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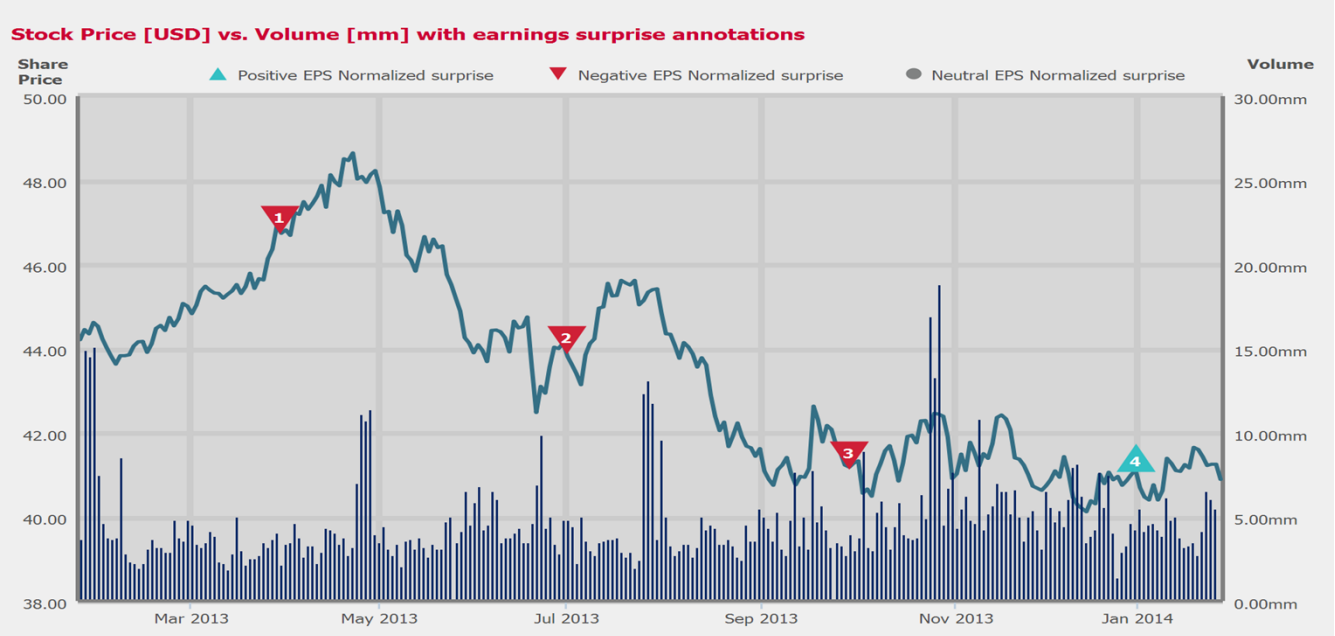
FQ4 2013 Earnings Call Transcripts

Wednesday, January 29, 2014 6:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2013-			-FQ1 2014-	-FY 2013-			-FY 2014-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	0.46	0.48	▲4.35	0.51	2.69	2.71	▲0.74	2.79
Revenue (mm)	3871.15	3927.00	▲1.44	3501.78	17048.03	17087.00	▲0.23	17828.71

Currency: USD
Consensus as of Jan-29-2014 3:08 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2013	0.50	0.49	1 (2.00 %)
FQ2 2013	0.68	0.66	2 (2.94 %)
FQ3 2013	1.11	1.08	3 (2.70 %)
FQ4 2013	0.46	0.48	4 4.35 %

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Presentation

Operator

Good afternoon. My name is Tamika, and I will be your conference operator today. At this time, I would like to welcome everyone to the Southern Company Fourth Quarter 2013 Earnings Call. [Operator Instructions] As a reminder, this conference is being recorded today, Wednesday, January 29, 2014.

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, Tamika. Welcome to Southern Company's Fourth 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 to GAAP measures 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.

We have a full agenda for today's call. We will begin with a brief recap of 2013 operational highlights, followed by an update on the Vogtle and Kemper projects. We will then discuss fourth quarter and full year 2013 financial and sales results. Finally, we will update our forecast of sales, capital spending and financing, which support our earnings and dividend forecast for the next few years.

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. 2013 was a year of operational, regulatory and financial challenges for Southern Company. And apart from our difficulties with Plant Ratcliffe in Kemper County, Mississippi, we achieved tremendous success in meeting these challenges.

In what was arguably our busiest year ever from a regulatory standpoint, we saw an unprecedented level of activity across all 4 states. The results in each of our jurisdictions demonstrate that our continued focus on the customer help support constructive regulatory engagement.

In Alabama, minor adjustments were made to the RSE mechanism that will serve customer interest well. In Georgia, the PSC approved another constructive 3-year agreement for Georgia Power. Georgia Power also completed another successful integrated resource plan. And in the third regulatory proceeding in Georgia, the VCMA report was approved unanimously, bringing the aggregate total of cost approved for Plant Vogtle Units 3 and 4 to $2.2 billion with no disallowances.

In Florida, the PSC approved a settlement agreement reached between Gulf Power and all of the intervenors in its rate case.

And in Mississippi, we reached a settlement in January 2013 that paved the way for Kemper-related rate increases in 2013 and 2014 and a subsequent rate increase in 2015 for the securitization of certain project costs. Combined, these steps are projected to stabilize the impact on customers for at least 7 years.

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Even with the backdrop of the regulatory proceedings in all 4 of our retail jurisdictions, Southern Company and its 4 traditional operating companies occupied the top 5 spot in the 2013 customer value benchmark survey, which compares our customer satisfaction ratings with those of peer utilities.

We experienced the best year in our company's history in terms of transmission and distribution reliability, continuing a trend of improvement over the past decade.

And most importantly, we completed our safest year ever. For the third consecutive year, Southern Company achieved a new all-time record low in recordable incident rate and also saw reductions in lost workday cases and preventable vehicle accidents. This continuing commitment to protecting the health and safety of our workers is a key component of Southern Company's workplace culture, and I'm extremely proud of our most recent results in this area.

Let's now discuss our 2 large construction projects. Progress at the Vogtle 3 and 4 construction site is remarkable. We've included photos in our slide deck that indicate how much the site has changed over the course of 2013.

Also included is a recent photo of CA-20, the auxiliary building module for the Unit 3 nuclear island. The photo, which was taken inside the on-site module assembly building, shows all of the structural walls assembled. Prep work continues to ready this module for placement in the nuclear island next month.

We overcame early issues with the submodule fabrication and documentation in Lake Charles, Louisiana. Our demonstrated ability to work through challenges is indicative of the strong, collaborative relationship we have with Chicago Bridge & Iron and Westinghouse, as well as a testament to the rigorous oversight we have in place for this project. As we look ahead to 2014, the site will continue to change shape in dramatic ways. Progress on the turbine island and cooling tower for Unit 3 will continue, and the nuclear island for Unit 3 will really start to come out of the ground.

After the placement of CA-20, we are scheduled to see 2 of the containment vessel rank stack on the bottom head, the large CA-01 module placed inside the containment vessel, and the 6-foot thick walls of the nuclear island will come all the way to ground level. Progress on Unit 4 will also continue. And a year from now, we expect that many of the unit's components to be further along than Unit 3 is today.

We are also pleased to announce that after extensive negotiations on loan guarantees, Georgia Power has delivered its documents to DOE. Now there remain a series of steps that must be taken prior to closing, and while we can't disclose final terms, we do believe that our earlier estimate of approximately $200 million of present value benefit is still representative of the loan's value to customers. Combined with other customer benefits, including production tax credits, for which we qualified after the completion of the concrete basemat floors in both nuclear islands, we project approximately $2 billion worth of additional benefit to customers relative to the amount originally certified by the PSC. We will continue to provide more color on these savings and other aspects of the project in the next Vogtle construction monitoring report, which is scheduled to be filed in late February.

The Kemper IGCC project also continues to make progress, and we are still working towards a fourth quarter in-service date. During 2013, the transmission infrastructure was completed, the pipelines were all completed and the lignite mine was placed into service. At this stage, more than 75% of the piping has been installed and testing of the combined cycle is underway. In fact, we produced electricity using natural gas throughout most of January, generating approximately $1 million to offset project cost. We will move towards testing of the gasifier in the second quarter, which will mark the first heat-up of a gasifier at the facility.

