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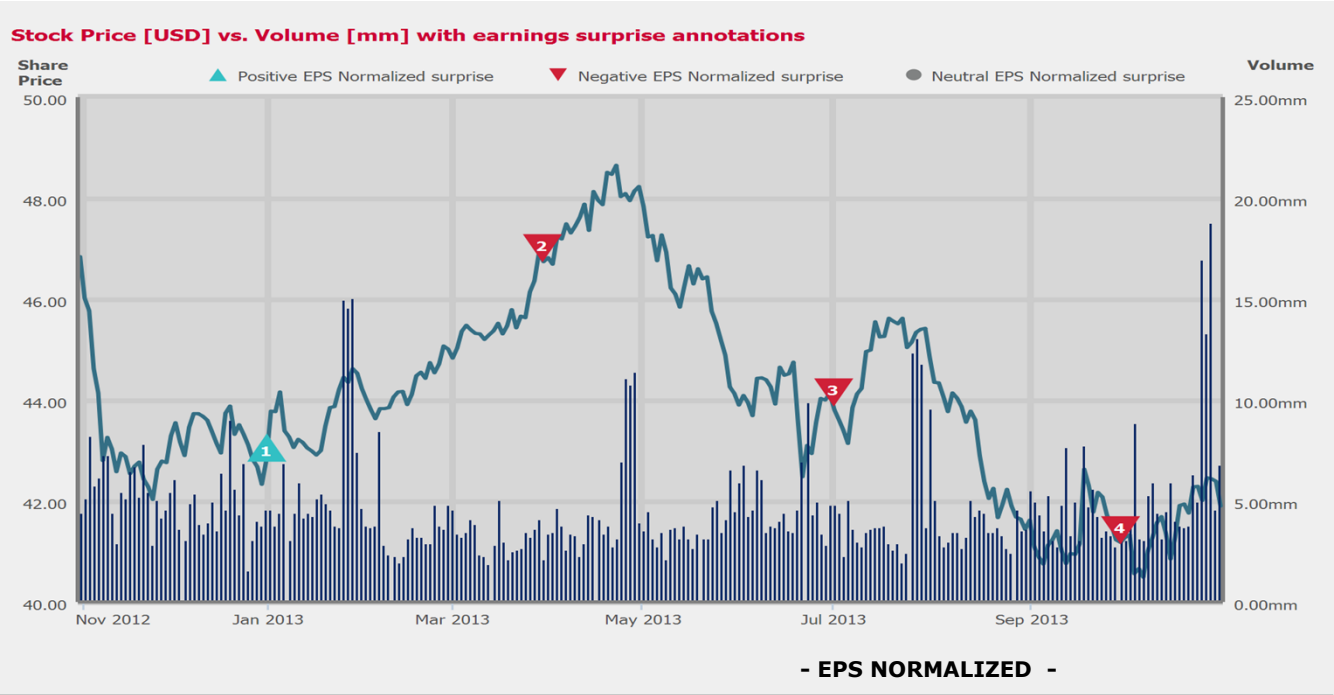
FQ3 2013 Earnings Call Transcripts

Wednesday, October 30, 2013 5:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2013-			-FQ4 2013-	-FY 2013-	-FY 2014-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.11	1.08	▼(2.70 %)	0.46	2.70	2.83
Revenue (mm)	5344.08	5017.00	▼(6.12 %)	3581.46	17131.95	17827.03

Currency: USD
Consensus as of Oct-30-2013 1:39 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2012	0.40	0.44	1 10.00 %
FQ1 2013	0.50	0.49	2 (2.00 %)
FQ2 2013	0.68	0.66	3 (2.94 %)
FQ3 2013	1.11	1.08	4 (2.70 %)

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Presentation

Operator

Southern Company's Third Quarter Earnings Call will feature slides that will be available at the beginning of the call on our Investors Relations website. You can access the slides at investor.southerncompany.com. Good afternoon. My name is Melody, and I will be your conference operator today. At this time, I would like to welcome everyone to the Southern Company Third Quarter 2013 Earnings Call. [Operator Instructions] As a reminder, this conference is being recorded Wednesday, October 30, 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, Melody. Welcome to Southern Company's Third 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 on our Investor Relations website at www.southerncompany.com.

I'll now turn the call over to Tom Fanning.

Thomas A. Fanning
Chairman, President & CEO

Good afternoon, and thank you for joining us. 2013 has been a very active year for Southern Company, with major progress on construction projects, robust regulatory calendar and unexpected challenges in the form of consistently unseasonable weather.

Let's begin on the regulatory front, where we continue to see constructive processes and outcomes in all 4 states in which we operate. An extensive review of Alabama Power's RSE rate mechanism was concluded in August. Following 3 public hearings, the commission chose to change the way RSE is measured beginning in 2014 to a weighted cost of equity range that appropriately takes into account Alabama Power's equity ratio. In so doing, they concluded that Alabama Power's overall return on capital was fair and reasonable. The commission also approved 2 regulatory orders that will enable Alabama Power to avoid any increases to RSE in 2014, thereby keeping rates stable for customers.

Earlier this month, Georgia Power presented its proposed 3-year rate plan to the Georgia Public Service Commission. That proposal includes a onetime rate increase of $482 million that will become effective January 1, 2014. The PSC staff and other intervenors have filed their testimony, and the next round of hearings will be held next week. Georgia Power will file its rebuttal testimony by November 15, with rebuttal hearing scheduled to begin November 25. A final decision on the Georgia rate case is expected on December 17.

Recall that Georgia Power has operated under a series of 3-year rate plans since 1995. These plans have all been the result of negotiation and compromise between Georgia Power, the Commission's staff and other parties, as approved by the commission and agreed to by the company. The Georgia Commission has a long history of constructive regulations, and we fully expect that the outcome of this case will reflect a continuation of that record.

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In other Georgia regulatory news, the eighth Vogtle Construction Monitoring Report was approved by the Georgia PSC by a unanimous 5-to-0 vote. This latest regulatory approval means that a total of $2.2 billion in construction costs has now been verified and approved by the commission.

Meanwhile, testimony continues to be filed as a part of the Georgia -- pardon me, Gulf Power rate case. As a reminder, Gulf's request is for a $74 million base rate increase that will become effective in April of 2014, as well as an additional $16 million that will become effective in July of 2015. We expect hearings to conclude in December, with the decision in the first quarter of 2014.

Finally, Mississippi Power expects to file an update to the 7-year rate plan to the Kemper County project later this year, reflecting assumptions consistent with the fourth quarter 2014 in-service date. We anticipate that the hearings on the rate plan will now occur in the first quarter of 2014.

The prudent review schedule for the Kemper Project has also been updated. By mid-December, Mississippi Power will file information supporting the prudence of its procedures and controls over the costs that are currently under review. Hearings on those costs are expected to begin in May. As a reminder, this will be the first of 2 prudence processes. This initial process will address costs incurred through March 2013, while the second will address all subsequent costs through the completion of the project. We believe this schedule will allow sufficient time for Mississippi's new Public Service Commissioner, Stephen Renfroe, to become fully informed on the issues involved. As a reminder, Commissioner Renfroe was appointed by the Mississippi Governor, Phil Bryant, to fulfill the remaining term of Leonard Bentz, who resigned from the commission in August.

Finally, I'd like to give you an update on our Vogtle and Kemper County projects. First, Plant Vogtle. Work continues to progress well at Vogtle 3 and 4, as evidenced by dramatic changes across the entire construction site. The project management team from Westinghouse, CB&I and Southern Nuclear is aligned and working hard for the next major milestones, which include final assembly of the Unit 3 nuclear island Auxiliary Building, also known as CA-20, and the pouring of the first nuclear concrete in the Unit 4 nuclear island. Assembly of the CA-20 module for Unit 3 nuclear island is scheduled to be completed in December. Our contractors are diligently progressing through submodule inspections and remediation in order to meet this date. Meanwhile, the first nuclear concrete pour in Unit 4 is scheduled for mid-November. Most of the rebar work is complete, and the final inspections and prep work are now taking place to the pour, which took 41 hours to complete at Unit 3.

