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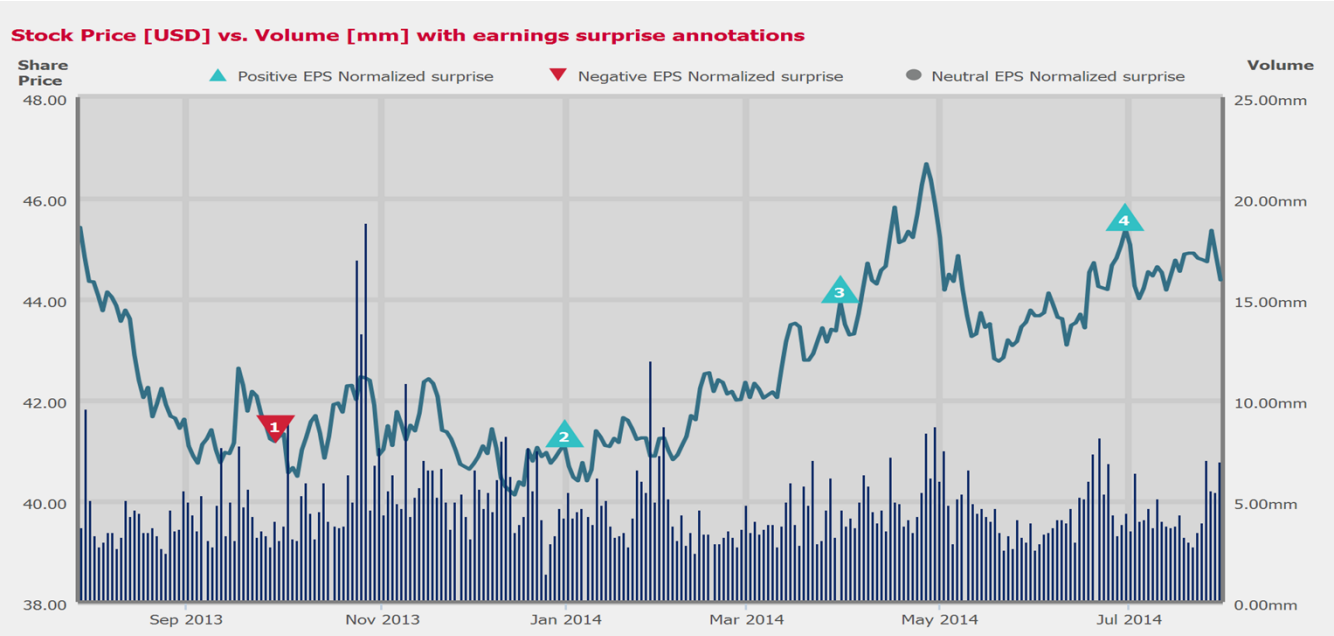
FQ2 2014 Earnings Call Transcripts

Wednesday, July 30, 2014 5:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2014-			-FQ3 2014-	-FY 2014-	-FY 2015-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.66	0.68	▲3.03	1.09	2.80	2.87
Revenue (mm)	4341.16	4467.00	▲2.90	5543.80	17991.36	18532.45

Currency: USD
Consensus as of Jul-30-2014 5:34 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2013	1.11	1.08	1 (2.70 %)
FQ4 2013	0.46	0.48	2 4.35 %
FQ1 2014	0.56	0.66	3 17.86 %
FQ2 2014	0.66	0.68	4 3.03 %

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Former Senior VP & Treasurer

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Presentation

Operator

Good afternoon. My name is Tommy, and I will be your conference operator for today. At this time, I would like to welcome to -- everyone to the Southern Company Second Quarter 2014 Earnings Call. [Operator Instructions] And also as a reminder, today's call is being recorded.

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

Daniel S. Tucker
Former Senior VP & Treasurer

Thank you, Tommy. And welcome, everyone, to Southern Company's Second 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. To follow along during the call, you can access these slides in 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

Well, good afternoon, and thank you for joining us.

As you know, 2013 was one of our busiest ever from a regulatory standpoint. The constructive results our traditional operating companies achieved has our company well positioned to execute our plans and to continue delivering on our core commitment to provide clean, safe, reliable and affordable energy to customers and communities that we are privileged to serve.