The key milestone, expected prior to commercial operation, is a reliable supply of syngas to the combined cycle. Recognizing that there are risks associated with start-up activities, we have recorded an additional charge for the project of $40 million pretax, $25 million after tax in the fourth quarter of 2013 to increase the contingency for those risks.

Overall we continue to anticipate that Vogtle Unit 3 and 4 and Plant Ratcliffe in Kemper County will benefit customers with clean, safe, reliable and affordable energy 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. As you can see from the materials we released this morning, we had strong results for the fourth quarter of 2013, which positively influenced our results for the full year. For the fourth quarter of 2013, we earned of $0.47 per share, compared to $0.44 per share in the fourth quarter of 2012. For the full year 2013, we earned $1.88 per share, compared with $2.70 per share in 2012. Our results for the fourth quarter 2013 include an -- include after-tax charges of $25 million or $0.03 per share, and earnings for the full year 2013 include after-tax charges totaling $729 million or $0.83 per share related to increased cost estimates for construction of the Kemper Project. As a reminder, Mississippi Power will not seek recovery of estimated cost to complete the facility above the $2.88 billion cost cap net of Department of Energy grants and exceptions to the cost cap.

Results for the full year of 2013 also include an after-tax charge of $16 million or $0.02 per share for the restructuring of a leveraged lease investment recorded in the first quarter of 2013. Earnings for the fourth quarter and full year 2013 include $12 million or $0.02 per share, and earnings for the full year 2012 include $21 million, $0.02 per share, of an insurance recovery related to the March 2009 litigation settlement agreement with MC Asset Recovery LLC.

Excluding these items, earnings for the fourth quarter and full year 2013 were $0.48 and $2.71 per share, respectively, compared with $0.44 and $2.68 per share, respectively, for the same periods in 2012. Year-over-year results were positively influenced by revenue effects associated with new generating capacity at our traditional operating companies, as well as reductions in interest expense and AFUDC. These positive effects were offset by significantly milder-than-expected weather, increased depreciation and amortization and non-fuel O&M expenses and an increase in the number of shares outstanding. A full listing of earnings drivers for both the full year and the fourth quarter is included in the slide deck.

Our full year 2013 results are perhaps best understood, however, by examining the response of our traditional operating companies to unexpected headwinds in revenue. Weather in our territory was especially unseasonable in 2013, resulting in one of the mildest summers of the past 20 years, and rainfall during the third quarter of 2013 was the heaviest in nearly 100 years. The impact of -- on our base revenues equated to negative $0.14. At the same time, retail sales growth in 2013 was slightly less than anticipated. 2013 therefore marks yet another year in which our flexible spending plans have proven effective in offsetting unforeseen shortfalls in revenue. Each year, as part of the development of our financial plan, we build flexibility into our operations and cost to serve as a mitigation for revenue variances.

Since 2010, with the economy struggling to recover and with 2 very mild weather years back-to-back, our O&M spending has been down $500 million compared against our plan, helping us to deliver on our short-term financial commitments while adding more than $7 billion in capital assets. All the while, our operating companies have been keenly focused on safety, reliability and customer satisfaction, with a view towards maintaining the long-term sustainability of our business model.

Moving now to an economic and sales review of 2013. As expected, economic growth in 2013 was slow during the first half of the year, but picked up considerably during the second half of the year. This trend is reflected in our retail sales results, which showed improved growth in the second half of the year in all customer classes.

For example, industrial sales, which decreased 0.7% in the first 6 months, increased 3.6% during the second 6 months and 4.8% during the fourth quarter, bringing us to 7 consecutive months year-over-year of industrial sales growth.

The strongest segments included paper, up 11%; primary metals, up 11%; and pipelines, up 6%. Housing-related industries improved as well with stone, clay and glass up 9%, and lumber, up 5%. Commercial and residential sales were essentially flat for the year, although we did see a noticeable increase for residential in the fourth quarter.

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Meanwhile, our economic development pipeline remains robust, growing nearly 20% in 2013 compared with 2012. Our traditional operating companies are currently supporting some 350 potential projects, representing 35,000 jobs and $15 billion in capital investment.

Earlier this month, we re-engaged our economic roundtable participants. As a reminder, this group consists of several regional economists and executives from a handful of our largest customers. The viewpoints of our roundtable participants are well aligned with Southern Company's economic forecast. The momentum experienced during the second half of 2013 is expected to carry over into 2014, with anticipated GDP growth of between 2.5% and 3%.

Industrial activity in exports are expected to be the key drivers, with growth expected in chemicals, steel, auto manufacturing and transportation. The housing market is improving, but likely has a long way to go before returning to pre-2007 levels. Multifamily customer growth is 10% higher -- is a 10% higher share of our growth than during pre -- than during the pre-recession period, consistent with many antidotes about robust growth and multifamily housing. Building permits were up more than 25% over 2012, but are about 50% below normal levels. The dynamics of supply and demand in this sector are returning to historical levels, which should translate into an increase in single-family home starts. This continued recovery of the housing sector will support stronger residential customer growth and further support the rise in activity we saw in housing-related sectors in 2013, with expectations of continued growth in 2014. Much of the feedback we have heard from our economic roundtable participants is consistent with the factors that drive our electric sales outlook for 2014. Overall, our forecast reflects 0.7% growth from our 2013 weather-normalized results.

As one looks at how the forecast breaks down by customer class, the expected trend is similar to that of the past several years in that industrial growth leads the way. Specifically, our forecast of 0.7% overall growth assumes a 1.1% growth for industrial sales and about 1/2 that rate for both residential and commercial.

Now let's focus on the other elements of our new forecast, including our 3-year projection of capital expenditures and the associated financing plan. Based on our CapEx forecast for 2014 to 2016, it totals $14.5 billion. More notably, the forecast reflects a slowing trend in the rate of capital investments by our regulated subsidiaries. The main drivers of this trend are expected completion of Plant Ratcliffe in Kemper County, Mississippi; the transition to start-up activities for Vogtle Units 3 and 4; and the expected completion of compliance investments for EPA's MATS rule.

In addition, we have outlined potential Southern Power investments for the 3-year period, which total $1.4 billion. These placeholders represent potential acquisitions or new-build capacity projects consistent with Southern Power's long-standing capacity contract-oriented business model, as well as potential opportunities to invest in additional PV solar projects over this timeframe. As always, we will provide the details of any specific opportunities as they arise to an appropriate level of certainty. Overall, our 3-year CapEx total is expected to be $15.9 billion.

As we turn to the financing plan for the next 3 years, there are several things to note. First, the only equity issuances we are forecasting over the 3-year period are the same $600 million in 2014 that we highlighted late last year. This is primarily driven by our desire to preserve our target equity ratios in light of the estimated Kemper losses recorded in 2013. Our current forecast anticipates that all this equity will be issued through our various internal plans. We currently project 0 equity needs in 2015 and 2016.

Secondly, we have highlighted the appropriate size and timing for Georgia Power's draws under the DOE loan guarantee program and an estimated total for securitized bonds to be issued by Mississippi Power to fund a portion of the Kemper Project. As our cash flow profile continues to improve over the next several years, our 3-year financing plan reflects very little new capital market issuances, which may increase with potential new investments by Southern Power. However, it is important to note that our forecast would still reflect 0 equity needs for 2015 and '16, even if we spend the entire amount reflected in our CapEx forecast for potential Southern Power growth projects. We have provided a more detailed financing schedule in the appendix of our slide deck, which breaks these out by subsidiary.

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All of the forecast elements we've discussed, sales, CapEx, equity and cash flow, factor into our earnings guidance, which I would like to share with you now. First, let's focus on 2014. As noted earlier, our 2013 earnings per share result of $2.71 excluded charges -- excluding charges, came in a year of extremely mild weather, heavy rainfall and a still-sluggish economy. However, we largely overcame the financial impact of those external factors by demonstrating an ability to mitigate revenue shortfalls with lower spending. As a result, it's fair to consider $2.71 a normalized earnings per share result.

Using $2.71 as the starting point, we then adjust for the additional share dilution resulting from the estimated Kemper losses, which totals $0.07. As we have shared previously, this step change is simply a function of the new shares we're issuing to preserve our target equity ratios at both Mississippi Power and Southern Company. Growing 4% to 5% from this adjusted starting point establishes a midpoint for our new 2014 guidance range. To establish a reasonable range for the year, we then add plus or minus $0.04, a very modest 1.5% to this midpoint to set a range at $2.72 to $2.82 -- excuse me, $2.80 per share.