In September, the Conditional Commitment for the Vogtle 3 and 4 DOE loan was extended to December 31. As of today, we've said on our most major terms and conditions, and final reviews are underway at the appropriate government agencies, while there is no assurance of a definitive agreement, constructive dialogue with DOE leaves us very optimistic about capturing the value of these loans for customers.

This past Friday, we submitted our initial filing with the Internal Revenue Service to secure our allocation of nuclear production tax credits for Vogtle Unit 3. These credits were authorized under the Energy Policy Act of 2005. We expect to submit an application to secure the Unit 4 allocation of credit after the Unit 4 basemat concrete is poured. The basemat is expected to be the final construction step necessary to lock in these important savings for Georgia Power customers, which could total as much as $1 billion for both units over the first 8 years of operation.

Now for an update on the Kemper County project. Earlier this month, we announced that we did not expect to meet the original May 2014 in-service date for the Kemper Project, largely as a result of lower-than-expected production rates and delays from wet weather. After recalibrating our assumptions on the rate of pipe installations, we have revised the in-service date to the fourth quarter of 2014. In conjunction with the schedule change, we have recorded an additional pretax estimated loss of $150 million. As a reminder, we estimated the incremental cost for a delay to be approximately $15 million to $25 million per month. Our new estimate is consistent with that projection and also retains a $100 million contingency.

Tremendous progress continues to be made at the site. We are now nearly halfway complete with pipe installations, have fired both combustion turbines and have synced the entire 2-on-1 combined cycle to the grid. Our project teams at both Kemper and Vogtle continue to work diligently to complete these state-of-the-art facilities, both of which will deliver outstanding value to our customers for decades to come.

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

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Thanks, Tom. For the third quarter of 2013, we earned $0.97 per share compared to $1.11 per share in the third quarter of 2012, a decrease of $0.14 per share. For the 9 months ended September 30, 2013, we earned $1.41 per share compared to $2.26 per share for the same period in 2012, a decrease of $0.85 per share. Our results for the 3 and 9 months ended September 30, 2013, include after-tax charges of $93 million or $0.11 per share and $704 million or $0.81 per share, respectively, related to the increased cost estimates for construction of the Kemper Project. As previously communicated, Mississippi Power will not seek recovery of estimated costs 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 results also include 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.

Earnings for the 9 months ended September 30, 2012, include $21 million or $0.02 per share of insurance recovery related to the March 2009 litigation settlement agreement with MC Asset Recovery LLC. Excluding these extraordinary items, earnings for the 3 and 9 months ended September 30, 2013, were $1.08 and $2.24 per share, respectively, compared with $1.11 and $2.24 per share, respectively, during 2012.

Excluding the effects of Kemper County, the primary driver for our third quarter results was milder-than-expected weather, resulting in a decrease of $0.07 per share on a quarter-over-quarter basis. Weather was actually $0.10 below normal compared with $0.035 per share below normal for the same period a year ago.

In terms of cooling degree days, the third quarter of 2013 was one of the mildest in the past 20 years. For instance, in Metro Atlanta, where we would normally expect to see more than 100 hours of summer temperatures above 90 degrees, we saw only 1 such hour. In August, also in Metro Atlanta, we experienced 4 straight days with average temperatures of 67 degrees. But even that doesn't tell the whole story. Rainfall during the quarter across the entire Southern Company territory was at its highest level since 1916. The significance of this anomaly cannot be overstated. When rainfall is that heavy, the typical heat buildup fails to occur. Without this buildup, the temperature momentum that usually results in sustained electric demand for cooling never materializes. This factor greatly affects our earnings -- greatly affected our earnings during the third quarter of 2013.

It's significant to note that weather affected not only our retail sales but also energy sales to wholesale customers. We were able to offset the total effect of weather somewhat by reducing non-fuel O&M spending compared to our plan. A more detailed summary of our quarter-over-quarter drivers is included in the slide deck.

Turning now to a discussion of our retail sales and economic outlook for the remainder of the year. GDP growth in the Southeast and the nation as a whole remained slower-than-expected at 1.5% to 2% year-to-date growth. However, in terms of jobs growth year-to-date, the region is just slightly ahead of the nation at about 1.7%.

Industrial sales growth during the third quarter of 2013 was relatively strong at 2.6%. We continue to see emerging growth in housing-related sectors, such as lumber, up 9%; stone, clay and glass, up 7%; and textiles, up 6%. We also saw increased strength in paper, up 11%; petroleum, up 11%; and primary metals, up 8%. Exports have begun expanding again after stalling in the first quarter.

Weather-normal residential sales were relatively flat for the quarter, although customer growth is slightly ahead at the same period in 2012. As expected, residential sales growth continues to lag behind our customer growth. The commercial market continues to show signs of improvement, as evidenced by a decline in office vacancy levels, which have fallen nearly 10% from their peak.

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Elsewhere, our economic development pipeline remains active and productive, as the Southeast remains a great place to do business. Currently, our traditional operating companies are supporting some 350 potential projects, representing more than 40,000 jobs and $15 billion in capital investment.

Meanwhile, recent announcements are adding nearly 7,600 new jobs in our territory. Included among these are Blue Cross and Blue Shield of Georgia; carpet manufacturer, Shaw Industries; auto parts manufacturer, Hyundai Dymos; vinyl tile manufacturer, Mannington Mills; wood pellet manufacturer, Green Circle Bio Energy; and medical software developer, iSirona.

Now at this point, I'd like to share our earnings estimate for the fourth quarter of 2013, which will be $0.44 per share. This implies annual results at the bottom end of our guidance range.

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

Thomas A. Fanning
Chairman, President & CEO

Thanks, Art. There has been a lot of interest recently in the emergence of a changing trajectory in long-term earnings per share growth for our industry. We've noted that many of you are writing about that now. It has been our practice for the last decade or so, we will provide updated guidance range for 2014 and an updated long-term growth rate during our fourth quarter earnings call in January. It's been an awfully busy year with a lot of important regulatory outcomes, either pending or complete, in all of our jurisdictions. For example, we expect the Georgia Power rate case to conclude in December. So there's still a lot of important information to be factored into our long-term EPS growth.

But still, it's an interesting question, what do think will remain the same and what do we think will change? While we don't yet have the specifics, we can talk directionally. First, what do we expect to remain the same? Dividend policy. Based on what we see today, we believe our dividend growth trajectory will remain consistent with the dividend increases of the past 6 years. Now dividends are obviously the purview of our board, but we are confident in our ability to continue deliver those returns to our shareholders.

Second, what is likely to change? The shape of our EPS growth. Compared to the past 10 years, our EPS growth will likely slow a bit during the middle of the current decade but will likely increase again by the end of the decade. Why? Well, as you know, Southern Company has been investing capital at a very healthy rate for many years now, supporting major projects, like our McDonough gas unit, Plant Vogtle, Kemper County, our environmental spend and growth in Southern Power. In fact, our CapEx, as a percentage of our invested capital base, has averaged about 8% over this time frame. As we work through our annual update to the financial plan, this percentage is projected to become smaller through the middle of this decade. Associated with this reduced CapEx and growth of invested capital is the fact that our cash flow metrics are expected to improve dramatically. In fact, within the next 3-year period, our equity needs could be eliminated or go negative in order to preserve our target equity ratio. And by the end of the decade, our growth in CapEx is expected to resume with the advent of more environmental spending and the commencement of our next phase of generating capacity for our traditional operating companies and Southern Power.

As always, our objective is to provide superior risk-adjusted returns to our investors by delivering on our commitment to provide clean, safe, reliable and affordable electricity to our customers. Our regulatory jurisdictions continue to prove constructive, and we believe the Southeast is poised to lead the nation's emerging economic recovery, and we are prepared to support and take part in that resurgence.
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] And our first question comes from the line of Steven Fleishman with Wolfe Research.

Steven Isaac Fleishman
Wolfe Research, LLC

Tom and Art, just first, when you do get to kind of more specific guidance next year, this 2 68 [ph] that you're now guiding to this year, will you like normalize that for the weather as a base? Or is that kind of -- assuming you get there, is that kind of the base we should think about?

