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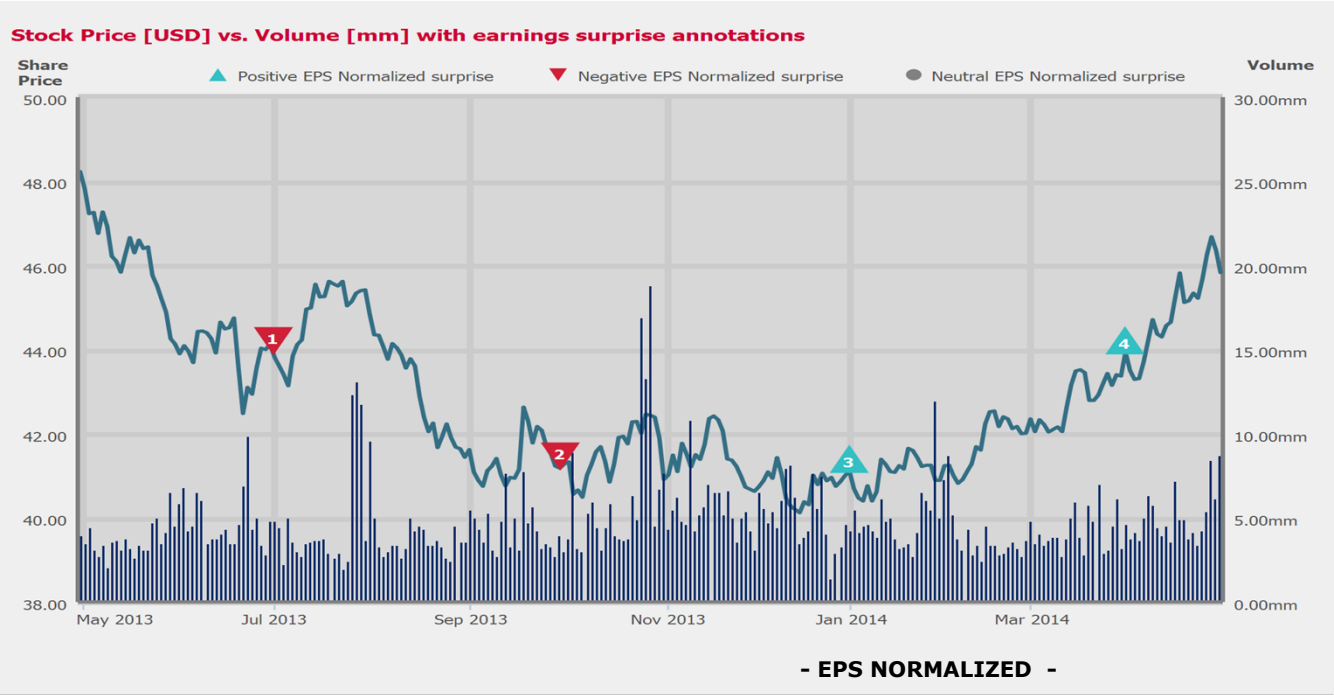
FQ1 2014 Earnings Call Transcripts

Wednesday, April 30, 2014 5:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2014-			-FQ2 2014-	-FY 2014-	-FY 2015-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.56	0.66	▲17.86	0.68	2.77	2.86
Revenue (mm)	4023.89	4644.00	▲15.41	4374.94	17839.52	18444.27

Currency: USD
Consensus as of Apr-30-2014 3:45 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2013	0.68	0.66	1 (2.94 %)
FQ3 2013	1.11	1.08	2 (2.70 %)
FQ4 2013	0.46	0.48	3 4.35 %
FQ1 2014	0.56	0.66	4 17.86 %

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Presentation

Operator

Ladies and gentlemen thank you for standing by. Welcome to the Southern Company First Quarter Earnings Conference Call. [Operator Instructions] As a reminder, this conference is being recorded today, Wednesday, April 30, 2014.

I would now like to turn the conference over to Dan Tucker, Vice President of Investor Relations and Financial Planning. Please go ahead, sir.

Daniel S. Tucker
Former Senior VP & Treasurer

Thank you, Nelson. Welcome everyone to Southern Company's First Quarter 2014 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. You can follow along by accessing the slides posted on our Investor Relations website at www.southerncompany.com.

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

Thomas A. Fanning
Chairman, President & CEO

Thank you, Dan. Good afternoon, and thank you for joining us. Art will go through the details in a few minutes, but first, I would like to highlight 2 of the key drivers of our first quarter earnings growth: cold weather and continued economic growth.

First, the weather story. Around the industry, much has been reported lately on the Polar Vortex. The Southeast experienced the second coldest first quarter in the last 20 years and we set a new all-time winter peak on our system of 39,130 megawatts.

While the colder-than-normal weather had an obvious impact on revenues, that's not the only important story. Operationally, the Southern Company system delivered on our commitment to provide clean, safe, reliable and affordable energy to the customers and communities we serve as demonstrated by our crews' tireless work under the most challenging of circumstances to restore power to nearly 800,000 customers affected by the severe ice storm in mid-February.

The winter weather also underscored the importance of developing the full portfolio of energy resources. As weather-related demand and delivery challenges proved once again how volatile natural gas prices can be, Southern Company dispatched one of the industries most diverse and reliable generation fleet, delivering more than $100 million in fuel cost savings by taking advantage of our fuel optionality.

Second, the economy continues to improve. Nine of our 10 largest industrial sectors, which account for approximately 80% of industrial sales, reflected positive year-over-year growth for the first quarter and all 10 of them were positive in March. Combined with solid customer growth and usage growth in our residential class, we are increasingly confident in the sustained momentum of the Southeast economy.

Let's turn now to our major projects. Construction progress continues at Plant Vogtle Units 3 and 4 in Georgia and at the Kemper County energy facility in Mississippi.

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First, tremendous progress continues in the construction of the Vogtle project, which remains on schedule for the fourth quarter of 2017 and fourth quarter of 2018 for Units 3 and 4, respectively. Nearly 2 months ago, as planned, we successfully executed the heaviest lift to date, placing the 2.2 million pound CA-20 module into the Unit 3 nuclear island. Our critical path focus remains on the major elements of the Unit 3 nuclear island, with the CA-05 module scheduled to be installed in the second quarter.