Our second quarter results were consistent with expectations. Weather was normal for the first time in the past few quarters, and the regional economy is gaining strength, as anticipated. We achieved major milestones on our 2 major construction projects and continued to extend our track record of solid operational performance. In a few minutes, Art will provide an update on our financial results as well as our sales and economic outlook, but first, I'd like to begin with an update on construction activities at Plant Vogtle and Kemper County.

We continue to make impressive progress at Plant Vogtle Units 3 and 4, as you can see from the recent aerial photo we've included in our slide deck. Our next major milestone will be completion of the CA-05 module for Unit 3, which will comprise one of the major wall sections within the containment vessel. That module is now outside of the module assembly building and is projected to be installed in September. The next key elements for Unit 3 will be CA-01, a large containment vessel module that will house the unit's steam generators; and a series of concrete pours that will raise the structural concrete currently surrounding the containment vessel bottom head and bring it to ground level, typically referred to as elevation 100. This concrete will ultimately serve as the foundation for the Unit 3 shield building. We currently have 36 of the 47 submodules for CA-01 on site and expect to install the completed module in late fourth quarter this year or first quarter next year. The concrete pours to elevation 100 should be finished near year-end 2014.

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Meanwhile, the latest Vogtle construction monitoring, or VCM hearings, are complete, with a vote scheduled for August 19. During the hearings, the commission's independent construction monitor concurred that project risks are consistent with those contemplated when the project was approved and that they are being managed well by Georgia Power. The construction monitor also concurred that sufficient oversight is being provided to contractors and global supply chain vendors. It was further noted that Georgia Power has been successful in meeting requirements to secure the benefits of the DOE loans, production tax credits and other options to help mitigate risks for customers. We anticipate the filing of VCM 11 at the end of August.

I'm also happy to report that Plant Ratcliffe at Kemper County had a good quarter, in which Mississippi Power achieved significant construction milestones. Pressure testing is complete on both gasifier trains, a significant step towards the heat-up of the first gasifier, which is targeted for late third quarter or early fourth quarter 2014. We also have achieved pipe-tight status, meaning that all piping, more than 900,000 linear feet, is installed, sealed and ready for testing. Successful combined-cycle testing is winding down as Mississippi Power prepares to place this portion of the plant in service.

On the regulatory front, Mississippi continues to engage constructively with the Mississippi public utilities commission staff. There are a number of issues involved that we are working hard to resolve. In the meantime, we remain optimistic about the outcome of these discussions.

Elsewhere, I'm pleased to report that the acquisition of the Macho Springs Solar Facility by Southern Power and Turner Renewable Energy closed during the second quarter. This 50-megawatt facility, the largest solar project in New Mexico, is now in commercial operation and can generate enough electricity to power more than 18,000 homes. Southern Power is continuing to seek new solar and natural gas projects with long-term contracts and creditworthy counterparties.

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

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Thanks, Tom.

For the second quarter of 2014, we earned $0.68 per share compared to $0.34 per share in the second quarter of 2013, an increase of $0.34 per share. For the 6 months ended June 30, 2014, we earned $1.08 per share compared with $0.43 per share for the same period in 2013, an increase of $0.65 per share. Earnings for the 6 months ended June 30, 2014, included an after-tax charge of $235 million or $0.26 per share related to increased cost estimates for the construction of Mississippi Power's Kemper County project recorded in the first quarter of 2014. Earnings for the 3 and 6 months ended June 2013 included after-tax charges of $278 million or $0.32 per share and $611 million or $0.70 per share, respectively, related to the Kemper County project. Earnings for the first 6 months 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.

Excluding these items, earnings for the second quarter of 2014 were $0.68 per share compared with $0.66 per share for the second quarter of 2013, an increase of $0.02 per share. Earnings for the 6 months ended June 30, 2014, excluding these items, were $1.34 per share compared with $1.15 per share for the same period in 2013, an increase of $0.19 per share.

A primary driver for our 2014 second quarter results was more normal weather compared to the same period in 2013, resulting in an increase of $0.03 per share on a quarter-over-quarter basis. Second quarter 2014 earnings also benefited from increased industrial sales and retail revenue effects at our traditional operating companies. Earnings were offset somewhat by increases in non-fuel O&M expenses. A more detailed summary of our quarter-over-quarter drivers is included in the slide deck.

