center of everything we do. It's enabled us to deliver excellent value drivers, including a commitment to industry-leading financial integrity, regular predictable, sustainable growth in earnings per share, and likewise, dependable dividend growth.
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 comes from the line of Greg Gordon with ISI Group.

Gregory Harmon Gordon
ISI Group Inc., Research Division

First question is on sort of near-term, long-term earnings aspiration. I know that you guys expect GDP growth to be better in the second half. What can/would you do if we get into -- deep into the third quarter and we're still seeing economic conditions sort of below your expectations? Do you have the ability to manage your cost profile, such that we could still be comfortable with this year's earnings guidance?

Thomas A. Fanning
Chairman, President & CEO

Yes, I believe so.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. Greg, we've kind of looked at the sensitivities around that. Of course, weather in the first half was less than what we expected to be, and we flexed around O&M to offset some of that. As we look at the end of the year, if I were to assume that we would get no low growth the remainder of this year, the O&M flex is actually less than what the O&M flex would be last year in terms of our ability to move around that.

Thomas A. Fanning
Chairman, President & CEO

Last year, we made up $0.11 of negative weather, I would think.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

7% -- that's 7.5% reduction in nonfuel O&M from what we had planned.

Thomas A. Fanning
Chairman, President & CEO

Right, so we feel confident.

Gregory Harmon Gordon
ISI Group Inc., Research Division

Okay. And then longer term, is there a reason why your earnings per share growth rate slide is not in this deck as it was in the first quarter, where you were targeting 4% to 6% long-term growth off 2013?

Thomas A. Fanning
Chairman, President & CEO

No, not really. Let's just kind of lay out what we do know. So if you lay out the equity issuances that Art described, kind of year-by-year dilutive impact to that this year is like $0.015, next year is like $0.025 and the third year is $0.02. Cumulatively, that's $0.015, $0.04, $0.06. And that's our best guess at this point, okay? Outside of that, we've got all of these -- as I described in detail, we have all of these regulatory proceedings going. And you know that the outcome of the Georgia hearings are really important to our forward earnings forecast. So we're very confident in our forecast for the year, the earnings range we've described. And as has been our practice and everything else, once we get a little more clarity on these rate regulatory issues, we'll cover long-term guidance, as we always do in our January call.

Gregory Harmon Gordon

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ISI Group Inc., Research Division

Great. So when I look at the financing in the CapEx plans, which you've alluded to here, we're $1 billion higher over the next 3 years relative to the debt that you showed us on the Q4 call. And it looks like the majority of that is in generation, and I'm presuming that the vast majority of that is Kemper?

Thomas A. Fanning
Chairman, President & CEO

That's correct.

Gregory Harmon Gordon
ISI Group Inc., Research Division

Okay. But there, you're also somewhat higher on T&D, which obviously is rate base growth, so that's positive. And there were some other small things, but looks like the vast majority is the generation, right?

Thomas A. Fanning
Chairman, President & CEO

That's it. Of course, there are swing factors. Yes, and the other swing factors will be how active we are at Southern Power.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Correct.

Gregory Harmon Gordon
ISI Group Inc., Research Division

Right, right. Oh, yes, that was -- my last part of that question was those Southern Power numbers are to some degree placeholders for opportunistic transactions to either build or acquire assets, is that right?

Thomas A. Fanning
Chairman, President & CEO

Perfect. That's it.

Operator

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

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Real quickly following a little bit on Greg's question about Southern Power, how much of that CapEx, the $2.4 billion or so is actually spoken for at this point?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, we've got -- we just closed the deal early, I guess, in the first quarter on the Campo Verde. And the amount of total investment there is about $450 million. So there will be some equity allocated to that. But the rest are still placeholders, and we're actively working on other projects, but we're not in a position to make any statements at this time.

Thomas A. Fanning
Chairman, President & CEO

Yes. You know that our practice is only announce stuff when it's basically done. I mean, we're close on some things, but we'll only announce that when we have clarity.

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Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Understood. But -- so it's an area where if you wanted to -- if projects didn't meet the return hurdles compared to some of the regulated businesses you can alternatively invest in, you could ratchet down CapEx from this number at Southern Power pretty quickly?

Thomas A. Fanning
Chairman, President & CEO

Sure. The other issue is as with all of our companies, we have maintenance requirements, which requires capital, et cetera. But you're right. I mean, to the extent we want to ratchet back capital at Southern Company, that is absolutely at our discretion.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

And is there anything in the incremental CapEx in the new generation line, incremental related to Vogtle?

Thomas A. Fanning
Chairman, President & CEO

No.

Operator

Our next question is from the line of Angie Storozynski with Macquarie Capital.

Agnieszka Anna Storozynski
Macquarie Research

So I might have missed it, but how do you incorporate the impact of those write-downs of Kemper County on your equity needs? And should I worry about a potential increase in dilution if those write-downs were to occur again?

Thomas A. Fanning
Chairman, President & CEO

Yes. Angie, that was what I laid out when I was talking with Greg. The annual dilutive impacts of the actions we've taken today are $0.015 in 2013, $0.025 in 2014 and $0.02 in 2015. That relates to the timing of the issuance of the equity, okay? In the aggregate...

Agnieszka Anna Storozynski
Macquarie Research

Yes. But that assumes there's no additional write-downs, right? And you haven't really started the gasifier yet, and isn't that the most crucial portion of the IGCC plant?