Other signs of our continued construction progress include the walls and concrete under the containment vessel, which will support the installation of the shield building panels later this year. Outside of the nuclear island, we continue to progress on the major other elements, including the cooling tower and turbine building.

We are also very pleased with the progress on Vogtle Unit 4. The CR-10 module, commonly known as the cradle, was placed in the nuclear island during the first quarter, and the containment vessel bottom head is scheduled to be set in May.

In February, U.S. Department of Energy Secretary Dr. Ernie Moniz joined us at the Vogtle site to commemorate America's first loan guarantees for nuclear construction. The deal we loaned provides a committed source of funds that reduces financial risks, while delivering an estimated $250 million in present value benefits to Georgia Power customers. These savings should translate to lower base rates for customers over the life of the loan.

Including the deal we loaned benefits, Georgia Power highlighted $2.3 billion of customer benefits in the combined ninth and 10th VCM report filed at the end of February. This came on the heels of the 5-0 vote by the Georgia PSC to verify and improve the actual capital costs reflected in the eight VCM. The current VCM report, which reflects $389 million of actual 2013 spending, is expected to be voted on by the commission in August.

Turning now to the Kemper Project, where we are winding down construction and ramping up our start-up activities. We continue to work toward our next major milestone, the heat up of the first gasifier, which is now scheduled for mid to late summer. Additionally, we expect to place the combined cycle portion of the plant into commercial operation this summer. As we mentioned last quarter, the start-up activities for the combined cycle are largely complete and it is expected to be able to serve customers' energy needs during the upcoming peak season.

As we shared in our most recent disclosures, we have experienced decreases in construction labor productivity due to a combination of adverse weather, labor turnover and inefficiencies. Having assessed the impact of these issues and the risk that additional unanticipated factors could have on the construction and start-up of the project, we have recorded an additional pre-tax charge of $380 million. This estimate includes a previously disclosed $184 million in increased labor and weather-related expenses, and additional $135 million due to the extension of the expected in-service date, and $61 million of incremental construction costs as an adjustment for the earlier number.

Our confidence remains high in the value of the TRIG technology in the entire Kemper Project to Mississippi Power's customers. Our ongoing commitment to safety and quality is a primary importance as we focus on completing construction of this first-of-a-kind plant and working through instrumentation and controls integration that is critical for the project's success.

Meanwhile, Southern Power continues to expand its generation portfolio. Recently, Southern Power closed on the 20-megawatt adobe solar facility, our second solar plant in California. This brings Southern Power's solar portfolio to approximately 222 megawatts, all with quality long-term contracts. We continue to work diligently on additional projects and hope to announce another solar acquisition very soon. Looking ahead, we remain confident in Southern Power's ability to execute its business plan for the remainder of the year.

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

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

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Thanks, Tom. For the first quarter of 2014, we earned $0.39 per share compared to $0.09 per share in the first quarter of 2013, an increase of $0.30 per share.

Included in these results for the first quarter of 2014 is an after-tax charge against earnings of $235 million or $0.27 per share related to the current cost estimate for Kemper as detailed in the 8-K we filed yesterday.

Included in the 2013 results are after-tax charges of $333 million or $0.38 per share for increased cost of the Kemper Project, and $16 million or $0.02 per share for the restructuring of a leveraged lease investment.

Excluding these items, we earned $0.66 per share in the first quarter of 2014, compared to $0.49 per share in the first quarter of 2013, an increase of $0.17 per share. The major factors which influenced our year-over-year adjusted earnings were weather, economic growth and retail revenue effects at our traditional operating companies. A detailed summary of the earnings drivers can be found in our slide deck for this call.

Weather in the first quarter of 2014, compared with the first quarter of 2013, added $0.08 per share to our earnings. Weather was $0.07 above normal for the first quarter of 2014, compared with $0.01 below normal for the first quarter of 2013. Average temperatures were almost 5 degrees below normal and as a result, we saw the second highest number of heating degree days in 20 years.

Total weather-normal retail sales for the first quarter of 2014 increased 1.3% compared with the first quarter of 2013. Our original forecast was based on a GDP growth estimate of between 2.5% and 2.7%. While it's still early in the year, it appears as though GDP growth estimates could actually be between 2.7% and 3%.

Weather-normal residential sales increased 1.2% over the first quarter of 2013. Residential sales were positively affected in almost equal parts by an increase in usage, reflecting demand growth beyond the amount avoided through energy efficiency and the addition of 10,000 new customers in the first quarter of 2014.

The first quarter industrial sales increased 2.8% compared with the first quarter of 2013, continuing the strong performance and momentum seen for 10 straight months. Manufacturing employment growth in our service territories exceeded the national pace in a first quarter that featured growth that was very broad-based. Some specific examples of segments that performed particularly well were primary metals and transportation, which grew at 6.4% and 6%, respectively. In addition, housing-related segments, including stone, clay and glass, textiles and lumber, as a group, grew approximately 6% year-over-year. This positive momentum was also evident at the Port of Savannah, where container exports increased 8.1% over the first quarter of 2013.

Finally, one of the best leading indicators is economic development activity. The pipeline remains robust with 340 potential projects that could deliver 30,000 more jobs and generate more than $11 billion in additional capital investment. This reflects a 58% increase in projects, a 46% increase in potential jobs and a 107% increase in potential capital investment compared to the same period last year. This potential is on top of a very strong quarter of announcements, which are expected to create an additional 3,000 additional jobs and represents $4.5 billion in new capital investment.

Before turning the call back over to Tom, I'd like to share 2 additional items. First, as we have shared many times over the years, Southern Company is committed to maintaining a high degree of financial integrity, including our A credit ratings. This commitment has served our customers and shareholders well by providing low-cost financing and beneficial access to the capital markets. Our plan to issue equity, which included a total of $1.3 billion of new equity over the 2013 and 2014 timeframe contemplated additional risks for the Kemper Project.