Economic activity in our region continues to be led by the industrial sector, as evidenced by our 13 consecutive months of year-over-year industrial sales growth. This growth is consistent with national trends, such as the ISM Manufacturing Index, which has remained above 50, signaling expansion for the past 13 months. In our region, we continue to see exports play a big role. In the second quarter of 2014,

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exports from Alabama and Georgia grew at 4.1%, almost twice the rate of the U.S. as a whole. Container exports from the Port of Savannah grew 6.3% in the second quarter of 2014 compared to 2.5% for all of 2013. This growth has been broad based across all of our traditional operating companies and across all of our top 10 industrial segments. As an additional point of interest, 90% of our major customers say that they expect their sales for the second half of 2014 to be either the same or better than the first half of 2014.

In the housing market, we continue to see signs of a slow recovery. The most recent Atlanta Federal Reserve survey of brokers and builders indicates that home sales are up from last year. Inventory levels continue to fall and prices continue to increase, albeit modestly. Overall, builders and brokers expect activity in the Southeast to continue to increase. These trends are consistent with our internal measure of new housing activity, new connects, which were up 17% in the first 6 months of 2014 compared to the same period last year, with positive growth across all of our traditional operating companies. These findings, which are consistent with our expectations for the period, were underscored at the most recent meeting of our economic roundtable earlier this month. As a reminder, this is a group of regional economists and executives from a handful of our largest customers.

Overall, the economic roundtable affirmed our view that -- of the continuing momentum behind the industrial sector and the continued recovery of the residential sector. The group's consensus is that GDP during the first quarter of 2014 was not consistent with employment or industrial production trends, and that quarter-over-quarter GDP growth of 3% can be expected for the remainder of this year. Several of the economists on the roundtable noted that income growth continues to be weak and will likely remain so until underemployed workers are absorbed. This weakness in income growth is reflected in Southern Company's continued weakness in use per customer growth, as well as in signs of continued discipline on consumer spending patterns.

All of this data is reflected in Southern Company's sales results. Industrial sales were up 3% in the second quarter of 2014 compared with the second quarter of 2013, with all 10 of our top sectors demonstrating growth. For example, chemicals were up 5%, paper was up 6% and transportation was up 7%. As a group, the housing-related segments of textiles, stone, clay and glass, and lumber were all up 3%. Meanwhile, weather-normal residential sales were down 0.6% and weather-normal commercial sales were flat in the second quarter of 2014 compared to the second quarter of 2013.

Looking forward, we continue to see this ongoing recovery reflected in strong economic development activity. One example of this is the Elba Island LNG terminal where a joint partnership of Shell Oil and Southern LNG, a Kinder Morgan company, is adding natural gas export capability at its existing facility in Savannah. Once fully operational, the associated electric load increase will be 180 megawatts, making it one of the largest customers in our service territory. Meanwhile, in Alabama, we continue to see growth among tier 1 and tier 2 auto suppliers for assembly plants we serve, as well as inquiries for suppliers that will serve the future Airbus assembly facility.

Our economic development pipeline remains robust. We are currently tracking some 330 prospective projects, representing 37,000 new jobs and $14 billion in capital expenditures. From this pipeline, more than 8,000 jobs were announced during the second quarter of 2014, a 23% increase over the same period in 2013, with a potential for $1.3 billion in capital expenditures.

Now I'd like to share our earnings estimate for the third quarter of 2014, which will be $1.06 per share.

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

Thomas A. Fanning
Chairman, President & CEO

Thanks, Art.

As I've said many times before, Southern Company values the opportunities to engage constructively at all levels of government for the benefit of the customers we serve. This week, we've had another such opportunity in the form of public hearings on the EPA's proposed rules for greenhouse gas emissions at existing power plants. Several of our company's senior officers participated in the hearings yesterday and

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today, both in the nation's capital and here in Atlanta. We continue to have concerns about the impact of this proposal, particularly with regard to the reliability and affordability of our nation's energy supply. We are currently reviewing the proposed rules and will submit our formal comments to the EPA in keeping with the established time line. Our initial review, however, has revealed 3 primary reasons why we believe the current proposed rule should be amended.