Thomas A. Fanning
Chairman, President & CEO

That's right. Let me just repeat, though, just to be very clear with everybody. I gave you individual years. In the aggregate, to give you the aggregate effect, it's $0.015 in '13, aggregate $0.04, aggregate $0.06 in '14 and '15. And you're right, so we believe we've taken action, including adding $100 million to contingency, most of that is related to the start-ups. And you are correct, the most important issues going forward, really, move away from materials to the start-up processes. And when we talk about meeting schedule, it's important for us to highlight 2 guideposts, if you will, 2 milestones. Obviously, the endpoint is targeted in-service date May of 2014. The most important milestone prior to that then will be achieving first fire in the gasifier, which we expect to achieve by year-end '13.

Agnieszka Anna Storozynski
Macquarie Research

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Okay, great. Separately, could you tell us anything about the Alabama? I mean, I see that you're showing a projected decision. But is there a possibility for a settlement, maybe some agreement on shedding some of the ROE and increasing your equity ratio?

Thomas A. Fanning
Chairman, President & CEO

The words we used were very intentional. When you look at Alabama's return on total invested capital, taking into account equity ratios, embedded costs of capital, they have one of the most attractive debt balance sheets all for the benefit of their customers in the utility industry. We think that they are in a very fair position. Rather than guess at what the commission might do, let's wait and see. We think we'll get some clarity reasonably soon there.

Agnieszka Anna Storozynski
Macquarie Research

Okay. And my last question is what's going on with the legal disputes with Shaw?

Thomas A. Fanning
Chairman, President & CEO

So recall, Shaw was purchased by Chicago Bridge & Iron and the dispute really goes to the consortium, which is Westinghouse, Chicago Bridge & Iron, and the leader of the consortium is Toshiba, okay? I can't give you much of an update except to say this: we could settle that shortly or it could get into a prolonged mode and go to litigation. In which case, it would just be whenever the litigation is concluded, it might take some time. I will say that we think that the acquisition of Shaw by Chicago Bridge & Iron was positive in terms of our ability to the negotiate and resolve that dispute. But in terms of giving you any further clarity as to amounts or timing, we're really not in a position to do that. I'll say one more thing. The decision by the Georgia -- the stipulation essentially we've reached with the staff and we think the soon-to-be approval of the Georgia Public Service Commission with respect of eliminating the need for the recertification process, they recognize as one of the important factors is that they don't want to get issues like that in front of our ability to negotiate successfully with the consortium. All of this, I think, is constructive.

Operator

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

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Just to be clear on the stipulation, so if I understood you correctly, you have said that you will withdraw your request to certify the increase in the construction costs. Is that what you're saying in that stipulation?

Thomas A. Fanning
Chairman, President & CEO

Yes. There's 2 factors that I think people recognize. When you consider the effectiveness of the VCM process that is essentially a process whereby the commission evaluates and reviews and approves 6 month's worth of construction on some lags basis. It typically lags 6 months. So in essence, right now in front of the commission, our costs related to July 12 through December 12. We will hear their decision in October. This is the eighth time we've been through the Vogtle Construction Monitoring process. We think it's working exceedingly well. They have an independent monitor, Dr. Bill Jacobs, and that process is going exceedingly smoothly. And we feel like that process is essentially built with suspenders, where you to layer on top of that another process to recertify the plant. So what we've decided, what we've stipulated, too, shall we say, is eliminate the need to recertify, just let the VCM processes work. So there'll be VCM 8, 9, 10, and so on until the conclusion of the project. We feel like that accomplishes the same thing in terms of evaluating costs. And of course, the other thing I just mentioned was you don't want to get issues out in front of the negotiation in terms of being able to resolve successfully the commercial dispute.

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Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Right. But to be clear then, so what you're saying, Tom, is that both any extra costs that you incur as well as any delays that you may incur, is that still -- I mean, your sense is that through the VCM, assuming they approve it, that should implicitly approve any cost overruns, et cetera?

Thomas A. Fanning
Chairman, President & CEO

Yes. And I wouldn't -- and here again I'm just going to pick a little bit. I wouldn't call those cost overruns. I know there are increases in costs. But remember the math here, originally, we were at 12% associated with the capital costs of Vogtle 3 and 4. Now we think we're between 6% and 8%. The remaining annual price increases that we expect to complete Vogtle 3 and 4, less than 1% a year. The $381 million largely increases in costs that are associated with changing the schedule as we have are largely, not exclusively, but largely associated with our own required oversight costs. Recall that the brick-and-mortar costs of Vogtle 3 and 4 over this period has only increased 0.5%. So we think all of these things work exceptionally well. And any of this increase, the $381 million, will not cause an increase in rates to customers. So we think the VCM process is going to handle this exceptionally well. And we don't really need to go through the recertification that was originally contemplated.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Okay. Secondly, just to clarify, as you walked through the math on the equity issuance that you now factored into your plan and the $0.06 of dilution through '15, so when we factor that in, does that still keep you on that 4% to 6% EPS growth rate? Or does everything ratchet down by that $0.06 is the way we should think be thinking about this?

Thomas A. Fanning
Chairman, President & CEO

So the question that we will address in January that I mentioned before, there's a lot in front of us right now on the state regulatory plate, if you will. And obviously, the biggest issue there is Georgia's triennial rate case. The second probably biggest right now will be the Alabama decision. Of course, a bit is related to the Gulf decision. And of course, we have the ongoing process in Mississippi. I think it's best for us all to understand -- if we're talking about a $0.015 and another $0.025 in '14, I mean, that all feels very manageable to me. So what we've got to do rather than try and reassess long-term growth rates is let these processes go through. We'll give you a lot more clarity once we know how we end up in all 4 of our jurisdictions at the end of this year. This is just a big regulatory year for us.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Understood. Last question, Tom, looking at Kemper today with all the information and the extra roughly $1 billion of cost, is that project still as attractive to you as you thought it would be going in, frankly, given where we are today?