As a result and based on all of our current assumptions, we do not anticipate the need to increase our equity issuances due to the new charges reflected in our earnings results. We continuously monitor our capital structure and relevant credit metrics. As conditions change, whether it is unexpected cost or

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better-than-expected success in acquiring new projects at Southern Power, we will reforecast our equity needs as necessary.

Finally, I'd like to share with you our earnings per share estimate for the second quarter of 2014, which is $0.66 per share.

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

Thomas A. Fanning
Chairman, President & CEO

Thank you, Art. Earlier this month, our Board of Directors voted to increase Southern Company's common dividend to an annualized rate of $2.10 per share, an increase of approximately 3.5%. This marks the 13th consecutive year that our dividend has increased. In fact, since 2002, our dividend has increased a total of 57%. This track record is a direct reflection of the strength of our business model in the region our company serves. We have the privilege of serving 4.4 million customers in a region with an improving economy and a stable constructive regulatory environment. Our value proposition is bolstered by our ability to deliver industry-leading customer satisfaction, low electricity prices and the highest level of reliability.

In fact, the success of our customer-focused strategy and how well it's positioned the company to earn top quartile returns and generate strong operating cash flow over the long term is the underpinning of our board's dividend action. Despite our challenges with the Kemper Project, our performance during the first quarter is a direct result of the sustaining successes we produced elsewhere in our business during 2013. We will continue our focus on providing clean, safe, reliable and affordable energy to customers and the communities we serve, which support our value proposition objectives for investors.
We are now ready to take your questions. So operator, we'll now take the first question.

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Question and Answer

Operator

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

Gregory Harmon Gordon
ISI Group Inc., Research Division

So in reading through your 8-K on Kemper, there was also a section where you discussed because of the decision to delay the start-up until May of '15, a reduction in bonus depreciation. So in order for you guys to not have to sort of pin that on the shareholder, what now has to happen on the regulatory front?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, Greg, this is Art. There's a number of things that could happen. That is not part of any of the write-off amount that we have included in the numbers to date. We are in the process of working with regulators in Mississippi to reach what we think will be a global settlement of prudence and issues related to our 7-year rate plan. Now with the loss of bonus depreciation, we'll certainly have to rework the 7-year rate plan, assuming that, that bonus depreciation is lost, and we'll come back and address that in a minute, in order to make sure that we don't violate tax normalization rules. So that's an absolute requirement. Now when we think about bonus depreciation, there's a couple of avenues here. One could be that we get an extender bill coming out of Congress that extends bonus depreciation into '15. So that would take care of it on its own. Secondly, there could be issues in our global settlement whereby we mitigate the impact on customers. So all of these things are in kind of a settlement stage with the commission as we address how we'll help that through the regulatory process.

Thomas A. Fanning
Chairman, President & CEO

One other point. We anticipate -- you know that we produce electricity during I think it was January, we made about $1 million in revenue off the combined cycle. We expect that to go into dispatch this summer and go into service. As that goes into service, that eliminates a slug of the bonus depreciation at risk.

Gregory Harmon Gordon
ISI Group Inc., Research Division

The combined cycles are running off a natural gas line that's going straight into the plant now?

Thomas A. Fanning
Chairman, President & CEO

Right, right.

Gregory Harmon Gordon
ISI Group Inc., Research Division

Got you. One more question on the negative side and then a positive one. So on Vogtle, we haven't heard much on sort of the trend. What's going on in court in Augusta with regard to your case with -- against CBI? Nor we heard any progress publicly on a potential settlement. Can you give us an update on where that stands and whether or not the costs, all things equal, notwithstanding the overrun, you're dealing with there have been staying pretty steady and on track?

Thomas A. Fanning
Chairman, President & CEO

Yes. Greg, I'm not sure it's going to be much of a substantive update. It will be roughly the same we've been telling you. Essentially, we have venue in Augusta. We have, I think, asking by both the consortium

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and us with respect to the dispute. I think the issue resides more clearly within the consortium right now. They had issues to work out, among and between themselves: as Toshiba, Westinghouse and Shaw. But we have constructive conversation with those folks all the time. In fact, I want to say next week, Philip Ascherman, the CEO of Chicago Bridge & Iron, I think; the Head of the Westinghouse; representatives from Toshiba; Georgia Power management; Southern Company management are all meeting at plant Vogtle. We do that regularly just to kind of cut through any of the issues in order to continue to advance the project as well as it has been. So I guess the point is we continue to have a very good relationship. And I think we've said before, it's much better now since Shaw is out and Chicago Bridge & Iron is in. We'll see. It could happen quickly or it could happen late.

Gregory Harmon Gordon
ISI Group Inc., Research Division

Okay. And my final question is -- I'm noticing, and it's not just you guys, but we're on the front end of earnings, but there's been a handful of companies where the weather-normal earnings -- I'm sorry, weather-normal sales growth numbers in the first quarter tracked ahead of the baseline expectation for the full year. Are we seeing just a little bit more of a bounce in the economy than you had modeled because you wanted to be conservative? Or is there some friction in your weather normalization model when you have really extreme moves in weather? That was the explanation that one of the other managements gave that they're not sure that they're getting an accurate weather-normal reading because it was such a big -- such a strong weather quarter. So is it definitively trending better or is it that we won't really know until we get a few more quarters ahead?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. Greg, its Art. And I've always said that weather normalization is more of an art than a science. But when we look at industrial sales, industrial sales are largely not weather-normalized. So when we have a 2.8% increase in weather -- in industrial sales, that's a very good strong indicator. And as we talked about in our remarks earlier, that's the 10th month in a row where we've had year-over-year growth in our industrial sales. So that is not impacted by what you brought up. Now on the residential side, we could be seeing a little bit of that. But it is only 1 quarter of growth. We did have a 0.5% growth in the fourth quarter. So if it's not 1.3%, I don't think it's a whole lot less than that, due to the fact that we've had extreme cold temperature.

Thomas A. Fanning
Chairman, President & CEO

And my petition with the Fed, the Fed was more bullish than we were as we developed our annual guidance. And just as of the first quarter, here again, 1 quarter does not a year tell, but it does indicate that the kind of economic -- the macro economic effects are more closely 2.7% to 3% in terms of GDP than they were our 2.5% to 2.7%. So we'll see, but it's a good start.