Now let's transition to expectations for 2015 and 2016. In our last earnings call, we shared very distinct -- we shared a very distinctive trend where we're beginning to see -- which we are beginning to see in our long-term forecast. More specifically, we highlighted a slowing of EPS growth in the middle of the decade. This slowing is largely a function of a slowing level of capital spending, especially relative to a capital base that has grown significantly in the recent years with new generation in environmental investments. Combined with the increased operating cash flow associated with these same projects, the rate of growth in total invested capital slows over the next several years. Consistent with these trends, our estimates for earnings per share growth for 2015 is a 3% to 4% -- is 3% to 4% from our 2014 guidance range, and our estimate for 2016 is another 3% to 4% above our estimate for 2015.

As we look beyond 2016, we continue to see potential for the growth rate to reaccelerate. For instance, we are likely to see new generation investment opportunities later this decade for both Southern Power and our traditional operating companies, as well as new environmental spending.

Additionally, beginning several years ago, we raised our equity ratio by several hundred basis points to preserve our financial integrity during a period of increased construction risk. As our major projects are completed, there may be an opportunity to unwind some of that equity ratio cushion and maintain our credit quality at the same time. This would also have a positive impact on earnings per share growth.

In assessing our earnings estimates for 2014 through 2016, we have also reconfirmed our belief that continuing with dividend increases of $0.07 per year is sustainable. While dividend increases are subject to board approval, the implied payout ratios associated with a $0.07 per-year increase are reasonable within the context of our strong cash flow, business model and constructive regulatory jurisdictions.

So to summarize, we estimate EPS growth of approximately 4% to 5% in 2014 off of an adjusted 2013 base. Our growth estimate for 2015 and 2016 is 3% to 4%. Beyond 2016, we see potential to reaccelerate that growth. Based on our level of confidence, we expect to continue our current dividend growth strategy. As a side note, our earnings estimate for the first quarter of 2014 is $0.56 per share.

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

Thomas A. Fanning
Chairman, President & CEO

Thanks, Art. Earlier, Art highlighted something that I want to take a minute to reinforce, namely our track record of delivering regular, predictable and sustainable earnings, along with that, a consistent dividend growth trajectory. We are extremely disciplined in how we approach earnings guidance and dividends at Southern Company. We provide guidance once a year, during our fourth quarter conference call in January, like this one, and we have never changed our guidance range during the remainder of the year.

Additionally, our ranges tend to be small relative to those of other utilities. On the average, over the past decade, our guidance range has been the smallest relative to the other 19 companies in the Philadelphia Utility Index. And as an affirmation of Art's earlier point on the effectiveness of our spending flexibility, we have been inside or slightly above these narrow EPS ranges every single year over the past decade and we were inside those ranges other than excluding items.

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Combined with the fact that we have had sustainable dividend growth every year for more than a decade, even through the toughest of economic times, we believe the risk return profile of Southern Company remains an unmatched value.
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 Steven Fleishman with Wolfe Research.

Steven Isaac Fleishman
Wolfe Research, LLC

Just when you look at the growth in '15 and '16 in terms of earnings growth, it doesn't totally match the growth in the capital that you show '15, '16. So '15 has a higher capital growth, and it slows in '16, but the earnings growth is kind of consistent. Can you maybe explain just those differences?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. Steve, are you saying that earnings growth is slower than the CapEx growth? Is that where you're going?

Steven Isaac Fleishman
Wolfe Research, LLC

Well, it isn't -- CapEx growth in '15 is about 5%, the invested capital growth, and '16 is 3.5%, but then the earnings growth for both years are kind of consistent. So the '15 growth in theory should have been higher if it matched the capital growth and then slow down in '16.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. So I got a lot of things going on there, but you've got invested capital actually expected to grow, but it's being offset with some cash as well. And Southern Power is also an element of that as well. The growth rate we include there assumes some expansion at Southern Power, and some of that could be in the form of new solar projects, which would be more productive to income in those timeframe.

Thomas A. Fanning
Chairman, President & CEO

And let me add a little bit of that. So we've often talked about kind of how we put a risk premium on tax advantage investing. It is clear that if we invest in solar projects, you get a big pop to ITC. Those pops are not sustainable. And so in order to provide a growth trajectory, you've got to continue to add, to add, to add, and it also adds to your risk of being able to recognize the economic value of those tax benefits. For example, if you had a hurricane, you would expense all the hurricane expenses in the current period, and it pushes out the economic consequence of the tax credit. What we see in '16, for example, is kind of the aggregate effect of not so much tax-oriented investing, but a return to kind of base-load investing at Southern Power, which, in the very near term, looks a little diluted. In other words, you don't earn big returns. It's kind of AFUDC. The returns tend to be more of the sustainable nature that we like. So I think that shape -- the kinds of investments we're assuming for Southern Power is a big deal. And then, I guess the last kind of point would be that earned ROE is based on average invested capital, not year end. So you've got to account for the deltas in going from one year at 4 9 and another year at 3 6. You need to average the consequences, so it won't have that kind of year-to-year discrete impact.

Steven Isaac Fleishman
Wolfe Research, LLC

Okay. And then just the commentary that you made on the right side about the long-term growth drivers. Is that the kind of highlight that -- my sense in the last call was that growth was potentially going to slow in '16, '17 and then maybe get better long, long term. Are you trying to say -- are these trying to say that, "Look, it is status quo, it's set the flow, but there's these other things that could pop up that could kind of get us back up again to the 3% or 4%?"

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Thomas A. Fanning
Chairman, President & CEO

Yes, Steve. I think that's worthy of a little bit of commentary here. Let me kind of illustrate some of the thinking. It is kind of a business-as-usual case that would say, "Look, '14 is 5 -- 4% to 5%. '15, '16 is 3% to 4%." And we always use that 3-year period. And then we said, based on these assumptions, which we believe will come true, new generation requirement, and in fact, the latest thinking is those generation requirements could potentially accelerate. Remember, we're retiring a bunch of capacity in '15 and '16, so we're looking at the adequacy of that. Environmental expenditures, Southern Power, this whole notion of, are we overcapitalized during this period where we have very little construction risks. And one of the charts we showed was a debt chart that shows our debt requirements for new money is very minimal. So we're in this cash flow position we talked about before. So the base case is just what we foreshadowed, which was unusual for us the last call, and we're showing you now in a lot more detail of a shaping of the earnings per share growth, that is 4% to 5%, 3% to 4%, 3% to 4%. And then beyond '16, we expect it to reaccelerate based on a host of unknowns. There are other things we could do along the way that would improve the earnings per share growth rate. But recall, as long as I've been around here, we've been a big EVA shop. And by that, I mean, we think we create value by the joint function of risk and return. And we are exceedingly disciplined in how we evaluate risk. So for us to accelerate the growth in earnings per share beyond this kind of business-as-usual case, we would be very careful in looking at what happens to our risk profile along the way. So there's a host of issues out there. Business as usual, depending on how the unknowns actually occur, '17, '18 is when the reacceleration will occur. There are things along the way. We have ongoing discussions with the board. We talk about it and argue with each other all the time as to other alternatives that are available to us during this period. But what we're showing you right now is our best guess as to a business-as-usual evaluation.

Operator

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

Gregory Harmon Gordon
ISI Group Inc., Research Division

A couple of questions. Just as a follow-up to Steve's question is, if one of the factors perhaps affecting the growth rate being slower than the rate of capital growth, contracts or hedges that you have at Southern Power that are rolling off, that are headwinds, and more that -- sort of are net against what would otherwise be normal growth in rate base earnings in the core businesses or is that not something that's a factor?

Thomas A. Fanning
Chairman, President & CEO

It's not much of a factor. Southern Power doesn't swing it that much. You need to look at just kind of this averaging effect that we talked about. If you take average ROE and therefore, the generation of earnings per share, it tends to moderate the discrete year-to-year differences in CapEx. That's where I thought Steve was going. So what you see is just kind of a moderation effect. I wouldn't attach -- and then when you add on what's going on with cash, what's going on in Southern Power and a variety of other factors, that's what's causing kind of the delta. Don't expect in any single year a change in invested capital. You got to average it across a couple of years, anyway. Don't expect 4 9 to equal 4 9 and 3 6 to equal 3 6.

Gregory Harmon Gordon
ISI Group Inc., Research Division

Got it. 2 more questions. One is that the amount of Southern Power CapEx that you've assumed you're going to spend over the next 3 years is significantly lower than the placeholder you had for the sort of last 3 year rolling period.

Thomas A. Fanning
Chairman, President & CEO

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That's right.