Thomas A. Fanning
Chairman, President & CEO

The honest -- let me split that into 2 answers. Is it attractive to Mississippi's customers, if we honor -- as we honor the regulatory settlement that we reached? It has the economics of a nuclear plant, relatively high capital costs, very cheap energy. It's exceedingly attractive in that respect. Is it attractive to Southern shareholders? No. We are taking a hit here. We understand that. Nobody here is happy about that, but that's the honest truth.

Operator

[Operator Instructions] Our next question comes from the line of Paul Ridzon. Mr. Ridzon is with KeyBanc.

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Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

Most of my questions have been answered. I just -- are you reaffirming guidance? I wasn't quite clear.

Thomas A. Fanning
Chairman, President & CEO

We typically don't do that. We give guidance once a year, then we give estimates every quarter. But if you're asking are we confident for the year, yes, we are.

Operator

Our next question is from the line of Steven Fleishman with Wolfe Research.

Steven Isaac Fleishman
Wolfe Research, LLC

Tom, just a clarification on the equity issuance plans. So at the beginning of the year, I think you guys had ranges of 0 to $300 million a year. Should we kind of assume that you're now kind of doing the $300 million for both '13, '14 and then adding another $700 million essentially for Kemper?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, I think that -- Steve this is Art. I think that's fair. I think if you go back to where we were, we kind of -- the way we think about it, kind of wipe out the 0 to $300 million now. We're taking into account the needs for equity capital at Mississippi and possible equity capital needed for Southern Power, and that's what the new numbers represent.

Thomas A. Fanning
Chairman, President & CEO

And we've always suggested we've done Campo Verde, which is $450 million there.

Steven Isaac Fleishman
Wolfe Research, LLC

Okay. So is there -- I guess, to be obviously tying this just, is that reflecting more confidence that you're going to do the Southern Power projects? Or is it more just wanting to kind of have extra balance sheet strength given all the stuff going on.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, there are some placeholders out there that we're guiding for. But it's also a supply thing. When you go out and raise equity capital, you just can't -- you can't just turn it off. So it's -- unless you shut down your program.

Thomas A. Fanning
Chairman, President & CEO

And I think we are conservative. And so I think it's a conservative estimate.

Steven Isaac Fleishman
Wolfe Research, LLC

Okay. And then I apologize just on the -- clarifying the Georgia stipulation. So you would still do the annual reviews of a 6-month cost? But the full recertification of the project with updated data, you would not do?

Thomas A. Fanning
Chairman, President & CEO

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Yes. Essentially eliminate, waive the rule for...

Steven Isaac Fleishman
Wolfe Research, LLC

Waive the rule to do the full -- and that's from here on in? That not just this time?

Thomas A. Fanning
Chairman, President & CEO

That's right. And just let the VCM process work. Everybody is happy with, I think, the way that works out. There is one nuance, and I'm actually glad you raised the question again. Because remember, in VCM, normally it's a 6-month process. And because we were going to do recertification and all that other stuff, we extended the time frame, what was it, from August into October. And so what we're going to do on -- that would give you either an overlap or a contracted period for VCM 9. What we're essentially going to do is roll VCM 9 and 10 together. So we'll probably make some filing around VCM 9. But that will go through the evaluation of that cost, along with the filing associated with VCM 10. So imagine, if you will, 9 and 10 being rolled together, then we'll be back on this 6-month cycle.

Steven Isaac Fleishman
Wolfe Research, LLC

Okay. And do just -- do other parties to the case kind of agree with this? I know it was just filed today, but do you expect there'll be opposition to this settlement? Or do you think everyone will agree?

Thomas A. Fanning
Chairman, President & CEO

I can't speak for other parties, Steve. I think the commission will approve it.

Steven Isaac Fleishman
Wolfe Research, LLC

Okay. And I think the -- wasn't the report coming out from the examiner shortly?

Thomas A. Fanning
Chairman, President & CEO

I don't know what you're talking about.

Steven Isaac Fleishman
Wolfe Research, LLC

From the independent monitor, sorry.

Thomas A. Fanning
Chairman, President & CEO

Oh, Friday.

Steven Isaac Fleishman
Wolfe Research, LLC

Friday. Is that still going to come out?

Thomas A. Fanning
Chairman, President & CEO

I think so.

Operator

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

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Jonathan P. Arnold
Deutsche Bank AG, Research Division

Last question Steve asked was what I was going to ask. So I got to follow that up with there's been some noise in sort of the local press about the governor talking about potential sharing of additional costs of Vogtle. Do you have any colors on that, Tom?

Thomas A. Fanning
Chairman, President & CEO

Absolutely. We've been in contact with the governor about that. Actually, well, the governor has been resolute in his support of this project. We think that quote that has been widely reported, probably over reported in our view, were taken out of context. The quote that people are referring to was him responding to what something somebody else said. And there were statements after that quote that really relates to he thinks Georgia Power's doing a terrific job at the project, and that project is great. The state of Georgia is proud to help lead the renaissance, a variety of other things. I would not view that quote taken by itself to lead to anything that says the governor wants something other than the process that is currently being followed to happen. Nobody is suggesting that.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

Okay. And then on Kemper, could you -- it seems like this latest cost increases had to do with the review you've been doing since you changed the management. And you've -- a couple of places in your disclosures, you suggest that this is something you'll be continuing to do on the go forward. Can you just give us any more comfort or characterize how this analysis is done and how your confidence level, say, versus when you took the initial big write-down before you changed management?