Operator

And our next question comes from the line of Jim von Riesemann with CRT Capital.

James Darrell von Riesemann
CRT Capital Group LLC, Research Division

I'm confused and don't comment on that. So your fourth -- your second quarter last year was $0.66 and you're guiding to $0.66 for the second quarter this year. What might be some of the big mechanics that would at least, under that condition, would put you at the high end of your $2.72 to $2.80 guidance range for 2014?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. Good question, Jim. When you look at non-fuel O&M, and I think we outlined this on our last call, we estimated we're going to spend roughly $300 million more at least in our regulated core business than

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we did in 2013. And if you look at our spending in the first quarter, it was only up year-over-year, about 1.3%. So we've got some heavier lift to do on the expense side for the remainder of the year. And when you look at our outage schedule, it is somewhat back-end loaded as well. There are a few other elements at least in the quarter-over-quarter numbers that you need to remember. Alabama Power had entered into an accounting order that allowed them to defer some non-nuclear outage cost this year, which will make their non-fuel O&M look a little lower year-over-year. And that's a big influence on the first quarter non-fuel O&M numbers. But when you look at the O&M that we're going to add this year, at least in the second quarter, along with new rates and take normal weather, you're seeing about a flattish kind of equation there.

Thomas A. Fanning
Chairman, President & CEO

Jim, Art and I talk about this stuff all the time. It's not -- don't be ashamed of being confused, but we have the same questions here. But I think it really does go to Art's pattern of O&M and being roughly flat for the first quarter that presumes you're going to spend a lot more in the rest of the year. So I think that really kind of does go there.

James Darrell von Riesemann
CRT Capital Group LLC, Research Division

Okay. But in that same thing[ph], and I'm still confused on Kemper County now, if you don't mind me changing topics. So I just need to be -- my memory needs to be refreshed. So if the gasifier goes into service, let's just call it September 1, how do the mechanics work under all that if you're a customer of Mississippi Power? Who benefit?

Thomas A. Fanning
Chairman, President & CEO

The economics in Mississippi's customers are relatively fixed. In other words, there's $2.4 billion that accrues at a full mix of capital, up to $2.88 billion, it's the tax exempt bonds.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Jim, you said gasifier. Did you mean the combustion turbines?

James Darrell von Riesemann
CRT Capital Group LLC, Research Division

I'm sorry, I did say gasifier. I apologize. I did mean the combustion turbines. I'm sorry, that's my mistake.

Thomas A. Fanning
Chairman, President & CEO

No. No problem. Well, I mean a lot of how that might work is tied up in its global settlement as well. There's a host of issues, in fact there was some language in the recent continuance of discussions, which indicated that there is some conversation going on between the company and the staff. So I would look for all of that to be kind of handled as much as it could in that settlement.

James Darrell von Riesemann
CRT Capital Group LLC, Research Division

Any idea on the timing on when that might happen?

Thomas A. Fanning
Chairman, President & CEO

Not really. But look forward in the months ahead here.

Operator

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

Daniel L. Eggers
Crédit Suisse AG, Research Division

You guys -- when you kind of talked about the growth rate update last quarter and you pointed to the back end of this decade, the reacceleration environmental CapEx, part of that being coal ash and some other things. We've seen some other folks in the region have some issues around coal ash. I wondered if you could just kind of walk through maybe in a little more detail the spending needs you guys have there and kind of how that paces out with more scrutiny, does that change the timeline for when you guys might start spending that money?

Thomas A. Fanning
Chairman, President & CEO

I'm going to turn this over to Art in a second, but I think if you kind of globally look at it here, we kind of have $6 billion of future environmental compliance investment that will manifest themselves at the end of the decade. Certainly, coal ash is part of that. Certainly, affluent guidelines. Certainly, 316(b). There's a lot of moving parts there and the number can move pretty dramatically both in terms of the quantum, again our estimate is $6 billion, as well as the timing. And it would not surprise us but that these other issues could have some bearing as to the ultimate resolution for a company like us. We're following it very closely and we'll see.

Daniel L. Eggers
Crédit Suisse AG, Research Division

Okay. And I guess on the CSAPR decision, where it is right now. Does that going to have any effect on near-term spending? Or is the MATS obligations pretty well covered for you guys?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Dan, the MATS contemplates most of that. I think when the original CSAPR was passed, it was prior to the development or finalization of the MATS rules. So since they're both directed at F02 and NOx, most of that will be addressed through SCR, through scrubbers, or through whatever other compliance equipment we may have added to the units. There may be some small change in the dispatch of some of the units that -- smaller coal units, they're further back in the stack, that won't operate a lot. And also, the only real impact maybe fuel cost on an extreme day.

Thomas A. Fanning
Chairman, President & CEO

Yes. It's much more a dispatch energy issue than a capital issue for us. The MATS always spoke to the capital.

Daniel L. Eggers
Crédit Suisse AG, Research Division

Okay. So one more on coal. We've heard a few people talking about -- a little more concerned about coal inventories for the summer, after the cold winter and having run the cold fleet hard. Where do you guys sit on your coal inventories? And how is that going to get captured if you have to start buying more actively in the open market to the fuel mechanisms?

Thomas A. Fanning
Chairman, President & CEO

It's fascinating. We made a big play in the past. I mean we've talked a lot about 70% coal, 6 years ago, 16% gas now. What we've said before was 45% gas, 35% coal. Fascinating. Average gas prices during the first quarter of '14 were $5 in round numbers. The first quarter of '13, they were $3.50. So you were up almost 50% in gas prices with coal prices being relatively constant. So what's that's done is we've been able to shift our dispatch around to save our customers about $100 million. So we're marginally more on

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coal than gas is what we saw in the first quarter kind of 42%, coal, 38% gas. It's fascinating to kind of think about how that may roll out for the rest of the year.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Dan, when you think about our inventories, we are very close to the targets we've set for ourselves this year. We are building up coal supply to meet the summer peak demands, and that will basically runs our average target to from 35 days to 45 days. So we're just in the process right now of rebuilding after we increased our burn quite a bit at the first quarter of what we thought it would be.