Gregory Harmon Gordon
ISI Group Inc., Research Division

What's caused you to downsize that? You talked about solar, and you talked about base-load. Can you extrapolate a little bit more on what you see as opportunities there, and what are the milestones we should look for to get comfortable that, that capital can be deployed at a good IRR?

Thomas A. Fanning
Chairman, President & CEO

Yes. Okay. So Greg, great stuff and actually I've got to give you kudos. You actually -- I bet it was 2 years ago, you called this circumstance a slowing invested capital growth and therefore what happens to earnings per share. Like I said about 2 years ago, you raised this issue. And what we said is, we're working on it. On one hand, if you think about a normal kind of investment in different portfolio horizon, all we've done is moved down the growth curve, down the risk curve. Our value creation, we think, is pretty consistent. Now, what we have in there for Southern Power is based on a reasonable look and certainly part of that look involve the Southeast United States being in an equity -- I mean, I'm sorry, a capacity oversupply situation through the rest of this decade. As you get into the 2020s, you need to have -- start building into the late part of this decade in order to make sure you have capacity in place. What we're watching right now is kind of a couple of factors and these polar vortex issues are pretty instructive. If you look around the United States, the United States did find during these periods of significant load increases. But I think it illustrates the fact that, along with the effect of HAPs MACT and the retirement of a lot of capacity, it may mean that the value of capacity is higher than what we think it is now, i.e., the equilibrium points may be closer than otherwise we suggest. So that's kind of thing one. Thing two. We have also said that Southern Power has turned down business outside the Southeast. And so therefore we have been looking closer at other opportunities, Texas, MISO, maybe certain other parts of the United States. We're continuing that. In terms of creating placeholders for those opportunities, my sense is we've been reasonably conservative. So you should just know that Southern Power has a great deal of interest from us, and every meeting that we're in there with those folks, we remind them that if they can hit our tough IRR requirement, that they have all the capital they need to grow. Capital is not a constraint here. And so we're pushing them as hard as we should. In our external kind of presentation, I think we're being reasonably conservative. Said another way, there may be upside, I just don't want to count on it.

Operator

Our next question is from the line of Jim von Riesemann with CRT Capital.

James Darrell von Riesemann
CRT Capital Group LLC, Research Division

A couple of questions. I'm confused on the bridge between '14 and '13. Was weather like $0.14 below normal for '13 on a weather normalized basis? So how -- what am I missing there?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, '13 was down $0.14 below normal. Most of that was in the summer. Versus, what, '12? I didn't follow your question.

James Darrell von Riesemann
CRT Capital Group LLC, Research Division

So the question is, if you were $2.64 on your adjusted base and you're adding back the $0.14, that would take you closer to the $2.78 range. Why am I looking at a $2.72 to $2.80 range?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

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What we've done is normalized the result for our O&M spending, which really drove it back. And when you do year-over-year versus against our plan, you get different numbers. But that's -- when we look at our plan, we were down $0.14 on weather. We were probably down about $0.06 on economic growth and offset that basically with our cost inflow.

James Darrell von Riesemann
CRT Capital Group LLC, Research Division

One of the things, just thinking about on a second question is deferred taxes in the absence of bonus depreciation. Can you give us some guidance as to how you think that line item on the cash flow statement is going to look going forward?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, we still have some bonus in 2013 probably in the $400 million range. Is it higher? $680 million. I was talking about '13. 2013 was probably in the close to $500 million, $550 million. 2014 is expected to be $680 million. And then beyond that, there's not anymore, so we go back to a more normalized basis.

James Darrell von Riesemann
CRT Capital Group LLC, Research Division

And then I guess, the last question, maybe this is for you, Tom, is you've got a little bit of dividend payout ratio creep going on. When you get to that 2019, 2020 range, what kind of payout ratio are you thinking about?

Thomas A. Fanning
Chairman, President & CEO

So it depends on a host of unknowns, but we think it's south of 75% would be my guess. You'd be in that neighborhood. Depends on kind of what you do. What we've indicated here is that with the ranges we're showing you, based on how the next 3-year period goes, I think you're in the 73% to 77% range, that's the way the math works. To the extent -- and remember, as you add $0.07 a year, the -- your growth rate is actually dwindling a bit, maybe from 3.5% to 3%. So as earnings per share grows again, and we think we reaccelerate beyond the 3% to 4% to beyond 4%, our payout ratio goes down, it just depends on what year want to pick. But I would feel reasonably comfortable saying, of course, host of assumptions, we're south of 75%.

James Darrell von Riesemann
CRT Capital Group LLC, Research Division

Okay. So then that would include all the benefit from Kemper coming online and then Vogtle coming online, which should be a big rate base there, right?

Thomas A. Fanning
Chairman, President & CEO

So we're adding rate base with CWIP, remember. It's a big cash flow impact.

Operator

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

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

A couple of clarification, Tom. Just to -- going into a little bit more insight into your outlook through '16. Firstly, for '14, you had mentioned you guys are budgeting 0.7% load growth. Are you keeping that constant for '15 and '16 as well, or what's embedded as far as load growth is concerned in those years?

Thomas A. Fanning
Chairman, President & CEO

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So we're doing GDP growth to 2.5% to 3% kind of over that timeframe, and you should use your 50% kind of ratio in round numbers.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

There'll be some pickup in 2015. We think just north of the 1% level, and then maybe a little stronger than that in 2016.

Thomas A. Fanning
Chairman, President & CEO

And let me just add one more thing. If you look at the momentum in the second half which we called, and then you see what happened in the fourth quarter, the numbers don't actually jive. In other words, the momentum looks stronger than what we're projecting. Here again, we try to be conservative in our estimates. We're off to a good start. The other thing you look forward to is the kind of headlights that are provided by our economic development. We think that if you kind of look at our backlog on a number of different factors, we think we're kind of up 20% on our backlog. In other words, we're seeing lots of good things coming into the Southeast. One interesting thing you may find is on-shoring. We're seeing more foreign companies consolidating or adding new facilities in the Southeast. We think that's good labor force, it's gains and efficiency of modern production facilities. And frankly, cheap energy, relative to other places around the world. I've been saying for some time around the United States that if we continue on the right kind of national energy policy, we can provide America with an unassailable advantage in manufacturing, growing drops, growing personal incomes. I think we're starting to see some of that.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Ali, let me add to that a little bit. We talked about weather-normal sales growth the last year being 0.4%. But we really believe that with all the rainfall, we don't normalize for rainfall. It certainly had an effect on residential sales because the number of days above 100 -- of above 90 degrees last year was about 1 day in the third quarter. We normally have more than 100. So you've got this weather normalization effect. We think we've understated real growth here. When I look at residential class, we added 27,000 new customers last year, about 3,000 more than we thought. On the commercial side of the house, we added 3,000 new commercial customers. We're beginning to see the growth in those sectors as well, which is the connecting point between industrial growth, residential growth and then following that, commercial growth.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Got it. And Art, second question to you, and you alluded to that a bit. But off the O&M base that you reported this year, how should we again be thinking about O&M growth? I know there's normalization to be done as well, but can you just remind us how we should think about O&M growth off this '13 base?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. It's a good question, Ali. In 2014, we estimate that O&M will grow roughly 9%, or maybe $300 million or so. About 1/3 of that O&M is for environmental. The rest will be a return to what we call normal operating levels that are supported by the recent rate cases both in Gulf and in Georgia. Growth for '15 and '16, we think, averages about 3.5% a year. 2.5%, that would be kind of normal O&M growth. And then in '15, you'll have to add about another 1% for operations at Kemper County. So that kind of paints the picture for you.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Absolutely. And last question, just to clarify, in your financing plans, you've assumed the DOE loan guarantee comes through and then you're drawing down on that, et cetera. So I'm assuming you're

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obviously extremely confident you're getting it. But for whatever reason if that doesn't come through and maybe that's 1% or 2%, and if it doesn't happen, does that get replaced by additional debt or would more equity come into the picture in that scenario?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

No. It would be pure debt. Just -- we will go to the capital markets for the debt.

Thomas A. Fanning
Chairman, President & CEO

I just feel compelled to throw one more statistic out because it's along the lines of this questions about growth and everything else. And we talk a lot about this at the Fed right now. One of the triggers in the kind of tapering decision that's going on today is what's going on with the long-term unemployment rate. Let's recall that, that rate is influenced, probably too rosy, if you will, by the fact that more and more people are leaving the workforce, and it includes people that are moving from full-time to part-time. I think a real instructive kind of statistic that we should be watching now is personal income growth. Recall also there's been this theory that energy efficiency is driving down electricity sales. We haven't seen that as much of a factor. What we do see as a factor are things like the cost of electricity and personal income growth. And if personal income growth is flat, that will have more of a dampening effect on sales. So remember to keep all of this into account as we come up with our forward forecast.