Thomas A. Fanning
Chairman, President & CEO

Sure. So when we, if you recall, the first adjustment we made was right on the heels, frankly, was a surprise to everybody -- it was right on the heels of all these big changes that we made. We also disclosed that, in fact, an ongoing review was occurring. And recall, the first review was tied to, I would argue, mostly with the issues related to material and price and quantities and metallurgy and all sorts of things. And not just price, it was cable and hangers and everything else. So that kind of what I would say most of that was, and it was our best estimate at the time, but we all were very clear that there was more to go and we had to go back and look very closely. I would argue that the $450 million is characterized by, I would say, the whole group. And now we have -- we brought to bear not only the outsiders and insiders we've been using, but construction industry specialists, particularly in gas handling systems outside construction management, evaluators. We have a variety of people in the boat right now. Like, for example, when we evaluated the contingency that we added, this $100 million extra contingency, we actually had 5 different estimates of contingency that were resolved into 1 estimate. It has been a very, very thorough review. And just to tell you, this is nothing that is arm's length. Me and my management team, we have something called an executive review board. That's me and Art, and then it's Paul Bowers at Georgia Power, who used to be President of Generation; Charles McCrary, CEO of Alabama, who used to be President of Generation; Mark Crosswhite, our COO; Kim Greene, our CEO of Southern Company Services. She actually has experience in generation at TVA. We had Chris Womack. I'm probably leaving some people out, but we all went to the plant site and spent a whole afternoon diving into all of the details with management. Recall, leading the management team is the new CEO there, Ed Holland. And then we have our best construction guy, Ashley Baker, and a variety of other people. And we've really torn these numbers apart. It is our best estimate. If I had to tell you where the future exposure may occur, I think it relates to schedule. Interestingly, if you go back to some of the accounting issues we had after the year-end restatement, the first quarter and everything else, was worries and perhaps lack of evidence about our ability to double the productivity of installing pipes, for example, in a month. Well, in fact, in the month of June, we did that. So these were things that people were questioning and looking hard at. In fact, the team on the ground accomplished that very challenging objective. So it's a challenge. But the

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reports so far is that we believe the targets are achievable related to schedule. And that is where I think the biggest risk is right now.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

Okay. And then can I just ask one other thing? On -- in your -- in the release, you sort of stressed the rainfall situation and mild temperatures and tied a lot of that together to what went on in the economy in the second quarter. I used -- I think weather has sort of become a little more normal in the first month of Q3. Have you seen things just get back onto a trajectory? Or is...

Thomas A. Fanning
Chairman, President & CEO

Jonathan, it may have been normal in New York. It's been awful here. No, it's raining right now. It's unbelievable how much. It's just been mild, let me just put it that way, but lots and lots of rainfall.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

So whatever you were seeing in Q2, you're continuing to see it?

Thomas A. Fanning
Chairman, President & CEO

Yes, it got a little warmer kind of at the end of July. But today, again, it's cloud cover and rain, so we'll see. I think if I -- just to give you a little more lagniappe, we like to do that. What is normal weather, how much of that have we had? I'm looking at Art right now.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Jon, if you go back and look at above normal weather in the last 22 months, we've had 3 months out of those 22 that were above normal.

Thomas A. Fanning
Chairman, President & CEO

And I know you said it was the seventh wettest quarter for Alabama and Georgia. It was the second wettest quarter for Georgia in the past 50 years. This is just extraordinary what we're living through right now.

Operator

Our next question is from the line of Julien Dumoulin-Smith with UBS.

Julien Patrick Dumoulin-Smith
UBS Investment Bank, Research Division

So quick question, and again this kind of relates back to SCANA's comments at the Analyst Day. But when it comes to the time line for Vogtle and receipt of modules, how is that going? I mean, they talked at least initially about receiving some parts perhaps ahead of schedule versus others. Are you seeing anything like that to maybe offset some of the other pressures on schedule that we've talked about thus far?

Thomas A. Fanning
Chairman, President & CEO

Well, look, I think the major milestones that we pointed out in the fourth quarter will be CA-20. It's kind of the major critical path for us. And then of course, pouring the base mat in Unit 4. So those are the 2 big ones. We have seen an improvement. We've noted and if you read the independent monitors' report that has been an area of concern for some time is getting material out of the manufacturing facility in Louisiana. My sense is now that the material is being manufactured. It's really now focused on getting

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nuclear quality documentation related to the material that is being delivered. That's what we're working on now. We've sent our own people to the site. That process is improving. And recall, too, that Chicago Bridge & Iron's acquisition of Shaw, we think, is a big plus to improving that situation.

Julien Patrick Dumoulin-Smith
UBS Investment Bank, Research Division

Excellent. And then going back to the IGCC side of the equation, you talked about short-term debt last go around to kind of plug the balance sheet, if you will, temporarily. Is that all out of the picture here? I just want to be very clear. I mean, we talk all about equity, but I just want to be sure on the debt side what's going on there.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. And again, I think we mentioned that it's resolving Southern's equity ratio back to a point before we began with the write-offs associated with the plant. That would be 43.5% to 44% and getting Mississippi by that same time frame back to close to their 50%, which is contemplated in their 7-year rate plan. So there may be some intermittent debt and downloading, but we're not going to fund the cash to Mississippi until they need it to do the construction additions that we'd outlined.

Thomas A. Fanning
Chairman, President & CEO

And that's why we thought it was kind of instructive to give you the year-by-year affect that we're seeing right now. Of course, you could see some variance there.

Julien Patrick Dumoulin-Smith
UBS Investment Bank, Research Division

Great. So all of that is out of the way. The equity is -- or will be done now, resolves everything?

Thomas A. Fanning
Chairman, President & CEO

Yes, what we described relates to the effects of Kemper completely.

Operator

Our next question comes from the line of Anthony Crowdell with Jefferies & Company.