Thomas A. Fanning
Chairman, President & CEO

And that moves around a lot from plant to plant. Obviously, if we have plants like the branch units that we're planning to close a little bit later, you'll treat those a little bit differently than you will kind of a Bowen or a Scherer or a Miller.

Operator

And our next question comes from the line of Steve Fleishman with Wolfe Research.

Steven Isaac Fleishman
Wolfe Research, LLC

Tom, just a follow-up on that last question. Would you -- is it fair to characterize that you're running gas more maybe in these shoulders months so that you can rebuild the coal piles? Or is it just -- you're just running dispatch as you normally would and you just bring in more coal in?

Thomas A. Fanning
Chairman, President & CEO

Yes. We're in great shape. We are running normal.

Steven Isaac Fleishman
Wolfe Research, LLC

Okay. Just maybe if you could spend a little more time. Art, you mentioned that you're starting to work on a settlement in Mississippi of areas issues. Could you just go remind us what the issues are? Is it both the prudent CKs in that 7-year deal that you got that you're trying to kind of wrap altogether? And timelines? And how much are people kind of on board together? Is there going to be a lot of opposition? Likelihood that you'll be able to get a settlement?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, we think there's an opportunity for both the regulators and the company to come out with some kind of agreement here. The 7-year rate plan was designed to recover costs and keep rates at the set level that we agreed to in January of '13, and that was a 15% increase in rates last year, followed on by a 3% rate increase this year, both of which are in place. So as these numbers move around, as our in-service date moves around, we're going to have to amend that to make sure that we comply with tax normalization rules, as I mentioned. So that's one element. And there are some other pieces of the pie that we might be able to include in the ground settlement that will keep customers harmless in this agreement. But it's mostly focused around those 2 very issues, the 7-year rate plan and the prudency issue. We would like to get those solved in a simultaneous basis.

Thomas A. Fanning
Chairman, President & CEO

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And I guess, just roll into that, the in-service of the combined cycles. We fully expect those to run, they're actually attractive, and we've actually had some interest in the wholesale markets for those things. All these could be wound up together, we think, in a beneficial discussion.

Steven Isaac Fleishman
Wolfe Research, LLC

And just the timing of this and...

Thomas A. Fanning
Chairman, President & CEO

It's always hard to predict those things. We got the continuance order, let's let that play out and let events take their course.

Steven Isaac Fleishman
Wolfe Research, LLC

Okay. And then just separately on Vogtle, I might have missed this in your presentation, but is there any updates on the schedule for the Vogtle units? And if not, when will we get the next schedule update?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

As we filed in our VCM 9 and 10, we reiterated our plan to lead the schedule in place, COD dates for Unit 3, fourth quarter of '17, Unit 4, fourth quarter of '18. And we did not change the amount that we are contemplating in terms of overnight costs at the same time.

Thomas A. Fanning
Chairman, President & CEO

And if you just go back, Steve, to the VCM 8 filing, that is our most recent schedule. Now of course, we always continue to move things around within but that's it. And I would argue that probably Unit 4 is actually probably a little bit ahead. So we feel very good about our schedule right now.

Steven Isaac Fleishman
Wolfe Research, LLC

Okay. And I'm just tying in commentary from SCANA, which obviously different units. But they talk about having kind of a new schedule from the E&C guys in the fall play out. Is that a timeline that's relevant for you at all or you're just on a separate track?

Thomas A. Fanning
Chairman, President & CEO

It's interesting. I mean, we try to work together to coordinate best practices and share information, a variety of those things. But it is very clear that we have a different contract and without commenting on their situation, I can tell you that our contract, as we suggested in the past, is essentially fixed with performance schedules that are also fixed. So I wouldn't spend a lot of time comparing, say, for example, CA-20 for us and CA-20 for them. You will have -- they're operating under a different regime than we are.

Operator

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

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

A couple of questions. If I look at your fourth quarter 2013 slide deck and went back to the appendix just at the CapEx by subsidiary, can you just walk us through -- and a lot of this is Kemper-driven but a little of it may also be Southern Power-driven, just what's different from the CapEx you laid out for 2014 through

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'16 back on Slide 25 of your fourth quarter deck versus what it is today when you look forward for the next couple of years?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, Kemper will change a bit as we push more dollars into '15 now. And when and I think about all the other companies, nothing has really changed that I'm aware of. Our plan for Southern Power remains. Some of that is capital for maintenance and other capital for our expansion plan. So when I think broadly about that, Michael, I just can't see a lot of change that's occurred since that date.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Okay. And so, what's the -- I just want to make sure I'm getting Kemper right. What's the remaining amount of CapEx in Kemper for 2014, meaning, second quarter through the end of the year? And then, is the amount -- is that $25 million a month number for 2015 kind of still of a good number, so 4 or 5 months into 2015?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. If you look at it, we've got about $925 million remaining. About $800 million of that in '14 and the remainder, the $125 million, would be 5 months in 2015.

Thomas A. Fanning
Chairman, President & CEO

That's the 25 months.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Yes. And maintenance CapEx is a little bit, $100 million, $150 million, so that would get total Mississippi Power?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

That's correct.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Okay. A nuclear construction question. Just curious, is there any insight or any update you can provide from the folks in China who are a couple of years ahead of us in the process in terms of building new nuclear plants? Just any updates on kind of the construction timeline for either Sanmen or the other units that are coming online there that are using AP1000s.

Thomas A. Fanning
Chairman, President & CEO

Sanmen and Haiyang, you know that we have people that live there and other various members of our team go there from time to time. It's interesting to think about how that's helped us. Some of it, I would argue the very first benefit that we've seen out of all them going first and our people on-site had been supply chain-related. I would argue also the way that some of the material was handled on site once it is fabricated has been helpful for us. We've had better performance than they have. There are some significant differences, particularly in the Lay Dam construction, where when you think about, for example, modules or you think about how these things are erected, they tend to be much more people intensive than we are. Our processes tend to be much more automated. The other thing that we find is, where they have a specific problem, can we learn from it? Well, I'll tell you one. The way some of the panels were

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erected, they erected them horizontally. When they were picked up, they deformed a little bit and had to worry about correcting that. What we learned was to erect to them vertically so we didn't have that kind of deformation. The other thing is, just kind of issues that relate to the engineering around some pieces of equipment. I know one issue has been reactor coolant pumps. I know that's been surfaced in China. We have that equipment. It will be resolved to our satisfaction well in advance of any critical path.