Thomas A. Fanning
Chairman, President & CEO

Yes, we always give weather-normal projections.

Steven Isaac Fleishman
Wolfe Research, LLC

Okay. Second question is on Vogtle. Can you give us an update on the modules issued, Lake Charles, et cetera? Is that on -- likely to stay on schedule to be resolved by the end of the year?

Thomas A. Fanning
Chairman, President & CEO

So the kind of primary focus is on the CA-20 that we referenced. I think the important thing to note is that all of the material associated with CA-20 is currently on site. Construction is progressing in an acceptable manner. And like we said, we're projecting the assembly of CA-20 to be done by year-end. That's kind of most important. That actually forms a support mechanism for other modules, for example, CA-01 [ph], that will occur later in the -- in 2014. Art, do you want to add?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

No.

Steven Isaac Fleishman
Wolfe Research, LLC

To just clarify that, then does that then mean that the issue with the modules is essentially resolved in terms of it being kind of a -- any kind of critical path issue in terms of current schedule for the project?

Thomas A. Fanning
Chairman, President & CEO

So we -- listen, there -- I think we said this a lot in the past, there are always issues, right, and so what we're always doing is working through the issues. So is it resolved? No. Do we have acceptable workaround for every issue that we see right now? Yes. When we talk about critical path, we cite among ourselves here about that because there may be -- for the remaining integrated schedule, there may be something like 20 to 30 critical path items. And if you're a week late on one, that doesn't mean you're a week late on the end of the schedule. We believe that in our evaluation of other critical path items, we actually have improvements in the schedule. We believe right now the sum total of critical path progress keeps us on schedule.

Steven Isaac Fleishman
Wolfe Research, LLC

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Okay. And then one other question just on Kemper. In the last 2 updates, I think you've given some -- you've obviously had these writeoffs, but I think some of the higher costs you've been able to kind of defer for recovery. Could you kind of highlight what that number is and why is that piece able to be deferred for recovery in -- versus the others have to be kind of counted in the cost cap?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. Steve, if we look at the project cost that we expect recovery on, it would be the basic $2.4 billion plant cost that we initially certified to; the cost of the mine, which is about $250 million; the cost of the pipeline, which is roughly $115 million; and then there's some other regulatory assets that were on Mississippi Power's books that are scheduled to be recovered as well, that's about $190 million. And that's when we look at what would be -- within Mississippi's Power earnings rate base, that's what we look at. The other pieces of it would be AFUDC, which is roughly $425 million. And then the difference between $2.4 billion and the $2.88 billion cap will also become part of the securitization package. That totals about $480 million. Those are the pieces that make up what we're looking at, at this point, other than the writeoff amounts.

Operator

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

Julien Patrick Dumoulin-Smith
UBS Investment Bank, Research Division

So just turning to the CBI and, I suppose, the issue of CBI and the litigation or settlement or what have you, how do you see that progressing here? I mean, it seems like you've gotten some process. There are still some other issues out there. Ultimately, how do you feel about that getting resolved and what timeline? And then beyond that, given, I suppose, some slippage in settlement -- some slippage in schedule of module play or what have you, their potential to go back to CBI for more of -- prospectively?

Thomas A. Fanning
Chairman, President & CEO

So let me give you kind of a broad comment. In the middle of negotiations, whatever, you never want to kind of give specific advice. Let me give you some very clear though, I think, general guidance here. As Chicago Bridge and Iron acquired Shaw, we had a change in leadership. Philip Ascherman is the CEO of CB&I. We have found the relationship between us and a consortium, particularly with CB&I and Philip Ascherman, to be excellent. Danny Roderick now leads Westinghouse. Likewise, the relationship there is excellent. There are issues that are within the purview of the consortium, how costs get shared among and between Toshiba, Westinghouse and CB&I that we're not party to. That's got -- that certainly do factor into the resolution of the commercial dispute. But between the company and the consortium, I would argue the tone has turned a lot more positive, and certainly, I think the progress of the litigation is acceptable. So while I can't offer you very much more specifics than that, I would say the general tenor should be positive. What else do you want to cover there?

Julien Patrick Dumoulin-Smith
UBS Investment Bank, Research Division

We can leave it there if you want.

Thomas A. Fanning
Chairman, President & CEO

Okay, that's fine.

Operator

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

Jonathan P. Arnold

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Deutsche Bank AG, Research Division

So just to clarify, Tom, on these modules, the last -- I think the last update, some of them was still in Lake Charles. You're saying today they are all physically in Georgia at the site?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes.

Thomas A. Fanning
Chairman, President & CEO

CA-20 is all there.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

Okay. But there is still some documentation and other issues you got to tie up?

Thomas A. Fanning
Chairman, President & CEO

Yes, they're called remediation. But essentially, whenever you find like a small defect or whatever, what you do is fix it on site. And we just felt it was a much more-efficient, time-effective process to get them on site, fix the documentation, get them ready to go.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

Because I -- my understanding was the NRC had to sort of sign off for them being moved, and that would be a sign that they were resolved.

Thomas A. Fanning
Chairman, President & CEO

That's right.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, they -- yes, they've been moved to the site, but they haven't been accepted by us. And from a quality perspective, those elements that are still being remediated are still being remediated under CBI's oversight.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

So aside from this sort of logistical help, I guess, it will be that, that will be there sooner when you do resolve those issues, issues are still unresolved?

Thomas A. Fanning
Chairman, President & CEO

That's right. We actually feel really bullish about that.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

Sorry, Tom?

Thomas A. Fanning
Chairman, President & CEO

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I said we're feeling really bullish about the assembly, CA-20.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

Rather than having, yes, resolving it down in the South, and then you go to get them up there?

Thomas A. Fanning
Chairman, President & CEO

That's right.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

Later. Okay. And then on Kemper, can you just -- I think when you originally announced this earlier in the month, you said that it was really the -- this was really weather and -- though you have some other issues. But the way you've talked about it in the 8-K last night, it sounded like it might be more productivity, and then the weather was a sub-factor. Is that...

Thomas A. Fanning
Chairman, President & CEO

Well, there's other factors.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

Is it successful?

Thomas A. Fanning
Chairman, President & CEO

Yes, let's kind of go through that a little bit. Early on, when we talked about it, we did see weather being kind of a major thing. And I remember right out of the gate, we had some ambitious targets. And right out of the gate, we hit our targets. That's where you -- that's the tone you were getting from it. As we progress on installing the pipe particularly, it's almost hard to imagine unless you've been there. I know some of you have been to the site, and you'll know what I'm talking about. A, there's a lot of pipe; b, there's different kinds of pipe, whiteboard pipe, there is small board pipe, some of the pipe is outside the physical structure of the gasifier island and the gas handling system, some of it is in constrained spaces inside the structure. Obviously, what we have found is production levels that we saw early were not able to be sustained because a lot of the work ended up being detailed work inside the structure. We just didn't maintain the kind of productivity that we wanted to see. Further, and we kind of alluded to this, we are now over 2 shifts of 2,000 craft [ph] people per day working on this issue. And to some extent, there's a saturation at the site. In other words, we don't think it's productive to add more people and add more shifts and everything else. We're kind of where we want to be here. And part of changing the schedule, I suppose that we could have done more and try to keep May, but we felt that, for the overall health of the project, it was important for us to take this new schedule, put people to work in a more efficient manner and get the work done. So it's kind of all that combination. And when we say weather and rainfall and all that, I remember we were down there one day, we go to visit the site a good bit, as you can imagine. It's not just rainfall, sometimes it's fog. And in fact, you imagine big cranes working and manipulating some of the material on the site. If you can't see the top of the crane, you can't work. And so fog ended up being an issue.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

Okay. That's helpful, Tom. And then on -- just on the growth topic, you talked about this sort of mid-decade slowdown, shift to more of a cash-generative mode. But then just this question on weather and guidance, I mean, is -- what's your weather headwind year-to-date?