Anthony Christopher Crowdell
Jefferies LLC, Research Division

Hopefully, 2 softball questions. The first one relates to the great state of Alabama, and there was language in the press you saw it from or you read from some of the commissioners in Alabama that there may be some change in Alabama's rates or whatever. Just what is the process? Is that become like if there's a decision to maybe change the rate structure for Alabama Power, does that become a full litigated rate proceeding? And if rates were reduced, it's more of an end of '14 event than maybe an end of '13 event? And the second question is -- relate to potential exposure, what could potentially be higher in Kemper would be maybe scheduling. Is there a way to -- is the company, I guess, tied down to getting the new unit online at a certain date. Or if you don't make the schedule, why spend the money, whatever, not work 3 shifts or whatever you're doing just to get the unit, I guess, finished with a lower cost estimate?

Thomas A. Fanning
Chairman, President & CEO

Let me take Kemper. You take Alabama. Art used to be the CFO of Alabama. He knows that state intimately. Look, we're spending some extra money every month now in order to hit the date. I mean, we've talked about that before. And remember, the first milestone, the focus on is to get that gasifier heat up by the end of the year. So 12/31 is kind of what we want to do there. What we say by spending

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more money now is exposure beyond the in-service date is essentially whatever is going to be required to continue to get start-up complete plus carrying costs plus whatever and depending on how regulation works, so this is kind of a murky area. We'll have more clarity on this probably later in the year. But the additional costs beyond May could be somewhere between $15 million a month and $40 million a month, and all that's driven by kind of how you recover the AFUDC, what happens to the test revenues, to the electricity you sell as you continue to start that process, how the regulatory capture mechanisms will work. There's a -- and how much more kind of the maintenance you will have to do in order to complete start-up. So I know that's a wide range, but it's a whole range of factors that we're looking at. In any event, we think that the actions we're taking now that relate to increased costs to meet schedule is a dominant solution and represents no regrets, ultimately delivering, we think, long-term great value to customers. Art, why don't you talk about Alabama?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. Anthony, on the question about where does Alabama go and what kind of arrangement, does it become more formal or does it become just some kind of agreement. It's really hard to say at this point. But I would imagine that it would be some kind of consent agreement that both the commission and the company would sign on to. But again, that's a function of whatever the outcome of the commission's recommendation would be.

Operator

Our next question is from the line of Mark Barnett with MorningStar Equity Research.

Mark Barnett
Morningstar Inc., Research Division

One quick question. You've covered the big construction projects a lot, so I'll leave that. But I wanted to talk a little bit about the power usage situation. I know that there was a lot of impact from the weather, but I can't help look at the commercial and wonder a little bit about what's going on there so far in the year, and wondered if you could provide a little bit of color on what you think is driving that kind of decline.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. Mark, we've kind of look at that as well. We were up in the first quarter on a weather normal basis. We're down in the second quarter on a weather normal basis. And as we look back over the last 6 or 7 quarters, commercial has been very volatile. So it's kind of hard to get a pattern of growth. But as we think about it in the second quarter, anyway, a lot of rainfall certainly has an effect on temperature, certainly has an effect on usage from that perspective. But we think it also impacts recreational activity, which reflects a lot of usage in the summertime, going to the beach in the rain or going to an amusement park, what have you. These are just kind of examples that we try to cite to ourselves. But it's a quandary to us as well.

Thomas A. Fanning
Chairman, President & CEO

So let me give you an example. You would not believe the depths we go to, to get arcane information and try and get some enlightenment about this stuff. We actually measure the traffic on the Pensacola Beach bridge. And in fact, in the second quarter, the traffic on the Pensacola Beach bridge was down 10%. What that tells you is nobody wants to go sit on the beach when it's raining. Likely -- and I've heard this from some other folks at the Fed, likely, it reduces traffic to restaurants. I mean, things like that moves stuff. So I think that's what we're seeing here is just a lack of activity or reduced activity as a result.

Mark Barnett
Morningstar Inc., Research Division

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Fair enough. And this is going to be a little bit bigger picture, and I know MATS, obviously, much bigger impact on your fleet. But I'm just wondering if you could share some thoughts. You've got the rehearing of CSAPR here in October, and the administration's new draft rule "on CO2," something that's probably far out in '15. But it's kind of a line in the sand, I guess. I'm wondering what you're feeling is around the political situation and how that might play out.

Thomas A. Fanning
Chairman, President & CEO

So I'll take the political situation and GHG. I'll let you take the rest of the stuff if you want to, how about that?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Okay.

Thomas A. Fanning
Chairman, President & CEO

So it's pretty clear, I think, that there is a succession of moves, increased regulation around carbon-intensive, energy forms. And the latest I think is greenhouse gases. The President came out and made an important speech, in our view, about that. Here's kind of our beliefs on that: Number one, nothing the President said to us was terribly surprising. I think we wait to see how the details emerge. So that will be key. Our sense is consistent with what I think general beliefs are, and it's what we've suggested in other calls, that probably at the end of the summer sometime they'll come out with some standard for new sources. And probably '14 will be existing sources. Recall, there are important considerations that will need to be made in order to understand the aggregate effect of everything going on at EPA in terms of regulation. Because you just had this big MATS rule that cause certain companies to spend billions of dollars. Now it impacted us more in terms of shifting away from coal and shutting down some coal plants and converting some coal plants. We already had our scrubbers and SCRs pretty much in place. The other thing that's just interesting to know, I mean, think about Southern's position relative to almost anybody else in the industry. When you think about new sources and exposure to carbon intensity, we're leading the renaissance of nuclear in America, no carbon. We are going to get done successfully with Kemper County. That has a carbon footprint equivalent to or less than natural gas. So that's positive. We've made a huge shift away from coal to gas, to where we used to be 70% energy from coal. Now we're 45% with gas. We're the third largest consumer of natural gas in the United States. We have extended our reach either through ownership or through contract with now about 1,200 megawatts in about the last 12 months in terms of renewables, and so procuring wind energy and either procuring solar or owning solar. When you consider that plus what we've already been doing in terms of energy efficiency, it's easy for me to say that it would be hard to find somebody doing more in terms of kind of handling the GHG issue in a very practical, both tactical and strategic way. Finally, we continue to be the only company in our industry invested in proprietary robust research and development. We continue to work on new ideas. We continue to promote energy innovation, and I think that will be a keystone of ours going forward. In terms of things away from carbon, I'll let Art comment on that.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. Mark, I guess, the biggest item we're dealing with right now would be the new effluent guidelines that were published in -- the proposed rules that were published in June. Comments are due in September. I think they outlined 8 different options, with 4 preferred. We're evaluating a lot of data around these, and we will be involved in commenting on the rules by that September date. Don't really have a good feel in terms of costs related to that at this point. The other rule, as you're probably aware, coal ash, the final rule timing is still uncertain, but it might not be until next year. That's certainly the biggest element in terms of costs for us. And then of course, 316(b), those rules were postponed from April until November, and we'll get a better chance to see what that final rule looks like as well. But the biggest element of the