Operator

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

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

You mentioned some wiggle room in your equity forecast. If there are continued pressures at Kemper, is there still contingency built in there?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

We are probably on the cusp. If we have additional costs, then we may need, it depends on any other offsetting issues, either in CapEx or that might affect our equity needs. But we'll keep an eye on that over time and certainly advise you if any needs we may have. Again, our target, Paul, is 44% equity ratio. And right now, we're solid in that range.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

It's either I missed it or you didn't address annual guidance on the call?

Thomas A. Fanning
Chairman, President & CEO

We almost never do that. What we do is we do annual guidance twice a year. We do it once in January that sums up kind of where we believe we'll be for the year. And then it's been our practice really since I was CFO, so we're dialing back 8 years or so now. We only do a revision of annual guidance once we get through the third quarter. So it's typically our October phone call. What we provide is just quarterly estimates beyond that.

Operator

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

Anthony Christopher Crowdell
Jefferies LLC, Research Division

Just following up on Paul's question, I think the guidance for equity in '13 and '14 is roughly about $1.3 billion. How much of that has been, I guess, issued already?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

In the first quarter, we issued right at $140 million. So we're on track for our $600 million number this year.

Anthony Christopher Crowdell
Jefferies LLC, Research Division

And I guess, lastly, when you think of Kemper and you guys have, I guess, quantified maybe into 2015 roughly, I guess, $25 million a month, I guess, over budget or incremental charges. I mean, what do you think is the biggest risk on cost overruns there? I mean, it seems that there's been a labor issue, last quarter you spoke about and also this quarter. I mean, what's the biggest issue, I guess, or I guess sensitivity with the higher cost at Kemper?

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Thomas A. Fanning
Chairman, President & CEO

So I think, it remains. We've been very constant on this. When you transition away from construction to startup, that's kind of the lion's share of risk ahead of us now. The integration of the different systems of Kemper, it's a very complex animal, in a combined-cycle unit, you may have 3 systems that need integration. Recall this one is coal gasification. It is gas handling equipment and all those related things. It's about 13 different systems. I mean, I'd like to think of it like fine-tuning a 6-cylinder car versus a 12-cylinder car. So just getting the integration of the various systems through start-up is the biggest issue. Beyond that, it is, I think, the unknown unknowns. There's always something that could happen and nobody can contemplate. We, I think, are allowing for normal disruptions through start-up. You have those anyway. It's something that nobody has foreseen, will see. When we've rethought this schedule, I can tell you, we did a lot of soul-searching about it. You know from following us that we're a conservative company. We always try and take the long view. And I think it is absolutely the right thing to do in our judgment to adjust the schedule, because even though it produces some near-term pain, this is absolutely the long-term trajectory that will represent the best interests of our customers. And it's so important that we get it right at the outset. So that's what you see us doing here.

Anthony Christopher Crowdell
Jefferies LLC, Research Division

Just lastly, a really weird question, more like, I guess, to your point unknown unknown. It seems that the conventional part of the Kemper unit or Kemper plant, CCTG, whatever, is working fine. You've produced electric first quarter. I mean, are there any changes to that 7-year rate plan you guys entered into back in January of '13 if the gasifier just -- for some reason just doesn't really reach commercial operation as intended?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

There's nothing in the 7-year rate plan that is contemplated around that. But I will remind you, Anthony, that we have a lot of experience with our pilot project, whereby, we have, over time, perfected the operation of the gasifier. So our confidence in the gasifier and having problems with it is not high on the list. But as Tom mentioned, we have the gas clean up islands. So we've got to be able to continually integrate the gasifier, the clean up island, collection of the byproduct and delivery of reliable syngas in order to make sure that this plant operates as intended.

Thomas A. Fanning
Chairman, President & CEO

And I know we've talked about this in the past where we made mistakes I think on this project, was entering into a fixed price commitment back like in 2009 or so, with only 10% of the engineering. And I think for where we did the FEED studies and all, we were very good in terms of what the combined cycle allowance is going to cost and how the gasifier. Where we got bit was in the gas handling systems. Remember, as we ramped up our carbon capture profile, the quantity of the pipe, the quality of the pipe, hangers and all the related equipment, it's going to be that, that we have a lack of experience. The good news is, we do have experience with the gasifier. We have the combined cycles already working. We know that the gas management system exists elsewhere. So my sense is, all these components will work. That's my judgment. Integrating them and optimizing them and fine-tuning them is going to be the challenge.

Operator

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

Mark Barnett
Morningstar Inc., Research Division

So you talked a lot about Kemper and Vogtle, can I just ask a couple of quick questions around Southern Power and around it all. You mentioned you might have something coming down the pipe pretty soon

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here in terms of another solar project. Assuming that, that is the case, would that largely speak for the placeholder that you have in your CapEx guidance for the optional Southern Power projects for the year?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. We had outlined, Mark, about, I think it was 100 megawatts of expansion in 2014. And roughly what we're talking about is somewhere near half of that, but we've got other projects that we've got on our list as well. So we feel very good about our plan, our expansion plan, for this year and for next.

Thomas A. Fanning
Chairman, President & CEO

Yes. Every board meeting, Art updates the finance committee with essentially a red, yellow, green list of potential projects. Looking at the health of those development activities, we have a lot of confidence on Southern Power's ability to execute this year.

Mark Barnett
Morningstar Inc., Research Division

Great. And just one sort of nitpicky detail on the quarterly results for Southern Power. Despite the top line growth, you had kind of some lower profitability on the operating line. I'm just curious if there -- is that sort of a one-time thing or is there anything in particular that was driving that?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

We had some solar contracts or some energy margins, I guess, from contracts with solar plants that were in service say midyear last year, mid to late last year that quarter-over-quarter increased revenues. But we also had a one-time tax issue that occurred, that was really a big help too. And had we not had the one-time tax issue, we may have been at or just below the -- our target for the quarter.