Operator

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

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

When you -- embedded within your guidance, how should we think about which of your businesses, which of your regulated operating companies are earning their authorized levels and which ones might either be under-earning or, given what's in your state-by-state demand forecast, potentially doing better than what the authorized is?

Thomas A. Fanning
Chairman, President & CEO

We pretty much put the challenge on each of our companies to earn at the upper levels of their range. Remember, what we got to do is if you compare us against almost anybody in the United States, we do a darn good job of earning our authorized returns company-by-company. That's kind of what you see. Now there's always a host of factors there in terms of your ability to kind of think about weather, economic growth, O&M levels, et cetera. But if you go back and look at history, we challenge folks to get right at the top.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Got it. And I hate to do this and I want to stay in more the near-term, meaning 2014 or 2015 because the world will change 572x between now and 2020, so forecasting out that hard -- really hard. But in your demand forecast, one interesting thing is, you had really strong industrial demand this year. I mean, up 1.5%, a real positive kind of tailwind, and yet in your '14 guidance, you're basically saying that's going to slow at a decent chunk. What's the driver of the slowing there?

Thomas A. Fanning
Chairman, President & CEO

So Michael, this is so much fun. We beat each other to death on coming up with these estimates, and I tried to allude to this earlier. When you look at the momentum on the second half, 3.6% in the second half, 4.8% in the fourth quarter, it looks as if we are light. All I can tell you is we have challenged each

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other in very significant ways in coming up with this. We do bottoms up, we do top down, we bounce it against other economists. Our estimates are a little bit lower than what the Fed would say right now. Let's just say it is reasonable and conservative and we hope there's upside.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

One other thing I'd add to that, Michael, is we got a lot of input from our customers, and some of our very largest customers rotate production around the country at various facilities. Some of it driven by price, some of it driven by just location of the need of whatever material they're producing. So we're trying to make judgments around those kind of issues as well, as we prepare forecast in a reasonable band of expectation.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

And finally, just real quick on Vogtle. Can you -- I know it's embedded within the new generation forecast within your capital spending views or outlook. Can you just give us some guidance in terms -- or reiterate kind of what the CapEx on Vogtle for this 3-year cycle is likely to be?

Thomas A. Fanning
Chairman, President & CEO

Well, hey, Michael, if I could just ask your patience there. We're going to file VCM, I guess, 9 and 10 in February. And we're going to give a great deal of illumination around those statistics when we do that. If you want more general stuff, we can give you that, I'm sure. But we're getting ready to give a lot of detail on that.

Operator

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

Andrew Levi

Actually all my questions were asked. I just have one that's very -- housekeeping thing. The guidance that you gave, '14, '15, '16, is that basic or diluted?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Basic.

Andrew Levi

Okay. And that's what about, a $0.03 difference? Is that right?

Thomas A. Fanning
Chairman, President & CEO

Less than $0.01.

Operator

[Operator Instructions] Our next question comes from the line of Kit Konolige with BGC.

Kit Konolige
BGC Partners, Inc., Research Division

So this is a little bit of a follow-up to Andy's question as well, again, sort of housekeeping. But Art, can you just walk through how the dilution adjustment works? That -- so for -- taking the actual ongoing earnings from '14, then we subtract $0.07 for future equity issuances. Is that what we're doing there?

Arthur P. Beattie

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Former Executive VP & Chief Risk Officer

Well, that's what we have in our guidance, it's adjusted for that. And we've certainly have already reflected that in our forward-looking stuff. But the math around the fully diluted assumes certain stock option exercises and the shares that would be issued in association with that. And that number could likely move in the future as you move forward. So it's kind of hard to give you -- I think what we've got right now is less than $0.01, but that could change depending on the number of options that are outstanding.

Thomas A. Fanning
Chairman, President & CEO

Yes, let's make sure. The way we grabbed the question before, the way we answered the question was dilution associated with the stock options and other kind of contingent equity that sits out there. There is the other question about the $0.07, right, and that is associated with equity underlying commitment to maintain financial integrity with Kemper.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

I thought that was clear.

Thomas A. Fanning
Chairman, President & CEO

I just want to make sure.

Kit Konolige
BGC Partners, Inc., Research Division

So when does -- I guess, what I'm asking is so if when we're looking at what you actually report, say, in 2014, is it going to be the guidances that will be in the range of $2.72 to $2.80 less some part of the $0.07 or...

Thomas A. Fanning
Chairman, President & CEO

That's it, the $0.07 is completely separate. That's what I was trying to illustrate. The $0.07 is separate. The other dilution we're talking about is really just associated with the exercise of options.

Kit Konolige
BGC Partners, Inc., Research Division

So what we're looking for is $2.72 to $2.80 and then these other numbers for '15 and '16 that you give out here?

Thomas A. Fanning
Chairman, President & CEO

You got it.

Kit Konolige
BGC Partners, Inc., Research Division

Okay, one last item on Kemper. So what's the schedule for upcoming testing and milestones that we should be keeping an eye on?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Kit, the next -- I think we mentioned it in the script a little bit, the first fire to the combustion turbine. I'm sorry, misspoke, it's really the first gasifier heat-up, which we expect to be some time in the second

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quarter. And then beyond that, it will be the delivery of reliable SIM gas to each of the combined cycles. And those should be achieved sometime late summer, early fall.

Thomas A. Fanning
Chairman, President & CEO

The other thing I just want to point out too here is just to remind everybody, if we had perfect foresight, the cost increases we've had on Kemper were really kind of entered into the day we centered into a fixed price agreement with only 10% of the engineering done. That was kind of 2009 and '10. The construction of the plant has actually gone pretty darn well. And in fact, in this latest reporting period, we think we're on budget, on schedule, on construction. And with respect of the additional $40 million, that really is with our best judgment, gee whiz, we could have done nothing and waited until a later period with more certainty. But in all of our collective wisdom, and we argued about this a lot, we decided that it was a prudent to add $40 million to the contingency around cost expected around start-up. So construction is going great. We'll know more about start-up as you get into the June and beyond timeframe.

Operator

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

Daniel L. Eggers
Crédit Suisse AG, Research Division

Just with your power demand looking pretty enormously high so far this quarter, I was kind of wondering what the fleet dispatch has been? How the plant's been performing, and with the running gas, do you guys see a lot more coal burned coming this year just as you're trying to recalibrate the fleet a little bit?

Thomas A. Fanning
Chairman, President & CEO

Fascinating stuff. So let me give you the first good answer is the system is running great. We're very happy with our reliability. In fact, I think we noted our wire's reliability, the best in history, so that's great. The thing that's interesting is, is there a change in the equilibrium point? We've been saying that, that may have pushed off at least in the Southeast to early 2020. With all these spikes associated with the Polar Vortex, I mean, we -- actually we're loaded up pretty well. All of our units that could run, we're running. So the suggestion is perhaps there is an acceleration of the value of capacity, at least in the Southeast. The other thing that's fascinating about this, I commented on it, a bit in both CNBC and Bloomberg this morning, there's this whole notion of the dash to gas in the United States. Frankly, it's been a big story at Southern Company. We now are the second or third largest gas consumer in the United States. We made a big shift away from coal to gas. You all have heard and I've written and spoken about 5 points to be cautious about natural gas. The Polar Vortex has told us that at least point #2 is absolutely true, and that is the need for infrastructure. The new gas is in a place that is different than the old gas. And all of a sudden, we find a need to build more pipes, make sure that critical service providers have FT, firm transportation in those pipes, and we've got to make sure that we have adequate storage. Now we have secured all the FT we need for our business. And we have seen prices $4.50 per million BTU and I guess, they spiked up a little bit, in fact I just saw some before we got on the call, and maybe they're in the high 4s to 5. And it's been since 2010 since we hit numbers like that. In fact, some people were saying that we wouldn't hit $5 again for the rest of our lifetime. Okay. If you live at the end of the pipe, particularly you folks in the Northeast, if you don't have sufficient infrastructure, if you don't have FT, if you don't have sufficient storage, we've seen a blowout in some of those prices up to $130 per million BTU. One of the suggestions is that the beta of the energy supply of the United States is increasing as a result of the push to gas. We've been saying that, it's true. So one of the things you got to think about is what is the infrastructure, what is the availability of FT to assets all over the U.S., and how do we think about storage in this new environment. How do we think about industrial capacity in this new environment? Big deal. Overall the system is performing great. At least for Southern, reliability looks good for the years to come. The only question with us is what happens to the equilibrium point.