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3 of those is probably the ash rule. And there's a number of other things going on as well, but I'll stop at that point.

Operator

Our next question is from the line of Dan Eggers with Crédit Suisse.

Daniel L. Eggers
Crédit Suisse AG, Research Division

Just a question on the solar program in Georgia that got approved by the commission during the quarter, just kind of if you could share your thoughts on how you see that playing through, is there going to be investment from Georgia Power versus maybe a Southern Power and when we could see action.

Thomas A. Fanning
Chairman, President & CEO

Yes, you bet. So 525 megawatts were approved. 100 of that, I think, is targeting distributed generation, which I've talked about at some length in the past. And then kind of the other 425 would be your more traditional central station approaches. So that's part of the 2013 IRP, Integrated Resource Plan. That is competitive load. In other words, anybody can go through a process and try and win the business. What we have said internally is that we'd like to win a good bit of that business. And so there's really 3 ways, at least 3 ways we can attack it: One is the Georgia retail approach, essentially rate base it; another would be Georgia wholesale, that is Georgia providing generation on a wholesale basis like they do on some of their other energy contracts; third would be essentially Southern Power or something similar to Southern Power owning it. Now the only nuance, Dan, I'll throw on there is distributed generation is enough of a different animal. We may take even a special business unit approach to that. We may pull together some folks in the industry -- I mean, I'm sorry, in the system and take a look at kind of how we might approach that business. That's much more a people-intensive business than the central station approaches. And then finally, recall that anybody that goes after this business will have to pass essentially an evaluation by an independent monitor that will regularly, as they do here, assess competitive bids.

Daniel L. Eggers
Crédit Suisse AG, Research Division

Tom, when you -- when do you think you could have more on that? And would that be potentially carved out of monies, you think are going to Southern Power? Or do think that would be additive to the CapEx program in the slides today?

Thomas A. Fanning
Chairman, President & CEO

I don't know. I don't think it's near term. I'll bet you -- I don't know when the soonest you could probably get stuff done, maybe by 2015, 2016, somewhere in that time frame. Those would be kind of when I think the generation would come in. So back up a little bit, so a year or 2 in advance of that, something like that.

Daniel L. Eggers
Crédit Suisse AG, Research Division

Okay, got it. And then on just commenting on the economy, and I guess you gave a good rundown on the industrial side. But can you talk a little bit about residential as far as household formation and home construction looks right now? And with that down demand for residential, how deep are the usage reductions you guys are seeing amongst that customer class?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. This is Art. The -- what we've seen so far is we've added year-to-date about 15,000 new customers, new meters to our system, and our estimate for the year was about 24,000. So we're making good

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progress on that front. However, when we look at the usage of some of those new customers, a lot of them are multifamily units, some are single-family homes. But the vast majority, I think, are multifamily. And the way I kind of view it, Dan, is you build a new multifamily apartment building and it's occupied over time. So our usage per customer for those new units is way down. And I think there is a function of getting people to move in fully and to occupy those residences as a normal customer would. That will turn around, and we think that's part of our second half equation. But again, we've done better than what we've expected on new customer growth. And with the housing improving here in Atlanta and in Georgia, we see that continuing. Again, with all the announced jobs, IT-type jobs in and around Atlanta, that will be attracting new people into the state, will certainly put more pressure on that equation as well.

Daniel L. Eggers
Crédit Suisse AG, Research Division

When you guys look at kind of the relationship between usage and GDP and that sort of thing, if you look out to, say, 2014, '15, what kind of load growth do you think is durably sustainable once we get past kind of a slow first half of this year, if we do see recovery?

Thomas A. Fanning
Chairman, President & CEO

Well, it isn't in our kind of long-term estimate. The heuristic is still pretty good, 50% to 60% of GDP growth. So that's kind of what we've been doing. So the other thing that's interesting, in fact, we just had a guy come speak to our board. Dan, one of the interesting things that really confounds people, I think, the people especially that think that energy efficiency is going to deplete electricity usage, is that the economy is getting more and more electrified. And there's all sorts of interesting dynamics. When I give these speeches, I always hold up my iPhone at that point. So we have all these goofy devices, and here you are. But it's kind of much more than that. When you stream something like you want to watch some episode of Mad Men or something, you watch it for an hour on your iPad, son of a gun, it isn't just what's going on in your house. You are lighting up servers all over the place. There are much more significant compound effects of greater bandwidth in the information economy that are electricity intensive. And we think and the work that we all have done and we showed this at the last fall -- financial conference, we continue to see the evidence. That, in fact, electricity consumption is trumping the drag by energy efficiency. So we think we'll see this for some time. Longer term, electricity sales, we would think would be in the 1.3% range.