Operator

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

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Tom, when do you think you're in a position on Kemper to really lock down these costs and tell us, "Look, this is it and I think we don't expect any more overruns"?

Thomas A. Fanning
Chairman, President & CEO

Ali, I wish I could've done that a year ago. Every time that we have given you an estimate, it has been our best judgment. When things happen that we can't foresee, we have to make adjustments. I hate that, but that is, in fact, the case. Every time we have given an estimate, it has been our best judgment at the time.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

But is there anything in this remaining year or months to a year for completion where once you cross that line, you can say, okay, it's pretty much done or will it go all the way until the end?

Thomas A. Fanning
Chairman, President & CEO

Well, I mean, except for the unknown unknowns, right, I mean, so what happens if, I mean, heaven forbid, there's a tornado that comes across the side or what happens if there's a major hurricane or what happens if as we integrate the system, and it's just more complex, that we're not able to track it

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effectively or something. Everything I know right now, I have great confidence in our ability to execute. We really fought a lot with each other over this latest adjustment. We would still effort our best to get this done in '14, but I think, given the bout wave of uncertainty that we were creating by the delay in productivity on the construction as a result of Polar Vortex 1, 2 and some of the other issues, it just seemed to us to be a conservative prudent judgment to push the schedule out to May 31. I wish I can give you certainty. That's not the nature of the beast when you build something like this.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Right. Also...

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Ali, this is Art. A couple of additional elements there and we -- I think we've kind of mentioned them already. But you got milestones out there, the first gasifier heat up. We get by that, we're producing syngas. And then beyond that is making sure that the gas clean up island is doing its job and that we get reliable syngas that we can burn in our combined cycle. So as we move through those elements, those are elements of milestones that we have set for ourselves that that will tell the tale about where we identify issues.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Fair enough. Separately, Tom, I think in the past, you have told us for planning purposes for next 3 years or so, we should assume relatively flat earnings profile for Southern Power, if I recall correctly. Anything changed on that front as you're looking at opportunities today versus a few months ago?

Thomas A. Fanning
Chairman, President & CEO

So not significant change, but we continue to tick over every stone we can. We've mentioned before that we're looking in some other regions of the United States in order to identify opportunities. It will be fun to see how the nation's so-called organized markets develop this year and next. My sense is, when you look around at different regions of the United States, particularly in the so-called organized markets where you see coal plant shutdowns, there may be needs for more capital investments. I think our model, long-term, bilaterals, credit worthy counterparties, no fuel risk, no transmission risk is the kind of economic commercial model that will support the kind of CapEx that needs to be brought to bear to those markets. My sense is, particularly with our focus on co-ops and municipal utilities, we have some potential to do more than we think we can do. And I can assure you that, I guess, we had our Southern Power meeting 2 weeks ago, I can assure you that we give them a high goal every time we can. The other thing that could have some play in that, you may be aware that Georgia Power is in, I guess, it's second phase their advanced solar initiative. They had one I think it was 2010, was called ASI, and this next one was called ASI Prime or something. But it accounts for 525 megawatts of new solar in Georgia, 425 of which is Central Station and 100 megawatts of which is distributed generation. We have challenged both of our companies, Southern Power and Georgia Power wholesale, separate from Southern Power, to compete in those businesses. Especially with distributed generation around the United States, a lot of people have taken the posture of kind of fighting it. Our view is, let's do it right, let's create the right pricing mechanism for the energy and capacity. Let's create the right pricing mechanism, one that is fair to all customers for connections to the network, and let's create the right mechanism for backup generation. Having done that, if customers want it, my view is, we should provide it. And so, I've directed folks inside Southern and in fact we're competing with ourselves to play offense in that environment. Looking forward to seeing how those bids turn out, that's another potential source of growth for us.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

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Got it. Last question, Tom, you've also indicated to us in the past as you look at your earnings profile being more back-end loaded in terms of growth, you will be looking at opportunities to fill that gap if you found them out there. And I'm just wondering, today, are you seeing those opportunities? I mean, we saw its quarter-to-quarter opportunistic transaction that was announced this morning. Are you seeing opportunities out there for yourselves?

Thomas A. Fanning
Chairman, President & CEO

Was that an M&A question?

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Well I think the way you report to it us, yes, I'm assuming it's M&A?

Thomas A. Fanning
Chairman, President & CEO

Okay. Because with us, we do asset acquisitions all the time. I mean, that's one of our ways. If you're talking about corporate M&A, it was interesting. I was -- we were listening to the different shows this morning, CNBC and Bloomberg and all that. A bullish signal in the economy is how much M&A is going on. And in fact, there seems to be a pretty good bit of it. Exelon and Pepco is the latest example in our industry. I bid on record for this and I bet you guys in the call could give this speech as well as I can, but this is something that we have a fiduciary obligation always to evaluate. We are always kind of -- we have a group of people, our competitive and intelligence group here, focusing on those deals. My sense is, now, as it has been forever, that those deals are extraordinarily difficult to do, particularly in a regulated environment, where for the amount of the premium that you will spend in order to acquire the target, you're going to have earn a return on and return of capital that from an EBITDA standpoint is positive for shareholders. Add to that, regulatory complexity and a variety of other things, those are just hard to do. We work hard to try and make sense of them, but I can tell you, it's just really hard and I wouldn't particularly count on them right now.

Operator

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

Kit Konolige
BGC Partners, Inc., Research Division

So just to revisit the Mississippi settlement talks one last time. Can I ask who initiated the talks? And what were the circumstances of there being settlement talks in the first place?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, Kit. I believe the Commission in and around the prudence, the hearing had pushed the dates of the hearing along with the staff. And we're able to push those hearings out until August. And in some of their public remarks, they mentioned the fact that they were looking for discussions towards some kind of agreement, both on the prudency issue and on the 7-year rate plan. So that's kind of where it all started from and we're certainly a party to those as well.