Daniel L. Eggers
Crédit Suisse AG, Research Division

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The dispatch on the non-PRB coal plants is again been pretty low for a while now. You add that $4.55 gas number, do you see those plants running a bit more this summer, just being helpful of gas inventories down in the region...?

Thomas A. Fanning
Chairman, President & CEO

So if you see -- yes. So if you see gas -- if you see gas in the $5 to $6 range, you're going to start running probably your Illinois Basin plants first and then your Central App plants after that. But that's kind of the range. TRB gas in the $3 to $4, Central App and Illinois Basin $5 to $6 with Illinois Basin being ahead of that. The other factor -- I just kept coal prices constant. We've seen coal prices come down a bit. The other impact that hit us last year was the abundance of hydro. So interesting stuff. All this is a little bit in flux. Recall again, Southern is uniquely positioned in that we have huge optionality among -- between gas and coal. We can swing gas from, I think, it's a 35% of energy to 55% of energy. And we can swing coal 25% to 45%. So we'll be able to deliver the best package, we think, of energy to our customers based on our diverse portfolio.

Daniel L. Eggers
Crédit Suisse AG, Research Division

And I guess the other question, moving back and looked at the fourth quarter presentation from last year, and the CapEx numbers you guys have for '14 and '15 this year are higher than what you guys had a year ago, and the growth rate was kind of the 4% to 6% range instead of the new numbers now. Is there some deterioration in earned ROEs, or what bridges that gap because I don't know that I saw all that step down, if I put all those numbers into the model?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Dan, this is Art. This is probably Kemper. We've written off estimated probable losses, but we're still having to invest back capital. So that's showing up in the CapEx numbers in 2014.

Daniel L. Eggers
Crédit Suisse AG, Research Division

So that's not counted in the $0.07 recalibration? The baseline was, and the growth would be from there.

Thomas A. Fanning
Chairman, President & CEO

It is in the $0.07 recalibration, but it's also in the CapEx.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes.

Operator

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

Jonathan P. Arnold
Deutsche Bank AG, Research Division

CA-20, I think even you've now said you're hoping to get it in place in February, before you've been saying Q4. Is there enough wiggle in the schedule to mean that doesn't matter very much or...

Thomas A. Fanning
Chairman, President & CEO

Jonathan, we try to be -- let me just take exception with that just a little. We try to be very careful in that. We want to get assembly by year end, and we hit it by -- we missed it by, like, 5 days or whatever it was.

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So we assembled by year end in our view. That was much more important. Us moving it into the whole, we've got plenty of slack time around that. That -- you should not consider moving that as critical path.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

Okay. So what are the sort of the next critical path items we should be watching that you're going to point us to?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Jonathan, if you look at the slides, there's that diagram we showed you. There's the CA-01 module that goes inside the containment vessel. That would probably the next item on the critical path list. But remember that these things, as we move in and out of -- these things kind of change places in critical path. But that is the next item, big item on critical path.

Thomas A. Fanning
Chairman, President & CEO

And that's kind of a third quarter event.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

Okay. So most of this sort of progress to this picture on the slide is more back end of the year?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, it's progressed throughout the year, but CA-01 is in the -- you said, third quarter?

Thomas A. Fanning
Chairman, President & CEO

Yes. In terms of placement in there, so if you kind of look at that picture, you see CA-01 is a great big thing, and it's got lots of panels, and it's kind of complex walls and all that. That will be going on in the module assembly building. So there'd be all sorts of progress throughout the year, just as there was on CA-20. And we believe we'll be able to hit it. The placing of it is almost less important than the assembly of it.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

Okay, that's great. And then on, Tom, just the -- with this kind of period of, I guess, either more conservative outlook or slack of growth, whichever, does it change your calculus and interest level in M&A at all? Can you just talk to your latest thoughts there?

Thomas A. Fanning
Chairman, President & CEO

Yes, sure. And remember, again, we're very kind of analytical in terms of how we think about value creation. Value is a function of risk and return. And I can -- I grew up in a period where we decided that growth was the end all to end all. And we chased growth, and really, I don't think did an effective job of evaluating risk. If you grow risk faster than you grow growth, then you destroy value. What you've seen with Southern Company, and especially, we talked last year about getting all this regulatory woodchopping behind us, we've done that, I think, in an exemplary manner in 2013. So here's the deal. As that financial pressure associated with big CapEx plans start to go away, our risk starts to go down. All we're doing is moving along the risk return curve. We think our value creation aspects are terrific through this period. Now we always want to test the business-as-usual case, and that's where I kind of got long-winded earlier in the call. We can look at more opportunities at Southern Power. We can evaluate other opportunities we

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might have to build new generation, to build out our environmental program requirement. We can look at other opportunities as we are essentially bound to do as a fiduciary, including M&A. But remember what we say about M&A. In my opinion, the whole work around mergers and acquisitions is a how, not a what. The what is what it results for us in terms of the portfolio outcomes on risk and return. The how could be buying assets, building assets or buying corporate entities. So I don't view M&A as a what. I view it as a how. It is a means to achieve something else. We're going to be very disciplined as we always have been about looking at what happens to the total value creation profile of Southern. The base case -- and in fact, we're showing you a lot more clarity in this call than anytime in my memory. The reason for that is we have a great deal of confidence in it. Can we improve it? We're going to work like crazy to see if we can. But we will not chase growth at the expense of increasing risk so that it destroys value ultimately.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

Okay. Can I -- one rather quick thing?

Thomas A. Fanning
Chairman, President & CEO

Sure, absolutely. Yes.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

[indiscernible] I think this is a little dated now, but the last thing I remember you giving, a range of, like, $175 million to $190 million for earnings out of Southern Power for 2014. Is that still a good number for this year?

Thomas A. Fanning
Chairman, President & CEO

It's gone down a little bit for a variety of reasons. We would say kind of over this timeframe $145 million to $175 million, and you'll say, "Well, what happened there?" Well, a couple of moving pieces. One is that the energy margins have essentially gone down with the rising gas prices. Interestingly, for us anyway, gas prices have almost tripled. Remember what I said, it wasn't volatile. Well, it's gone from, I don't know, $1.85 per 1 million BTU at one time to now this kind of $4.50 to $5 per 1 million BTU. I don't know where it sustains after the Polar Vortex withdraws. So gas prices have gone up. Largely, our business at Southern Power is largely gas-fired. And so therefore, as gas prices go up, coal prices come down. The Pool Interchange Rate changes, and our margins decrease a bit, number one. Number two, the pace of the economy has slowed based on prior projections. Now you look at the evidence in fourth quarter of '13, and you say, "Boy, that looks awfully bullish." You look at our economic development, stock [ph]. That looks awfully bullish. The numbers we're showing you, I think, are reasonably conservative and prudent. So what's the potential for economic growth beyond what we see? I don't know. The third, I guess, would be just kind of what's the opportunity for Southern Power to deploy more assets? And will they be tax-oriented assets like solar to give you the big, non-sustainable, though, pops in investment tax credit and net income? Or will they be of the nature that give you more the sustainable earnings picture of kind of baseload generation normally associated with natural gas? It's all those factors.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

So is it fair to say that the outlook, the earnings projections you've given us for '14 through '16 assume something flattish within that lower range you just spoke to? These are...

Thomas A. Fanning
Chairman, President & CEO

$145 million to $175 million is a decent range.

Jonathan P. Arnold

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Deutsche Bank AG, Research Division

Through the whole period and...

Thomas A. Fanning
Chairman, President & CEO

Yes.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

[indiscernible] are kind of potential upside?

Thomas A. Fanning
Chairman, President & CEO

Yes, and lots of uncertainty around that.

Operator

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

Anthony Christopher Crowdell
Jefferies LLC, Research Division

Just hopefully 2 quick ones. One is just housekeeping really. The dilution from Kemper, you have minus $0.07. Just how do you calculate that? And is there a potential for any more equity in '14, I guess, maybe depending upon write-offs of Kemper?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, we certainly are confident in the cost estimates that we put out, but there are risks as we move through start-up and as we finish construction. And we have outlined those pretty clearly. But when you think about the $0.07, we're issuing about $1.3 billion in total equity. If you -- that's really a little bit more than what we need for Kemper. And what we're really targeting here is a common equity ratio somewhere in the neighborhood of 43.5%, 44%. So we've got a little bit of cushion there. But again, this was the commitment we made to patch the hole around the write-offs. So we do have a little cushion as we move forward in time, and that's what the $0.07 reflects.