Daniel L. Eggers
Crédit Suisse AG, Research Division

Okay. And I guess, one last question because it's been recently topical, has been kind of the long-term contracted generation going some sort of YieldCo mechanism, where we can offer a big yield off the cash flows and then raise capital when you need to invest. Have you guys -- and we've always done this before, but have you guys looked at Southern Power as potentially unlocking some value going that route?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Dan, when you think about Southern Power and the long-term contracted business that it already has, it's such a well good match to our regulated model. It really doesn't differentiate it like it would for, say, NRG and provide them with that benefit. We were already -- I mean Southern Company is already a YieldCo in a way, I think. But...

Thomas A. Fanning
Chairman, President & CEO

Yes, we look at -- here's the other way to answer that. We look at everything all the time, and we will look at this YieldCo concept. I'm not sure unlocking value at Southern Power serves our long-term interest. We use the other word here, in the world of finance, there's lots of tricks and no magic. We really like the way our pieces fit together now. If it ever does make sense and provides sustaining value increase rather than instant gratification, we'll do that. But we remain committed to a long-term posture on those issues.

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Operator

Our next question comes from the line of Vedula Murti with CDP Capital.

Vedula Murti

I'm wondering -- I missed the very beginning, the date in which you expect to hear from the commission in Alabama. And secondarily, I think the -- if I recall properly, the ROE adjustments we've seen for much smaller gas LDCs has been in the range of about 200 basis points roughly. So I'm wondering if you could just remind us what your sensitivity is at Alabama Power for -- with regards to, call it, 100 basis points or whatever adjustments on the current ROE range you have.

Thomas A. Fanning
Chairman, President & CEO

So let me just first say and we said this in, I think -- we said a little bit in the script, we said it in the first question. Look, we think the ROIC that Alabama enjoys is appropriate and serves our customers' long-term interest. And in fact, when you consider the equity ratio, the debt ratio, the embedded cost of capital, Alabama is reasonable and fair. So number one, let's not get ahead of what the commission wants to do, but that's our position. In terms of when the commission will rule, it's just going to be in the months ahead. We don't think it's going to be 6 months, but I think it'll be in the next quarter or so.

Vedula Murti

And there's no precedent in Alabama for doing anything retroactive. I think the decisions that -- I don't recall anything from the decisions from Mobile and whatever that had anything to do retroactive for the full year of 2013? This is all prospective, correct?

Thomas A. Fanning
Chairman, President & CEO

That's our understanding. You should remember, Mobile and Alabama are completely different. They have a much thicker equity ratio than Alabama does. I would hesitate to draw parallels between one company and another. The other thing that would be fun to look at is if you could get a view of the webcast or whatever of any of the proceedings. Alabama enjoys a lot of support by its customers. I think Alabama demonstrated successfully their side of the argument.

Operator

Our next question is from the line of Paul Patterson with Glenrock Associates.

Paul Patterson
Glenrock Associates LLC

First of all, if the Kemper schedule for coming online slips past the 2014 spring deadline, what happens to the DOE subsidy? Is there any risk there? Do you lose it for sure?

Thomas A. Fanning
Chairman, President & CEO

You lose ITC, yes, not the DOE stuff , I'm sorry. So the $133 million investment tax credit is what you would lose. I'm sorry, that's what I thought you were referring to. Not the DOE funding.

Paul Patterson
Glenrock Associates LLC

The DOE funding will be fine, right?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Correct.

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Thomas A. Fanning
Chairman, President & CEO

Yes.

Paul Patterson
Glenrock Associates LLC

Okay. And then just in sort of the bigger picture here, Vogtle is the first new nuclear plant in decades. And I mean, just how do we see it in terms of -- in the context of Kemper? I mean, obviously Kemper has been a disappointment, as you mentioned, in terms of what was projected and what happened in terms of costs. Could you just -- I mean, not any great detail, but just in -- just sort of a bigger picture, obviously, it's understandable that somebody might simply think, hey, that -- Kemper, which is also sort of cutting-edge technology kind of thing, why won't that happen at Vogtle? How do we...

Thomas A. Fanning
Chairman, President & CEO

Yes. Let me give you a simple answer, the simplest answer is we agreed to a cost cap, with only about 10% to 15% of the engineering done. And what's happened is as we've completed the engineering, we ran into the problem that, "oh my goodness, we're going to run over on costs and schedule." And we've reduced the schedule at the same time we agreed to the price cap. That actually occurred in early 2010, okay? We didn't know we had a problem then. But in fact, that's when we had a problem. We only knew we had the problem once the engineering became complete and we saw the implications of the rest of construction. By any investigation that we've done here, the construction is actually been exceedingly effective, okay? That is completely the opposite of what we have seen in Vogtle. Because recall, the licensing process by the NRC -- remember, there were 2 pieces, the DCD, the Design Control Document, was essentially a large-scale engineering effort of the technology AP1000; and then the COL, which puts that technology on your site and took into account all the site-specific issues, and then resulted in the combined construction operating license. Essentially spoke for, the lion's share of the engineering, as you thought about moving forward with construction. It was exactly the opposite of what we did at Kemper. And man, oh man, I think that's going to serve us well on Vogtle. I think that's just one single big reason why I don't expect Vogtle to be anything like Kemper.

Paul Patterson
Glenrock Associates LLC

Is there any risk of not having recertification at all to shareholders? In other words, I mean, I'm just wondering, I mean, is there any -- I mean, by foregoing recertification, is there any -- just could you elaborate what the impact, if any, that actually has?

Thomas A. Fanning
Chairman, President & CEO

Yes. Paul, I think it's really kind of a timing issue. You're going to evaluate all the costs along the way, whether you do one or the other. If you force recertification now, the commission could do a lot of different things with the new costs. Otherwise, they're going to cover those same costs through the VCM process.