Thomas A. Fanning
Chairman, President & CEO

Simply put, the commission directed the staff to engage the company with potential settlement talks. So we'll see how it goes.

Kit Konolige
BGC Partners, Inc., Research Division

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Right. Okay. Got that. And would -- I mean, obviously, we don't know until there is or is not a settlement, but it sounds like you would hope that this could be a pretty comprehensive deal if you got there. Would you envision it kind of accounting for any future possible further overruns or delays in the timetable of Kemper?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

I think it's just too early to tell, Kit. There's -- the prudency issue is important, the 7-year rate plan is pretty important. But there could be other elements to the agreement as well.

Thomas A. Fanning
Chairman, President & CEO

The in-service treatment of the combined-cycle units are important. There's really a host of things. How you would weave together with path is important. So we'll try and get it comprehensive as we can.

Kit Konolige
BGC Partners, Inc., Research Division

Okay. One last thing, so I kind of understand this. So obviously, given your prior agreement, there can't be any further rate increases for customers as a result of this. It is -- are we looking at potentially some change in the pattern of future rate increases? In other words, from a financial point of view for shareholders, what could change as a result of a settlement here?

Thomas A. Fanning
Chairman, President & CEO

Yes. Kit, I'm a little reluctant to kind of dive into profiles and what if, let the talks happen and let's get a good result for everybody here.

Operator

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

Julien Patrick Dumoulin-Smith
UBS Investment Bank, Research Division

So quick question here. Just following up a little bit on the same vein of thought. Can you walk through how you think about the in-service criteria for Kemper by chance, and how that process works in Mississippi? I know you're talking about a settlement here, but I suppose that's technically a separate process that we're going to be going down -- going through down the line. And then also perhaps a little bit of the key dates as far as that goes, particularly, in being in contrast to some of the performance issues you've seen elsewhere?

Thomas A. Fanning
Chairman, President & CEO

Yes. Look, in-service has some connotations both for tax and for regulatory purposes. For tax purposes, it's essentially that you're integrated into the grid and you can demonstrate. We've already demonstrated we can run Kemper to help during peak periods. We did that during Polar Vortex. And it's fun to actually have a live shot of the construction sites of both Vogtle and Kemper in my office, and it's fun to see the cooling towers at Kemper blowing off steam, showing that they're generating electricity. We expect them to be fully integrated this summer. By the same token, when we think about the gasifier island and everything else, I think the standards will kind of go to a reliable supply of syngas to the combined-cycle units. Those would be kind of the standards we'll be looking for.

Julien Patrick Dumoulin-Smith
UBS Investment Bank, Research Division

And so that's -- basically that's down the line here after May 15 to sort of...

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Thomas A. Fanning
Chairman, President & CEO

Yes. Again, the combined cycles, we expect to be in-service this summer, declared in-service, both for tax and books. And for the gasifier and the gas clean up system, it will come probably later.

Julien Patrick Dumoulin-Smith
UBS Investment Bank, Research Division

Okay. Excellent. And then, kind of going back to the equity question, sorry to hit this one more time, if you don't end up getting either those 2 options with regards to making up the bonus DNA benefits, does that push you through the contingency you put in there or did that -- your comment before contemplate that as well?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

It contemplated that as well.

Julien Patrick Dumoulin-Smith
UBS Investment Bank, Research Division

Got you. And then, could you quantify how much contingency you left or you don't want to do that?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

We're pretty close to the edge. So -- but again, it's a function of more than just Kemper. There's lots of other CapEx that we spend and so it would also impact how we're doing in that regard as well.

Julien Patrick Dumoulin-Smith
UBS Investment Bank, Research Division

And I know you guys have spoken about, just the last subject here on coal ash. Obviously some adjacent states are kind of picking up the speed of reform on that. What are you seeing right now in your front as far as the need to spend and address both from a capital and expense perspective?

Thomas A. Fanning
Chairman, President & CEO

We've had a very constructive relationship with all of our environmental regulators in all of our states. We meet or exceed all of the environmental regulations that are currently in place. We are watching with interest what happens elsewhere and what impact that may have. It was funny, it was notable back around the Kingston event. I remember I was COO at that time and I can recall walking myself virtually every ash pond we had and we have this long track record of exceedingly safe, reliable operation in those facilities. The personnel that were just surprised to see anybody was interested in how those were being run. I think with the events at Duke, there will be more evaluation of our practice and closure practices and all sorts of things. I think this is something that is probably inevitable. The question to me is, to what degree and over what time frame?

Operator

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

Ashar Khan

Tom, I was trying to understand, just trying to look through and I don't know if Art can help me on this. One thing which took a little people by surprise was when you came up with guidance in the January presentation. You started off with $2.71 and then you subtracted $0.07, which was from dilution from the Kemper write-off 2014 and beyond. And you reset the base to $2.64. And then from there, of course, the growth came in for this year's EPS impact. Would these write-offs, additional write-offs, which have come in since the beginning of the year, are -- should we then be modeling the similar kind of course they

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are not to the extent that they happened last year. But should I be modeling something like for when you come out next year and all that, a slight decremental gain in the base EPS, when you -- if you were to go ahead and redo your EPS for next year from this dilution in fact from the write-offs and things like this. I just wanted to get a little or a better understanding.

Thomas A. Fanning
Chairman, President & CEO

Yes, Ashar. There's a pretty simple answer here and we're thinking, "no", because we don't think we'll require any new equity and therefore, there's not a dilutive impact. We'll be able to manage this, we think.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. That's correct.

Operator

And I'm showing no further questions.

Thomas A. Fanning
Chairman, President & CEO

Well, listen. Thank you, all, for joining us today. I know it's a busy day for everybody, a lot of exciting things going on. I'm really gratified. I don't like the fact that we had to write off on Kemper again and change the schedule. But I am gratified with the sustaining excellence of the company. When you think about all of the good work we had and I know we talked about that a lot last year, we really accomplished a whole lot in 2013 and I think that our first quarter in '14 is a demonstration of that benefit. We thank you for joining us today. We thank you for following Southern Company. We look forward to chatting with you further. Take care.

Operator
Ladies and gentlemen, that does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your line.

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