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Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Year-to-date, it's $0.14 against normal.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

So would you anticipate talking about growth off of a 2 68 [ph] number plus that $0.14, I mean, to be more explicit?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

The thing you have to normalize as well is O&M. So it's not just a one-sided equation.

Thomas A. Fanning
Chairman, President & CEO

That's right, yes.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

So we'll decide where that ought to be and -- when we talk to you in January.

Thomas A. Fanning
Chairman, President & CEO

But just to do some math a little bit real quick. Jonathan, I think this might be helpful. If you add together less-than-expected sales and loss of sales due to weather, we're in a $480 million range for the year, somewhere around there.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

2 years.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

For 2 years?

Thomas A. Fanning
Chairman, President & CEO

For 2 years, yes.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes.

Thomas A. Fanning
Chairman, President & CEO

And O&M is down a similar number over something like 2 to 3 years. So we have moved O&M and weather in concert to the extent we can. At some point, one of the issues that we face is -- and Art wants to keep reminding me of this -- but something like of the past 25 months, we have had below normal weather or milder weather 22 of the last 25.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

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Right.

Thomas A. Fanning
Chairman, President & CEO

And therefore, I suppose we could just continue to take O&M out of the business, and I guess we could do that. However, that doesn't really serve our responsibility of clean, safe, reliable, affordable energy to our customers. So we have to balance that whole equation. So look, we do, do weather-normal projections, we will do that. We need to restore some O&M to get back to other normal activities. Hey, let me just -- I'm dying to do it.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes.

Thomas A. Fanning
Chairman, President & CEO

I always love to do this [indiscernible] in these calls. You all on the call are familiar with heating degree days and cooling degree days. You're not going to believe the profile this year of Southern Company. If you look at the cooling degree days and heating degree days for the month of January, February, March, June, July, August, they were all about the same number. It is astounding, the kind of year we've had.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

And I just -- maybe is pinning you down too far, but on the growth outlook, obviously, you have this 4% to 6% currently, and 5% is sort of the midpoint. Do you still see 5% as being part of the range as you move out of the decade?

Thomas A. Fanning
Chairman, President & CEO

Yes, man, we'll update everybody in January. What we will -- what we were able to say here -- because I know everybody's going to want to know the specifics, we're just not ready to do specifics, we'll do that January, as we have for the past decades. But what we could say is, in all the uncertainties, even now in our financial projections, we do have a -- what appears to be a dominant solution. The dominant solution basically says to the rate of growth, dividends, we think, will be consistent with the past, putting in place all of the caveats about purview of the board and everything else.

Operator

Our next question comes from the line of Shar Pourreza with Citigroup.

Shahriar Pourreza
Citigroup Inc, Research Division

Just a little question on your cash flow profile. I think you've kind of hinted that you should see a potential improvement in that outlook over the near term. Could that potentially eliminate any equity needs in 2015 at the earliest?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. I think when you look at our equity needs, we've outlined the need for equity a little bit more this year, total of about $700 million for the year, and $600 million next year. 2015 is still kind of a tossup, but as to whether or not we'll need any is a function of, obviously, tax policy, bonus depreciation that we qualify for all of that kind of stuff. But we may not need any equity -- additional equity in 2015.

Thomas A. Fanning
Chairman, President & CEO

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And in fact, the net of '15 and '16 could be 0. So if you get something in '15, you could have a negative in '16.

Shahriar Pourreza
Citigroup Inc, Research Division

Okay, perfect. And then just one real top-level question, to the extent that you can answer it. I think you mentioned maybe in the prepared remarks that some of the growth that you see could be back-end loaded. You typically issue your guidance CAGR. It's usually more of a long-term picture. Can you at least directionally mention whether the growth in the outer years can offset a potential slowdown in the interim?

Thomas A. Fanning
Chairman, President & CEO

Well, the way you should think about that is that -- what we try to say is -- I'm going back to John Chiles, that old stuff. Those of you that aren't old enough to know John Chiles, you ought to read his book. He's the old guy in Wall Street. But your earnings per share growth rate from net growth and dividends per share at or above the rate of inflation. What we've been able to do with this tremendous growth period that we've had is increase our dividend, I guess, it's the past 6 years in a row, at $0.07 a year. And what we're saying here is by almost any measure we're looking at, we can maintain that kind of trajectory, assuming that the board agrees in everything else, but that's what we think. So you should think about earnings per share growth and dividends per share growth together. And by saying I think we can keep that $0.07 trajectory going, I think it says that whatever happens in the near term is benefited in the longer term.

Operator

[Operator Instructions] Our next question comes from the line of Daniel Eggers with Crédit Suisse.

Daniel L. Eggers
Crédit Suisse AG, Research Division

Just industrial kind of showed nice uptick in the quarter from what we've been seeing of late. Can you just maybe give a little more color on, not so much where the breakdown of performance has been, when you talked to all your customers, what their expectations are in the year-end and for next year from a planning perspective?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, again, it's going to vary, depending on the industry you're talking about. I'd say out of transportation, it's going to continue to expand, and I believe all of our manufacturers are operating 2 shifts, 5 days a week; some, more. We expect that certainly to continue. Primary metals has been kind of up and down, depending on what the metal is being produced for. Obviously, automotive metal had been -- demand has been pretty high, but construction materials and other steel-related products have been -- that might be allayed towards the export market has been kind of spotty as well. Our chemical numbers, year-over-year, look down. That is because one of our bigger chemical companies closed one of their processes here in Georgia. And so you -- at the end of this year, that will be removed from the process. So you should see a continuation of pretty strong growth -- pretty strong performance in the chemical side. And again, housing-related stuff is really off a pretty low base, so -- but we're pleased to see that they are included. I think, Dan, it's going to be a mixed bag, and it's a little too soon for me to comment at this point, but we don't see a wholesale slowdown in the industrial sector.

Thomas A. Fanning
Chairman, President & CEO

Let me give you a -- just a little more detail [ph] there. The residential and kind of housing numbers are pretty interesting. We used to get about 70% of our sales from single-family homes. And with the economic recovery from the pullback in the housing total [ph] now at the recovery, the number looks

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like 62% instead of 70%. So we're seeing more people come in. One of the other questions that we've all had as an industry, I know we've had a lot of fun talking about in this call, has been the whole kind of consumption pattern of residential customers. One of the other issues that we -- when you peel the onion on the numbers, we've seen more customers come in. There are houses with meters, but nobody's living there. There are people now trying to sell them again, where they didn't before. So you got to factor all that stuff into account. So we actually think the trend here is positive. Let me give you just a couple more things to keep your eye on. Domestic energy prices, particularly good old Southern Company energy prices, remain awfully strong relative to averages. And I think that gives us the basis to compete well and gives us, I think, some good gunpowder, if you will, for our companies to conveniently locate in our area. Another thing, exports. Significant part of our industrial production go to the export market. As the worldwide markets continue to improve, we'll do it. One more, and then I'll turn it over, but pipelines -- it is interesting, pipelines shows up as an industrial customer. Most times, industrial customers are not sensitive to weather. In this case, pipelines were sensitive to weather. And in fact, I think it was our worst-performing segment.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Right.

Thomas A. Fanning
Chairman, President & CEO

But we think it was all weather-related, so to get more normal weather, more normal throughput, better performance.

Daniel L. Eggers
Crédit Suisse AG, Research Division

Got it. That was interesting on the house-flipping front. I guess just switching gears on Kemper and kind of these prudence reviews. Can you just share where you really was kind of via conversation and how that's at play relative to the $2.88 billion cap you guys already agreed on?

Thomas A. Fanning
Chairman, President & CEO

I'll give my shot at it. Art, give yours. I mean, it's -- yes, who knows. Number one, I mean, we've got to have the prudence review, and we've given them all the documentation and everything else. Certainly, we are disappointed with the additional charges that we've recognized, that what we believe will be a future loss. It would be amazing to me for somebody to come up with an argument that for at least the 2 point -- the first $2.88 billion that we were in prudence, knowing that we are writing off now on a pretax basis over $1 billion. I would find that a very tough argument to make.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

I think it's also important to note that under Mississippi law, as I understand it, that an assumption of prudence is -- has to be made and that there has to be proof of imprudence when you go through the whole process. So it's a -- something that's being clarified here as of late.