Paul Patterson
Glenrock Associates LLC

So it's a duplicate really? Is it...

Thomas A. Fanning
Chairman, President & CEO

Yes, it really is.

Paul Patterson
Glenrock Associates LLC

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Okay. I just want to make sure. And then just finally, on sales growth, the Bureau of Labor Statistics, I think, released today the revised 2012 GDP at 2.8%. They also sort of lowered the first half of this year -- the first quarter, whatever. But I mean, generally speaking, I mean, this 0.5% to 0.6% of GDP growth doesn't seem to have held in -- weather-adjusted for you guys, right? It was like 0.4% for 2012, and you guys are characterizing with leap year this year so far being flat. So without getting into what's going on with industrials or commercial or whatever, just in general, I mean -- and I just also noticed with the Gulf Power thing that you guys are coming in a little bit sooner than expected because of sales growth, so I was just sort of wondering is there any thought about potentially revisiting of this -- of the projections there with regards to sales growth.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. Paul, we look at that all the time. Our marketing research, load research folks are constantly evaluating. We've had some extreme weather in both 2012 and 2013. And so when you get to weather normalization, it begins -- it gets a little more fuzzy on the margins than it does when you got more normal weather. So there's lots of issues here that could influence your actual results. Again, the long term -- we kind of use that more long term than we do short term. But sometimes, those things will move on either side of it. We're just in a period of strange weather and slower-than-expected economic growth, which...

Thomas A. Fanning
Chairman, President & CEO

Yes. And the only -- just to underline what Art said -- and we try to get you guys to -- I mean, we understand, you have a difficult job trying to figure all this stuff out. That's a good long-term heuristic to use to help you understand it. Just remember that what we do is just detail bottoms-up approach, and then we circle back with the economic forms that Art hold to confirm what we're seeing inside. And then we have also insight through my work with the Fed. And I will say that what we're coming up with internally is very consistent with what the Fed is finding.

Paul Patterson
Glenrock Associates LLC

Okay. And then just in terms of long-term EPS growth, and I know this is I think Ali and Greg were asking about this. But just to understand this, I mean, you did mention that it's a regulatory year. Obviously, things with Kemper didn't work out exactly as we had previously expected. Is the 4% to 6% growth -- I know that you guys usually address this in the fourth quarter. But I mean, you did mention to Paul Ridzon that you were sort of reiterating the guidance when asked in terms of 2013, in terms of your confidence. How should we think about your confidence for the 4% to 6% growth in January? If you could just elaborate a little bit more in that just in terms of how do you feel about that given all the stuff that's been happening?

Thomas A. Fanning
Chairman, President & CEO

Well, yes, I think I would say what I said before. I appreciate you asking again. But I -- the most dominant thing is what's going to happen with Georgia. The second most dominant thing is what's going to happen with Alabama. I think we've separated out the effects of Kemper, $0.015 this year, $0.025 independent, $0.04 in the aggregate next year, et cetera. I mean, we've been through that. So my view is -- I'm just a little reluctant. I guess, what I'm saying is our 4% to 6% remains until I see a reason to change it, and I'm not going to change it until I see what happens with this regulatory calendar that we have in front of us in '13. We'll stick to our guns on that one, and we'll give you a new estimate in January.

Operator

And our last question is a follow-up question from the line of Michael Lapides with Goldman Sachs.

Michael Jay Lapides

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Goldman Sachs Group Inc., Research Division

Tom, just a follow-up on Vogtle real quick. I want to make sure I understand the stipulation you guys signed today. When you all -- every 6 months, will you all simply go in and ask for approval of the money you spent in the prior 6 months on the plan, and you won't come in and give the commission an update on here's what we expect the total plant cost to be overall, meaning until the end of construction? Or will that last data point still be given to the commission?

Thomas A. Fanning
Chairman, President & CEO

Yes.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

This is -- Who's on the phone? This is?

Thomas A. Fanning
Chairman, President & CEO

Paul. No, it's Michael. I'm sorry.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

I'm sorry, Michael, I forgot. The way we think about it is there will still be communications with the commission about total costs. And we'll still file those projections with them , but the actual approval will come in each of the 6-month process, as just Tom has described.

Thomas A. Fanning
Chairman, President & CEO

That's right. And all that, Michael, you should know is hand-in-glove. We have an independent evaluator. It's exactly the processes that we've been following so far through VCM 1 through 7, and the process we're following now with the exception of we're not going to do the recertification with a 5% cost increase.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Got it, okay. So it's strictly a not having to go through the formal process of getting commission approval, but there will still be the disclosure and the public domain about whether the cost has gone down due to construction or due to lower financing costs or whether -- kind of your long-term projection of the total plant costs?

Thomas A. Fanning
Chairman, President & CEO

That's right.

Operator

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

Thomas A. Fanning
Chairman, President & CEO

Hey, the only thing we didn't talk about, I was just interested, I think I want to throw out there that we've received some positive momentum certainly since we have Secretary Moniz assumed his position with respect to the loan guarantees. Our view is that we've had a renewed sense of urgency. I can't tell you that we're more likely to get it or not, but I can tell you that the temperature has been turned up on the

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parties in seeking to achieve resolution on that negotiation. We didn't talk about that. I probably ought to throw that out there. That is another important factor that's positive for Vogtle.

Anyway, look, we're continuing to work hard. We hate the fact here we had another increase on Kemper. We're continuing to work to make sure that, that covers everything that we know. It is our best estimate. We're going to work hard to bring that thing in now on time, with the new numbers. We appreciate you following us and we're going to work hard on your behalf. Thank you very much.

Operator
Thank you. Ladies and gentlemen, this does conclude the Southern Company's Second Quarter 2013 Earnings Call. You may now disconnect. Thank you.

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