Thomas A. Fanning
Chairman, President & CEO

There's this other discussion we're kind of in now that, to my memory, we haven't been in, in, gosh, decades. I don't know. But when you think about it, we did thicken up our equity ratio in anticipation of a really ambitious construction program that now appears to be kind of finishing up. When you look at our new debt requirements, they're really modest. So you have all these kind of interesting questions about, how do you think about new equity over time? On prior calls, I've talked about a cash flow posture during some years that could cause us to repurchase equity. It seems to us it would make more sense not to issue and then not to have to repurchase than issuing and repurchasing over time. So there's all kinds of shaping about what we're going to do about new sales of equity. Are we overcapitalized for this exceedingly low business risk environment we appear to be moving into? And then you have the wildcard of Southern Power and what else may be there in terms of any scale of purchases. And let me remind you all, if we have the opportunities to invest in value-creating ways at Southern Power, we will do it, and we will do it even beyond the placeholders if those opportunities arise.

Anthony Christopher Crowdell
Jefferies LLC, Research Division

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Just if I can jump in, lastly, when you talk about maybe post-'16 and you want to -- I think the term you're using is, like, reaccelerate growth. I mean, is the target what you set out maybe 2, 3 years ago of 5% to 7%? Or is the target 4% to 6%? I mean, what is management shooting for this reacceleration?

Thomas A. Fanning
Chairman, President & CEO

We've really argued about what to say about this one. And you know that you're dealing with a conservative company, so I hope you'll accept this one. All we want to say is reaccelerate beyond 4%. Don't know what the number is going to be. Let's see when we get there. There's a host of variables involved. We think it'll be better than what we see in '15 and '16.

Operator

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

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

Just -- I guess I just -- one housekeeping question. Can you share with us what your expected share count for '14 is?

Thomas A. Fanning
Chairman, President & CEO

Yes. We'll -- I got someone looking at that. So what we're looking for in -- is the amount of shares?

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

Yes.

Thomas A. Fanning
Chairman, President & CEO

Hang on just a second. In August -- oh, I'm sorry, the average number of shares for '14 is 800 -- almost 900 million shares. The average number of shares in '14 is about 900 million.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

And you said no new equity at all in '15 and '16, including drips in employee-type programs? Is that correct?

Thomas A. Fanning
Chairman, President & CEO

That's correct based on all these assumptions in Southern Power and everything else. That's right.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

Is that kind of linked with your view that you're going to be overcapitalized for a while or in a while?

Thomas A. Fanning
Chairman, President & CEO

We -- the overcapitalized statement -- and remember, what we always want to do with that is to preserve our financial integrity and bond rating. Really goes to kind of how new investment opportunities develop and kind of the post-'16 timeframe. When we finish Vogtle, certainly as we get to the end of Vogtle, this whole profile changes completely. Our view is that layering up of equity heading into the big construction program really -- and recall, in 2008, these guys reminded me, we were about 40.5% equity ratio. In 2013, we're 44%. That was heading into -- as we built up the equity ratio during this construction period.

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Now we're getting down of it. We have not reflected in any earnings per share estimates we're giving you. We're giving you business as usual. We have not reflected any delayering of the equity ratio in any of our estimates. So that would represent upside. But recall, we want to make sure that we're able to preserve our financial integrity position during this timeframe.

Operator

Our next question is from the line of Michael Weinstein with UBS.

Michael Weinstein

Apologize if this was already asked before, but just wanted to confirm about it. The placeholder CapEx you guys have for Southern Power, $1.4 billion, how much of that is solar? Can you break out a little bit more like how much of it is thermal? Quantify it. Is it all in Georgia?

Thomas A. Fanning
Chairman, President & CEO

We -- no. Listen, we don't -- we're not that fine about it. So we don't have a breakout for you. Listen, we've been chasing lots of different projects. I can tell you that we've been chasing some that are thermal, and we've been looking at some that are solar. And it seems like you can do as much as you want to all over the place. The real challenge for us is what makes sense in the portfolio, and what is, at the end of the day, the best value-accreting strategy for shareholders. But we can't give you a breakout in our placeholders.

Michael Weinstein

Have you guys talked at all about the prudency review at Kemper? Is that something that you may comment on?

Thomas A. Fanning
Chairman, President & CEO

No, we haven't. But we expect that to occur in June, later this...

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

In May. May of '14 based on spending through March of '13. And Mississippi Power has filed a number of documents related to that, I believe, in December of last year.

Thomas A. Fanning
Chairman, President & CEO

And we certainly don't want to front-run that process. We don't want to front-run the regulator. I mean, I can just tell you my opinion. When I look at kind of how the construction has unfolded, I think these guys have done a terrific job.

Michael Weinstein

And you said before that the delay of CA-20 is really no big deal, right, to the movement of it on-site?

Thomas A. Fanning
Chairman, President & CEO

We were really -- what you got to understand is one of the ways that we mitigated some of the problems in the facility that CBI has in Louisiana was to get product out of there, put it on-site. And essentially, you have a CBI facility on-site now that holds those pieces of equipment, pieces of metal. And then what we do is we have an army of people on-site, both Southern and CBI, Westinghouse, whatever we need, in order to complete the nuclear quality documentation before we put those panels up on the CA-20 facility. So the real timing factor was to get it assembled. Now that we've got it assembled, there's lots of

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workarounds and things we can do that take frankly the setting of CA-20 in the nuclear island away from the critical path. That activity is not critical path. So we're focused now on assembly of CA-01.

Michael Weinstein

In fact, on that subject, critical path means paring out Lake Charles, the assembly facility, right? So are you guys happy with the way the things have improved there or...

Thomas A. Fanning
Chairman, President & CEO

Well, we've said this a million times. Look, in any project of this magnitude, there are always challenges. Your measure of success is not that you have challenges. It's how you work around them. And I think, especially, since Philip Ascherman and his CBI cohorts have come into play here, since they took over Shaw, the performance, the responsiveness, the constructive attitude has just really gotten better. And so we're not depending now solely on the Louisiana facility. We're moving the fabrication to different points in the United States, Navy shipyards, Oregon, even a couple of the facilities, the couple of the CA-20 modules in IHI in Japan. So what we're doing is we look for what is practical, what is reasonable from an economic and timing standpoint, and we find the best solution. And that's what we've done.

Michael Weinstein

Just one last question. You said that there were disagreements when you were talking on the economic roundtable and trying to figure out what the economic growth rate should be in, what you should be assuming and you came out with the conservative numbers. I'm just wondering, what kind of disagreements did you have or the -- what were the biggest disagreements kind of over...

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

I think the economic roundtable really didn't have any disagreements there. They were different numbers. I think the lowest number that was out of the group was like 2.25%. The tallest number was around 3%. So we're right in the heart of that range.

Thomas A. Fanning
Chairman, President & CEO

He's -- I think he's referring to the disagreements we had. I mean, Southern Power.

Michael Weinstein

Yes, so you made it -- Tom made it sound like it was a very tough and arduous process. Just wondering what...

Thomas A. Fanning
Chairman, President & CEO

Well, it always is. I mean, you wouldn't believe how much we prepare for these calls to get the right stuff. Ultimately, when we give you stuff, when we give you an estimate, it is everybody's collective wisdom, their best judgment, and it's after a good food fight. I mean, I'll just tell you, I look at the numbers sometimes, and I go, "Wait, you grew 3.6% in the second half, 4.8% in the fourth quarter. And you're projecting what, 1.1% for the year? Why is that?" And we go through a giant fight. I mean, we just do. What we're providing you is our best judgment, I think. We are conservative. We don't try and push the numbers in order to achieve a result.

Operator

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

Mark Barnett
Morningstar Inc., Research Division

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Yes. A lot of questions on some of the specifics and kind of long-term plan. But just curious maybe to shift the end of the call here towards some of the policy issues that we're maybe facing over the next couple of years. And when we -- there's been a lot of -- I wouldn't want to say controversy but just kind of discussion around the numbers that the EPA has used to justify the cost analysis that they present with the new source, the carbon, the proposed stuff that went in, in January. And I'm wondering, one of your projects obviously at Kemper is one of the benchmarks that they used. But obviously with the new engineering and some of the changes in the project since you initiated, I'm just wondering, how do you think that those estimates that they use and the justification based on those, does really turn into a strongly defensible rule because, of course, this is going to get challenged? And just some thoughts around that, I guess.