Thomas A. Fanning
Chairman, President & CEO

And then I'll just tell you some. I mean, we believe the problem at Kemper was, essentially, at the time that we made a fixed price commitment with 10% engineering done at 6.7% contingency. In other words, the problem has been one more of a lack of engineering that was completed rather than construction. By all account, the construction of Kemper has gone very well.

Daniel L. Eggers
Crédit Suisse AG, Research Division

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Got it. And I guess just the last one, Tom, and I know you guys will talk to this next quarter, but when you think about the acceleration of growth, just kind of big bucket-wise, is that going to be driven by infrastructure replacement? Is that going to be driven by reacceleration in power demand? Or what do you think of the things in the horizon that's going to facilitate a higher rate of growth?

Thomas A. Fanning
Chairman, President & CEO

Sure. I mean, it's higher rate of growth compared to kind of the '16, '17 time frame. It's going to be more like this, I think. When you look at the integrated resource plans across the system, kind of the next time frame of new generation will be in the early '20s, so let's just say 2023. So getting ready for that, starting construction, all that, will be one. That's for our retail operating companies. Further, Southern Power. The Southern Power people work really hard to produce results. When I think about Southern Power this year, last year, they made something like, well, I don't know, $175 million, and we've given them a stretched goal to improve that this year. We think they've lost pretax, something like $40 million on energy margins this year, just because the capacity factors of their equipment is lower, gas prices have gone up something like 80% off their loads, coal prices have come down a bit, especially as we shifted to Western coal in the aggregate. So the other thing is we keep pushing Southern Power to go evaluate deals and go buy things that fit our business model. I can tell you, there is a lot out there for sale, but we are very disciplined, and we had not pulled the trigger very much, absent a solar deal we've announced, on striking new deals. So we want to clear that inventory out of the way and accelerate Southern Power's own growth plan. We've also told you in prior calls that we're looking elsewhere. So Texas MISO, PJM West, a variety of other things where we might be able to find some more fertile ground. That also is a function of our reserve margins in the Southeast. The other thing I would just mention is environmental spend, particularly ash, water, what else is down the road. The new rules that we're looking at, particularly for ash and water, are bigger in nominal dollars than our incremental mat costs. So we think that as we find the firm date in which we have to comply effluent standards, 316(b), CCB, coal combustion byproducts, et cetera, we think those numbers will emerge at the kind of back end of the decade. So we'll be spending money there. Those are kind of the big buckets, new generation, Southern Power, environmental spend.

Operator

Our next question comes from the line of Greg Gordon with ISI Group.

Gregory Harmon Gordon
ISI Group Inc., Research Division

Just a follow-up on that line of conversation on the -- I take it you said earlier in the call that you sort of would see sort of a dip in growth in sort of the 16, '17 time frame and then accelerate back up in the back half of the decade. And I just heard the answer to the last question, which puts some more bones around that. If I look at Slide 14 of your slide deck, it gives us '13, '14, '15 CapEx by segment. So is what you're telling us that your new generation and environmental compliance spending will see a dip in '16, '17 and then reaccelerate later in the decade, but that T&D, maintenance, nuclear, general, the other things are sort of steady as she goes. Is that the right way to think about it?

Thomas A. Fanning
Chairman, President & CEO

Yes, that's a good way to think about it.

Gregory Harmon Gordon
ISI Group Inc., Research Division

And that Southern Power, you think, will also dip? Or you think you'll be able to find opportunities to spend there?

Thomas A. Fanning
Chairman, President & CEO

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We hope we'll find opportunities. By definition, we're a big EVA company. And if we can find things that fit our business profile, we're not going to change long-term bilateral contract, no fuel risk, creditworthy counterparty. We're going to keep the course there. If we can find more deals, we'll do them. Geez, well, we'll do them next year and the year after. The thing is, like I said, there's a lot for sale, it's just kind of junk, in my view. And the only thing is we just don't know how much solar is out there, what our appetite is. We've said before, tax-advantaged investing, to us, requires a risk premium.

Gregory Harmon Gordon
ISI Group Inc., Research Division

Right. So -- and that $2.4 billion over '13, '14, '15 has always been, to some degree, a placeholder for opportunities, right? So...

Thomas A. Fanning
Chairman, President & CEO

Exactly.

Gregory Harmon Gordon
ISI Group Inc., Research Division

So those numbers are, even to some degree, opportunistic?

Thomas A. Fanning
Chairman, President & CEO

They are precisely opportunistic. You're exactly right.

Operator

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

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

Just the prudence review, is the $2.88 billion -- is there any threat of that being disallowed at all? Or there's just anything above that, that you're looking at?

Thomas A. Fanning
Chairman, President & CEO

Well, there is no -- I mean, anything above $2.88 billion -- wait a minute, let's be clear. There's 3 big humps of things, right, there's a mine, there's a pipe, and there's a plant. And what I've said before was we've already not charging Mississippi customers above $2.88 billion. That's what gives rise to these expected losses that we've been booking. In terms of inside of the $2.88 billion, that's subject to kind of the company and the PSC to decide. My only point was, given the costs above $2.88 billion that we've taken for our own account, I would find that to be a tough argument, but let the process go, and we'll see.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

And then with this latest Kemper charge, how does that going to impact your equity needs in the '14 and '15.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, Paul, we don't expect that they'll change from what we outlined on the last call, $700 million this year, $600 million next, and then 2015 will be dependent on other Southern Power projects or whatever. But right now, we may not see any need in '15 or '16. But we're still maintaining a target 44% equity ratio.

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Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

Okay. And then it sounds like you -- subject to purview of the board, but you see $0.07 dividend hikes? Is that the way to look at it or there's a percentage increase we should think about?

Thomas A. Fanning
Chairman, President & CEO

Well, I'm referring to the $0.07 per share that we've been doing now for 6 years in a row. And all I'm saying with that is you got to put all the right caveats there, right? I can't sit here and guarantee everything for you. That is the subject. That is the purview of the board. But I can say that, based on every projection I've seen, we still need to work through all the details. We have a lot of regulatory uncertainty still with Georgia and others. It looks like to me a dominant solution. I feel reasonably confident in saying that we can sustain that.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

And, Tom, you sounded pretty optimistic about a Georgia settlement in your commentary. Did I interpret that properly?

Thomas A. Fanning
Chairman, President & CEO

We've been treated constructively in this 3-year process since 1995. I know there's been lots of questions before by people outside Georgia asking the commission how will they rule, et cetera, et cetera. And I know that there's been a consistent theme of why should I hurt this company. Georgia continues to provide some of the best customer satisfaction. You know that's the middle -- the center of our business model. We call it circle life, but it, in fact, works. If we deliver reliability, low prices and the best customer service, it translates into customer value. Our 4 companies, among the national companies we follow, are the top 4 in terms of customer value in the United States. So we see all of the fundamentals in place to continue a constructive relationship with the commission. Outside of that, I have no color on how that will go. I just think we'll be treated fairly, as we have in the past.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

Okay. And are you going to do your triennial Investor Day in '14?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

We are still considering that, but as of this point, we haven't made any commitments.

Operator

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

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Just wanted to clarify 1 or 2 things. One is, to be clear, the fact that you will end at the lower end of your guidance range for this year, are you attributing that all to weather? Or were there some other factors we should be thinking about as well?

Thomas A. Fanning
Chairman, President & CEO

Vast majority of it is weather. If it was just the economic growth, we could make that up easily. It's mostly weather. This is -- we've never had a third quarter in our history, we think, that mattered $0.10 in weather.

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Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Okay. And then year-to-date, weather-normalized growth, low growth, it's been pretty much flat or 0.1% down. Can you remind us on normalized, where do you see normalized load growth, '14 and beyond, how should we be thinking about that?

Thomas A. Fanning
Chairman, President & CEO

Well, in -- Ali, don't think of it year-to-date flat all that. Think of it as we suggested. If the profile of growth this year has been almost exactly what we thought it would be, except it has been a bit attenuated, right, so the first 6 months we thought would be flat. Well, in fact, it was flat, maybe slightly negative, and you can fool around the edges on that. The last 3 months has been a little positive, plus 1% weather-normal. We hoped it was going to be a little better than that, but that's because GDP is down. It's fascinating. We look at all sorts of things like all the fundamentals that we give you guys every quarter on like bottoms-up evaluations of the economy. The other thing that like the Fed looks at too is this uncertainty index. And the absolute level of this uncertainty index, that's put up by some people coming out of the University of Chicago, shows that the nominal level of uncertainty is just about double what we've seen in history. And importantly, the volatility of uncertainty is enormous compared to prior history. And so what we see now is not only a challenged economy showing a recovery, although a bit feeble, we now have introduced event risk. And when we see fiscal policy failed to resolve the issues of the day, we see all sorts of effects in the economy as a result: people not withholding spending, actually, saving more money, not all a bad thing; we're seeing companies hold back a bit on capital expansion; we're seeing companies hold back a bit on employment. We got to get out of this logjam in Washington in order for the full potential of the economy to achieve its numbers. Down the road, we continue to see recover. We see all the data. I think the only one Art didn't mention is commercial recovery. We continue to see good what you call green shoots or whatever there. And typically, that's our lagging indicator.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

And so, Tom, to be clear, I mean, as you look forward, remind us -- I mean, you see sort of normalized growth towards in the 1% to 2% range annually? Or how should we...

Thomas A. Fanning
Chairman, President & CEO

1.3%.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

1.3%, okay. And then, Art, year-to-date, can you remind us how much equity actually has been issued?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Okay, hold on a second. It's about $500 million year-to-date. We need about $200 million more to get to our target. I think there's an appendix slide on the website, Ali, that could give you that number as well. One other thing about weather-normal, and I know I've always said this, is that it's more of an art than a science. But weather this year has been so abnormal that when we do -- and I know our forecast folks shoot arrows at me when I say this -- but when our models try to normalize, it is using modeling from normal weather years. So when you take an abnormal year like this and try to figure out the weather impact, we don't think we're getting reliable numbers. But -- so we think our growth could actually be a bit better than what we reflect.

Thomas A. Fanning
Chairman, President & CEO

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Yes. And let me give you -- I couldn't agree more with Art here. Here's one more. Normally, when you think about weather adjustments, you go to temperature. It is clear that the rainfall has had a significant wet blanket on economic activity. People are going out less, spending less. We have less than we used to in the past, the traffic over the Pensacola Beach bridge and beer sales out of the Walmart. People just didn't spend as much money. Shopping is down, so...

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

[indiscernible] That comes from the Fed.

Thomas A. Fanning
Chairman, President & CEO

Yes.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

You hear a lot.

Thomas A. Fanning
Chairman, President & CEO

So there's a rainfall effect here.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, which is interesting.

Thomas A. Fanning
Chairman, President & CEO

We don't capture that.

Operator

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

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Just 1 or 2 questions on CapEx. I'm just looking at the slide in the appendix from this quarter slide deck and last quarter's slide deck. I want to make sure I understand what's happening here. It looks like you moved CapEx up and into 2013 at Mississippi Power, but then you backed down the back-end numbers there. And then at Alabama Power, it looked like you raised the back-end numbers but lowered '13. I just want to make sure I understand the drivers there, and then I want to follow up on Southern Power.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, Michael, I'm going to have to get back to you on that. I don't have that detail. But we're certainly glad to get you that information.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Okay. Also, Southern Power, you had earmarked that $900 million of CapEx for 2013 or basically at Halloween. I just didn't know kind of where are you in that run rate, and is that a number that's likely to come down and be a source of cash to the holding company in the next -- as you kind of have to fund -- burn funds, some on Vogtle?

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Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, we're about half of that at this point. Somewhere around the $450 million number is my recollection, anyway.

Thomas A. Fanning
Chairman, President & CEO

Yes, we thought there'd be more gas fields around, the way we looked at another biomass deal, we looked at other stuff, and we just haven't liked what we've seen.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Tom, you've made some comments about Kemper County and kind of the engineering versus construction processes. Given the fact that it's an innovative technology, if you were sitting down a year or 2 or 3 years from now with some of your peers and had to give them -- give like a lessons learned or "if I had to do over, what would I do differently" type, what else -- are there other things you would have done significantly different? And I'm just really kind of thinking about this kind of longer term, next 5, 10, 20 years, as other companies in the industry have to do things that are technologically different than what they've traditionally done.

Thomas A. Fanning
Chairman, President & CEO

Yes. Let me give you a quick simple answer, and that is it would be do more front-end engineering. So that would be it. The other thing is, we're seeing lots of potential outside the United States. And here let me give you kind of 2 factors. We continue to innovate around TRIG. That's the brand name of our technology. And in fact, there's other technology we're working on. It's just the natural evolution of TRIG where we might capture as much as 100% of the CO2. Now we are far from being ready for primetime there. But the linkage of CO2, not as a waste but as something of value, particularly with enhanced oil recovery, may have some potential. And so we're continuing to work on it. So look, we're very proud of TRIG. We made a mistake on the engineering. We agreed to a price cap without having done fully our homework on the deal. And we're paying for it. But I think down the road, we'll find ways, we think, to keep the capital cost down and make this thing economic. The other thing people talk about all the time is, gee-whiz, how can you do Vogtle, how can you Kemper with low gas prices? Well, we have made probably the biggest shift in the industry from coal to gas. Southern Company is now the third-largest consumer of natural gas in the United States. Everybody knows I'm bullish on natural gas. But we cannot put all our eggs in that basket. We must find innovative solutions to go forward, okay. The final point. We are now engaged in some discussions around the world, China, Pakistan, Indonesia, Australia, Poland. I'll be in Washington on November the 7 -- 6 -- 7 with Secretary Moniz and other energy secretaries from international companies talking about the applicability of TRIG or any improvement to TRIG that we make down the road. And think about it. Why would it might make sense there rather than here? Well, because they may not have the advantages of the natural gas industry that's been created through frac-ing. And so if they don't, places like China, Indonesia, Australia, Poland, et al., may have nearer-term uses for this kind of technology. So look, I guess to summarize quickly, do more homework upfront, understand the risk of a price cap. It would be -- we're going to continue to innovate, and we're very proud of this technology. We think it's got great promise in the future. We're continuing to work on it.

Operator

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

Kit Konolige
BGC Partners, Inc., Research Division

Just a couple of kind of incremental bits of information. To go with that growth rate in sales, what's your assumption about the kind of longer-term 5, 7-year growth rate in O&M as you go forward?

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Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, yes, Kit. This is Art. You look at O&M, and we have a hard time defining normal in O&M these days. As we look back in time and we just look at our operating company O&M levels over the last 4 years and if you normalize it for things like the Daniel lease at Mississippi, we've been relatively flat on non-fuel O&M since 2010.

Kit Konolige
BGC Partners, Inc., Research Division

How many assets have you added?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

And we have added over $7 billion of plant service during that time, including units here in Georgia, around McDonough, of 2,500 megawatts of natural gas units. We've added scrubbers and SCRs around the system. All of these assets require O&M. So we've been able to absorb that around the weather and economic impacts that we have suffered through for the last 2 years.

Thomas A. Fanning
Chairman, President & CEO

Well, let me just say it a different way. So assuming -- accounting for increases in assets, increase in inflation, we've actually had declining real O&M levels over 4 years.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Now you ask the question, well, how do we plan? How do we plan from there? I would take -- and this is kind of just a slingshot over the back here. But take a couple of hundred million, maybe $250 million, and add it to our current, maybe our current 12-month ended numbers, and add 3.5% to it a year, and that would give you a normal process or expectation around O&M.

Kit Konolige
BGC Partners, Inc., Research Division

3%?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes.

Kit Konolige
BGC Partners, Inc., Research Division

And then one other item related to the discussion of the future and things you don't want to be pinned down on, Tom. But obviously, just doing the arithmetic of your growth rate in EPS is likely to slow some and yet you keep up the rate of growth of the dividend and the payout ratio increases. What level of payout ratio are you comfortable with?