Thomas A. Fanning
Chairman, President & CEO

Well, rather than give you a legal opinion at this point, I'll just talk about the suitability of using Plant Ratcliffe and Kemper County. I met with Gina McCarthy and her whole staff along with some other CEOs in the industry. And I told this to her, I've said it on TV, the characteristics of Kemper County are such that they are reasonably unique to that site. In other words, it's mine-mouth lignite. It's our specific technology. It is the ability and an economic way to do enhanced oil recovery. When you set a standard, you should use a set of circumstances that are applicable to a broad range of the United States. We don't believe that, that is -- those conditions, as unique as they may be there, are applicable in a broad sense. So it's that argument first. The second one would go to just kind of, is it commercial? Is it adequately demonstrated? And I would argue, it's hard to find out why you would believe that it is commercial and demonstrable in a broad sense. We -- Southern Company is probably the leader right now in the United States in looking at carbon capture technology. Not only are we doing it on a precombustion basis at Kemper County. We are doing it, have done it on a successful test post-combustion at Plant Barry. And we've had a very good outcome there. I tend to believe the precombustion, when you have a very concentrated set of gases moving along a process, the more efficient way to do it, than on a post-combustion where all the gases are diffused. But still, are we going to be able to deploy that technology broadly and in a commercial way across the United States? I think those are the hearts of the question.

Operator

Our next question is from the line of Vedula Murti with CDP Cap.

Vedula Murti

When you think about the reacceleration possibilities post-'16, you referenced very specifically the fact that the balance sheet could be over-equitized following the -- mostly the completion of Vogtle. Is the whole reacceleration simply tied to letting the equity ratio move back down to, like, the 2008 level that you mentioned? Or is there something beyond just the retweaking of the capital structure that would allow for a higher growth rate at that point?

Thomas A. Fanning
Chairman, President & CEO

Oh, heavens, no. I would argue that's almost last in the list of potentials. We know, Vidula, that we're going to have new generation. We know that there are going to be requirements associated with environmental CapEx. We're watching very closely, as with the data we provided to you today, what's going to happen with the economy. And recall there's a set of generation that's retiring as a result of the HAPs MACT rule or what's now called MATS. The confluence of those factors may have some sense as to what happens to the equilibrium point of supply and demand in the next few years. All of those factors are the primary factors. In other words, you'll see this reacceleration of CapEx. That's the primary factor. Frankly, this thinking about our capitalization really, I think, has kind of followed behind the primary facts. We'll just see how all that goes. Those are kind of interdependent, right? In other words, if you reaccelerate CapEx, you may need more equity. So it's -- the capitalization discussion is a temporal issue.

Operator

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

Paul Patterson
Glenrock Associates LLC

Just want to check a few quick things. 2.5% to 3%, that's a national GDP figure, right, not some regional number? Is that correct?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

That's correct.

Paul Patterson
Glenrock Associates LLC

Okay. And when we look at the 0.7% growth in 2014, I think Ali was asking about this, but I just want to make sure I understand it. That seems a lot less than 0.5% of GDP. So what's going on there? And I think you guys then see it going back up. Could you just refresh my -- just sort of help me out there with what that is?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, I think it goes kind of what Tom mentioned a few moments ago, is we try to put out a credible forecast that we can rely on. The sticking to a specific ratio to GDP is influenced by a lot of factors, a lot on the industrial side. I said before, we get a lot of input from our customers, our large customers as to what their outlooks are for the coming year. And so we have to factor those things in. These are more known quantiples than just drawing a line on a curve and trying to make an estimate. We have not seen great growth in residential and commercial over the last 4 years. So we are very cognizant of the fact that that's true. And we're trying to make a measured approach towards getting the economy back to the full measure, and we think that once that occurs, then you're going to have more cylinders working around that ratio of 50% to GDP.

Thomas A. Fanning
Chairman, President & CEO

And we are covering some territory, as we covered before but maybe in a more concise way. I agree with you. The industrial numbers look weird. You're going from this big period of growth to something that's more moderate, but that's what we're projecting. The other one to keep your eye on is just this whole residential sector. I think the effects you're seeing now are personal income growth has been relatively flat. But the growth in jobs has not been necessarily in manufacturing. Good news for manufacturing is they're more efficient, i.e., less people as input to the output they produce. Therefore, they're going to be more sustainable in the long run. But the manufacturing jobs are the ones that are higher-paying. Therefore, the increase in jobs in the Southeast have been more service industry. There is a shift as a result of a lot of external factors, including the Affordable Care Act, to move people or at least to inhibit companies from adding full-time employees shifting rather to part-time employees. So even though they're counted in the workforce, they're earning less. And then there are people leaving the workforce. So that's -- you get all that kind of thing going on. The other thing is perhaps a consequence of the housing bubble. At one time, 70% of our residential sales came out of single-family housing. Now it looks like perhaps it's a function of personal income growth. Perhaps it's a function of banks tightening lending requirements. That 70% may be more like 62% with the delta showing an increase in multifamily. So it's all of those factors.

Paul Patterson
Glenrock Associates LLC

Okay. If for some reason, we don't see sales growth -- or could you give us a flavor for what's the sensitivity is around sales growth? So if we don't get -- I guess you guys were saying 1% to 1.5% or something, I think you guys were talking about. If you get, let's say -- just if you get a rule of thumb for

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every 50 basis points of sales growth, how should we think about that in terms of earnings? Or can you guys do other things? How dependent are you on sales growth, I guess, in terms of meeting your longer-term EPS forecast that you have?

Thomas A. Fanning
Chairman, President & CEO

I'm going to let Art give you the heuristic. I'll give you the other answer. Look, over the past 2 years, we've lost $500 million in revenue as associated with weather or slower-than-expected economic growth, and we'd made it all up with O&M. In 2013, those numbers were just under $300 million, lost revenue, reduced expense. And at the same time, we have reduced expense. We had some of the best reliability in customer satisfaction we've ever had. Art, heuristic.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. Paul, the heuristic on, say, a 1% change in retail sales equal across all classes is about $82 million pretax. And we talk about cost control or cost flexibility, and that would represent less than 2% of non-fuel O&M. So that goes towards some of the mitigations we have around the sensitivity on sales.

Thomas A. Fanning
Chairman, President & CEO

And I can't stress it enough, and I got to thank the thousands of employees that make thousands of good decisions every day. The folks at Southern Company know how to run the utility business in an optimal way and have reliability and serve customers and be safe. And they do a heck of a job of it. We are able to demonstrate year in and year out that we can meet the needs of shareholders and deliver earnings targets, part of that litany I gave you in the script, and do it exceedingly well and run the business well.

Paul Patterson
Glenrock Associates LLC

Okay. So if I hear you correctly, if I understand correctly, if the sales growth doesn't -- if it doesn't work out as well, you guys still have other levers that you can use, that you believe in terms of making these numbers and -- because I mean, just in general, as you know, we're seeing a falloff in a lot of areas around the country. So we're just trying to figure it out.

Thomas A. Fanning
Chairman, President & CEO

We see the same thing. I sit on the Fed board, and I see all this stuff, too. But you know what, these results in the Southeast were awfully gratifying in the fourth quarter.

Operator

And our final question is from the line of Greg Gordon with ISI Group, a follow-up question.

Gregory Harmon Gordon
ISI Group Inc., Research Division

No, they've answered all the questions. I'm good.

Operator

Sir, that was our final question. Are there any closing remarks?

Thomas A. Fanning
Chairman, President & CEO

Yes. Just very briefly. Number one, let me thank you all for staying with us on this rather lengthy call, but it's an important one. This is a little bit of an inflection point in our growth rates, in our risk profile and a variety of other things. Interestingly, when you look at the regulatory work that we had to accomplish last

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year, when you look at the major projects that were in front of us, my sense is, absent what happened at Plant Ratcliffe in Kemper County, this company deserves an A+. I think that they've come through those regulatory processes terrific. The progress on Vogtle is terrific. And I think we're positioned well for years to come. It will be fascinating to see how we continue to deliver value to shareholders. Please rest assured that is our primary focus. Thank you very much for your attendance on this call, and we'll talk with you soon.

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

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