Thomas A. Fanning
Chairman, President & CEO

Yes, right. So that's the obvious math, right. And remember, we said the EPS has a shape now, so we have a trajectory that you can flatten a bit and then resume. So remember where the payout ratio would rise in the time of flattening. You're going to be much more cash flow positive. So from a credit metrics, cash flow coverage or dividend or however you want to think about that, we can sustain a higher payout ratio. So we wouldn't be afraid at all going above 75. I don't see any scenario right now credibly that would get us north of 80. But I think we could be in the 75 and north range. But I think that would be fine

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for us because I think longer term, we'd work it back down. It's more important for us to have regular predictable, sustainable increases in the dividend policy. We understand how important that is to investors, and I feel confident that we're going to be able to sustain that, assuming the board goes along with it.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

It's Art. On that O&M comment, that may not be level across our operating companies. You may see companies increasing. If they're, for example, Georgia Power, putting the Vogtle 3 and 4 into service, you're going to see some elevated levels of O&M around those assets.

Thomas A. Fanning
Chairman, President & CEO

And McDonough.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. So those numbers may not work by an operating company standard.

Kit Konolige
BGC Partners, Inc., Research Division

Right, fair enough. But if you bring them all up to -- consolidate them at the Southern level, that should be the sort of rough approximation?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, yes.

Operator

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

Mark Barnett
Morningstar Inc., Research Division

It's been a long call so I won't pepper you too much. I just have a quick question on something the NRC staff released last week. They were talking about greater coordination of safety or severe accident management guidelines. That might be a very small item given the size of Southern, but I'm just curious if you think that there's something in there that might meaningfully impact cash operating cost for nuclear?

Thomas A. Fanning
Chairman, President & CEO

No. We meet all the time on this stuff. You wouldn't believe -- I guess between me and Mark Crosswhite, our COO, board members, we go to NSRB, Nuclear Safety Review Board, where we go to each of our plants and evaluate all the details, the operations of the unit. Our Opco CEOs, McCrary and Paul Bowers of Georgia and McCrary of Alabama go to these meetings. We have board meetings at Southern Nuclear. We meet all the time on these issues, as well at our management council meetings. We evaluate kind of budget to actual performance and projections of all of our business units including nuclear. While these are important issues that you're kind of highlighting here, we don't think it's a significant budget issue, and we'll be able to work through anything coming our way here. This is not one of the issues that's going to be a driver to an investor's decision in a material way.

Mark Barnett
Morningstar Inc., Research Division

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Okay. And I think it seems that it's still something that's up in the air, and it seems there might even be some internal disagreement. But do you have any feel for what, if any -- whether it's a small item or not, what, if any, real changes might be brought about by any such, I guess, coordination of SAMG?

Thomas A. Fanning
Chairman, President & CEO

Mark, you know what I'd rather do here? I would rather get you on the phone with some of our nuclear guys and talk to them because just talking about that in isolation really doesn't tell the whole story. Remember, we have the whole post-Fukushima thing and we are going to do hydrogen venting and a lot of other issues. I can just tell you, looking at the budget of our nuclear business, they do grow. But it's nothing that's going to weigh down our ability to deliver financial results. If you want a lot of detail, I can put you with the right people.

Operator

Our next question comes from the line of Mitchell Moss with Lord, Abbett.

Mitchell Moss

Two quick questions. One, I noticed on the September versus October status reports that you just put out there was a point about the process piping installation, and it looks like the number went down by 1%. I wanted to make sure I understand what went on there and how -- I guess is there a problem on the construction end or what happened?

Thomas A. Fanning
Chairman, President & CEO

Okay, yes. Mitchell, we're going to probably want to get back to you on that. My only sense would be that it's kind of production and weather-related, as I described earlier on the call. So we'll get you the specifics on that. You're looking at a specific, I think, regulatory report. It's probably what you're looking at. We'll get back to you. Call us back later, and we'll figure that out for you.

Mitchell Moss

Okay. And then on the upcoming milestones, there was -- you previously had said that the steam turbine synchronization was going to be at the end of October so...

Thomas A. Fanning
Chairman, President & CEO

Yes, we are synchronized.

Mitchell Moss

You're synchronized?

Thomas A. Fanning
Chairman, President & CEO

Yes.

Mitchell Moss

Okay, so that's been completed. So it looks like there weren't any other 90-day milestones coming up or at least listed, so are there -- what should we be paying attention to, [indiscernible] significant benchmarks?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. Mitchell, I think one thing we've mentioned in the past was the first gas-fired heat-up, and that was originally scheduled, I think, December. Now it looks like mid to late second quarter.

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Mitchell Moss

Okay. So that's the next major milestone that we should be paying attention for?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

That's correct.

Thomas A. Fanning
Chairman, President & CEO

Yes, finish the piping. It's going -- so far it's been going very well. We're 60% through startup, something like that, 50%.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Right.

Thomas A. Fanning
Chairman, President & CEO

And it's gone well.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

We'll have some other milestones beyond that around reliable syngas out of each train, but that's a bit far off.

Thomas A. Fanning
Chairman, President & CEO

Yes.

Operator

Our next question comes from the line of Andy Levi with Avon Capital.

Andrew Levi

Just one thing I was confused about that came up earlier in the call. Maybe I just wasn't aware of it. But just on Mississippi, on the $2.88 billion, did you say there's going to be a prudence review around that? I thought that was kind of set in stone.

Thomas A. Fanning
Chairman, President & CEO

Well, no. There's always been a prudence review associated with the project, I guess. As we outlined in our opening remarks, there's going to be one kind of in the spring of 2014 that will cover, I think, through 2013, and then we'll -- through March of 2013. And then expenditures beyond March of 2013 to in-service, we'll have another prudence review on that. But that's always been the case.

Andrew Levi

Okay. I apologize. I thought $2.88 billion was kind of guaranteed and there was no risk to losing that, but I guess I was wrong.

Thomas A. Fanning
Chairman, President & CEO

I suspect that probably isn't true for anything in the utility industry.

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Andrew Levi

Fair enough. And then just the last question. On Southern Power, anything you end up doing, whether it's down in Texas or outside of your Southern footprint, would be contracted, right, we're not talking any type of merchant...

Thomas A. Fanning
Chairman, President & CEO

Yes, I said that before. We don't believe in the merchant mile. We think it doesn't serve any customer's interest in the long run. And our business model, remember, is long-term bilaterals, credit-worthy counterparties, no transmission or fuel risk, things like that. We're going to stay on that case. That's why we haven't done a lot of deals. Like I said, there's lots of stuff for sale. We kick every tire we see, but we're very disciplined in what we're doing. So there's the lack of spending and buying projects in Southern Power. It's not because they aren't out there. Because we don't like what we see.

Operator

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

Ashar Khan

I had 2 questions. One is a factual question going to Page 8 of the earnings package. And this shows the financial overview of earnings as reported by each subsidiary for year-to-date, as well as quarter-to-date. And I'm focusing on Mississippi Power. I just wanted to make sure I'm doing my numbers correctly. Year to date, the net income is $115 million. And I add back nearly $48 million write-offs, that's $163 million, I guess, prior to the write-off for 2012 year to date. And then if I take the '13 year to date, I'm adding $704 million to negative $490 million, I get to $214 million. So am I correct, Mississippi Power, the earnings are up year to date about $50 million versus, I guess, everyone else is like flat or down, but am I correct in my interpretation that there's a $50 million improvement in Mississippi Power earnings year to date?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, I believe you are. It's mostly AFUDC, once you net out all of the x items that you mentioned.

Ashar Khan

Okay, okay. And then, Tom, I just wanted to get as we -- as you have kind of mentioned, strategically you're looking into the next kind of decade in terms of growth and all that. One thing, when you were the CFO in your CFO role in the later past -- in the later half of the last decade, one thing which was very clear about Southern was, and you propagated and I guess you guys still do, was risk-adjusted returns being very, very superior. What I'm trying to understand is that as you guys were kind of like planning for this decade, where did the miss come -- why did -- I mean, it seems like what's starting is that you started 2 highly risky projects at the same time. So I'm just trying to see what happened. Did the management review that in terms of what you guys were and taking on such 2 risky projects all at the same time as to why that didn't come into mind? Because now we are suffering from that risk-adjusted, we've become a much more riskier company as the implementation is going through. So I just wanted to understand, did those things come into mind? Or what drove the decisions to pursue 2 projects simultaneously at the same time?

Thomas A. Fanning
Chairman, President & CEO

There are days I ask myself that, I suppose. Gee-whiz, you have to put yourself in the context at the time in which those decisions were made. I think management, at that time, felt that there was pretty robust growth. A lot of the planning and all that occurred before the downturn in the economy. And we were seeing pretty robust growth, and so we've always felt that the broad portfolio, we felt that the nuclear program, which is actually going exceedingly well, had the right supports in place to make it effective. And so my sense is around Vogtle 3 and 4, it's a terrific project. It's going along terrifically.

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We've had terrific support by the Governor, the PSC, the legislature, the General Assembly in Georgia, the administration in Washington, Congress. Vogtle is going great. The only kind of black cloud here is Kemper. And I've said many times that while we are very proud of the technology that we develop along with our partner, KBR, remember, originally, Kemper, that technology was going to get built in Orlando, but it was going to get built without CCS. When we moved it into Mississippi, we combined CCS with enhanced oil recovery. And we made a strategic mistake back then. We committed to do the deal with a price cap without enough engineering being done. That would be my sense of it. Recall also, the state of Mississippi was in an interesting position to where failing to do Kemper County would have subjected them to about, I forget what the number would be, 70% to 90% of gas for their electricity generation. And from a public policy standpoint, I think the regulators in Mississippi didn't want to have that much volatility of energy production tied up in that fuel resource. There was a host of issues. But if you think going forward how well Vogtle is going, we definitely have taken our shots on Kemper. I think when you consider all of the efforts in Alabama, all of the other efforts in Georgia outside of Vogtle, all of what's going on at Gulf and really the work in Mississippi outside of Kemper, Southern is and Southern was. We continue to deliver value to customers every day, price reliability, customer service. And I think if you want that underscored, it is the notion that our customer value numbers had been terrific for a long time. We're the top 4 among the companies we survey. I don't think Southern -- I think Southern is going to be fine in the long run. It's just getting through Kemper is the issue.

Operator

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

Dan Jenkins

So just a couple here. You mentioned, I think, on Vogtle how you're in the final phase of potentially these DOE loan guarantees. And I was just curious, you also mentioned in your appendix on financing needs that, that could be up to $2.5 billion, I think. So would that tend to mitigate the needs for Georgia Power to enter the public debt markets over that timeframe?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Absolutely, yes. You got it. You got it exactly right.

Dan Jenkins

And then on -- I'm trying to understand on -- for Mississippi Power, given the $1 billion plus of write-offs, obviously, that would have a big impact, I would imagine, on the equity and their capital structure. How do you account for that in the rate-making process given that your shareholders have taken the brunt of those write-offs? Would you use like an imputed capital structure or how does it -- for rate-making purposes, how would your capital structure, your equity in your capital structure be?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. The equity hit is already taking place, and we'll replace the equity as we commence the additional capital that we're investing in Kemper. So the additional $1.1 billion will be financed with a portion of equity from Southern, and it will help restore by the end of 2014 their equity ratio to about a 50% or so level.

Dan Jenkins

So you won't try to do an imputed capital structure. You'll just use whatever happens to be even with that hit that was basically taken by the shareholders for what the cost of capital for rate making, you're saying?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

That's correct.

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Operator

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

Vedula Murti

You were talking a bit about the back end of the decade and particularly in terms of placeholders and CapEx and they turn in on cash flow. I'm wondering, can you kind of maybe range off maybe over like the 5-year period to continue to improve 20 or whatever you feel like you can, what type of cash flow flexibility you think you're going to have over and above your maintenance CapEx and everything like that and that might be available because it seems like you have a chance depending that this might be a period of time that would kind of look somewhat similar to the period of the mid-90s after you just completed Vogtle.

Thomas A. Fanning
Chairman, President & CEO

Vedula, I appreciate your interest in that kind of number. We'll give you more updates in January. We're just not prepared to go there right now.

Operator

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

Paul Patterson
Glenrock Associates LLC

Just I wanted to sort of follow-up on Kemper. Just I know that there's always a disclaimer and everything, but there was this discussion there about some uncertainty associated with what could happen with future expenses, cost overruns, what have you. Can you give us sort of any flavor as to how you feel about that now with that latest update that you've given us?

Thomas A. Fanning
Chairman, President & CEO

Yes. The numbers we've given you are based on everything, every piece of information that we know right now. Essentially, the information we've given you is consistent with the information that we suggested in the past that any scheduled change is worth about $15 million to $25 million. If you just want to do -- always love kind of dumb math, simple math, $15 million to $25 million a month, if you go 6 months times $25 million is $150 million. And we've retained in light of that $100 million of contingency. That's how you get to where we are. Of the $150 million, there's still $100 million of contingency in there.

Paul Patterson
Glenrock Associates LLC

Okay. But I mean, in terms of just qualitatively speaking, one would think as time goes on and as you guys sort of meet certain milestones and what have you, that the uncertainty level would go down. Is that -- or maybe not, maybe like you uncover something and you say, well, actually, it's not -- that's what I'm trying to get a feel for.

Thomas A. Fanning
Chairman, President & CEO

I'm sorry. Yes, I see what you're saying. Yes, the risk should start converging. So clearly, now the risks are moving away from construction because we're converging on the completion of construction. The risks are shifting more to startup risks. And as we have said on prior calls, I know several calls, the big startup risk goes to, I think, the integration of the instrumentation and control environment at Kemper. Recall, we have an electricity island. We have a gasification. We have a gas handling system. And so that's kind of what the big risk, I think, in startup will involve. Now we're doing everything prudent in our power to anticipate that environment we model. We already have teams in place to assess it. But that probably is how the risk moves. So clearly, construction risk is converging, then you go to startup risk.

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Paul Patterson
Glenrock Associates LLC

Okay. And then in terms of sales growth and EPS growth, and I know that you're not going to give us really anything until January, if I understand you guys correctly, you're giving sort of qualitatively how it may flow through in the next couple of years just from a very general kind of concept as opposed to specifics. I assume that's correct. I mean, there's no way -- I'm not going to be able to get out of you sort of any relative numbers, is that correct?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

That's correct.

Paul Patterson
Glenrock Associates LLC

Okay. So is it potential that you might actually also reassess the long-term sales growth at that point in time or is that sort of a separate issue, it's more of a CapEx issue that you guys are looking at or in terms of O&M -- things other than sales growth that will be making sort of the determination as to what you guys will be providing us in January?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

We do the whole thing, Paul. We start with a low forecast, and then we put every piece together after that. So it's an annual process we go through.

Thomas A. Fanning
Chairman, President & CEO

But it's all the package. It's altogether.

Paul Patterson
Glenrock Associates LLC

So everything is really actually reviewed?

Thomas A. Fanning
Chairman, President & CEO

Yes. Oh, sure. Oh, sure.

Operator

At this time, there are no further questions. Sir, are there any closing remarks?

Thomas A. Fanning
Chairman, President & CEO

Yes. I just want to say thank you so much for your attendance on the call. We went over a lot of interesting territory. It was a little unusual for us to talk about kind of longer-term performance, but since it's been such an interesting topic that many of you are writing about, we felt that it was a good thing to kind of highlight. We continue to work hard on making Kemper successful as it can be. We feel confident in our ability to execute there. Everything else at Southern is going well. When you look at Alabama, Georgia, Gulf, the rest of Mississippi, when you look at our fundamentals, Southern is performing as well as it ever had. We've got to get Kemper built and operational and we'll be in great shape. We thank you so much for your attendance this afternoon and look forward to talking with you soon in Florida. Take care.

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

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