First, the proposed rule significantly overreaches the EPA's authority by attempting to regulate activities that are clearly beyond the scope of the Clean Air Act and other existing legislations, and that have historically been under the purview of the states. Second, the details of the proposed standards do not appear to be workable, relying upon unrealistic standards of performance and violating longstanding regulatory constructs. And third, and perhaps most importantly, the proposal is not in the best interest of electric consumers due to its potential negative impacts on retail prices and system reliability.

As we have in the past, we will continue to engage constructively on all fronts in this important policy debate.
We are now ready to take your questions, so operator, we will now take the first question.

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Question and Answer

Operator

[Operator Instructions] And we'll proceed with our first question from the line of Greg Gordon from the ISI Group.

Gregory Harmon Gordon
ISI Group Inc., Research Division

I apologize if you answered any [indiscernible] the beginning. I was a little bit late. I saw that things were looking up at Kemper this quarter. You didn't have any further cost escalation beyond your current budget. As we get into the list of activities on the bottom right of Page 6, at what point over the course of the year should -- if you're going to have further slippage, should we be -- what are the key things we should be focused on, and when will they be incurring?

Thomas A. Fanning
Chairman, President & CEO

So yes, we actually talked about this slide getting ready for the call. You're around our 95% of the way through construction. There will be tails of construction -- when we say construction is complete, there will be tails of construction that go right into just about in service. So saying it's complete is kind of a term of art, but we're very close to kind of being there in a substantive way. The real risks, I think, going forward relate to startup. And of course, there are the normal issues related to startup, but the one thing we always say to ourselves is the unknown unknowns, and that is there could be, as we go through the startup process, potential equipment failures that we don't contemplate or have quick inventory or a quick turnaround solution for that could impact schedule. But with respect to the risks associated with construction, those are winding down pretty quickly. The risks that largely remain in front of us are the risks that relate to startup.

Gregory Harmon Gordon
ISI Group Inc., Research Division

Okay. Second question, which is more of a tactical or a short-term question just because we've had such a huge build in gas production, natural gas production, and we've had a decline in the amount of gas being burned for power gen nationwide. And so natural gas prices -- partly because of weather, obviously, natural gas prices have fallen a lot. As you look at the rest of the summer, how do you see your gas burn relative to what you burned last year? And because if I look at the very short-term data, I notice that it's gotten cooler down there over the last few days, but you're still burning an awful lot of gas relative to where you would be burning it if -- where the weather was, let's say, a month ago or 2 months ago. Is there something going on where we should expect a higher gas burn for the balance of the summer? Or should we assume that -- if the weather continues to be cool, that you'll back down on the gas?

Thomas A. Fanning
Chairman, President & CEO

Well, so Greg, I think you're all over the question, right? We do steadfast economic dispatch, so whatever is the cheapest energy is what we'll provide and whatever energy resource provides the cheapest energy is what we'll use. Look, a year ago, when gas prices were moderately higher and you had coal prices moderately cheaper -- I'm sorry, just the opposite, gas prices were cheaper, we burned a lot more natural gas than we did coal. What we're seeing this year is similar to what we projected, and that is kind of in the 40% range for both coal and gas from an energy standpoint. We're slightly ahead so far in '14 on coal relative to gas, but I would argue, with gas dropping down here recently right in the $4 range, that gas will pick up a little bit. So my sense is -- kind of going forward is kind of where we thought we would be, in the general range of 40-40 for both coal and gas. I could give you specific numbers, but I'm not sure the differences are meaningful.

Operator

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And we'll get to our next question, and it's from the line of Dan Eggers from Crédit Suisse.

Daniel L. Eggers
Crédit Suisse AG, Research Division

Tom, can you just give a little clarification? The headlines hit on kind of the discovery process of new nuclear. Can you just maybe explain more broadly how you're thinking about that?

Thomas A. Fanning
Chairman, President & CEO

Sure. Yes, sure, absolutely. It was funny how that got reported. It's actually on the YouTube website. I gave a speech. I think I was keynoting at the Bipartisan Policy Center, along with Energy Secretary Ernie Moniz. And it was all about energy innovation, and after the talk was given, I had a few questions and answers. And I think this was the first question, and it really went to why isn't anybody else building nuclear? And I went on to describe kind of what kind of companies could build new nuclear and what kind of had to be in place, and I referred to the different energy markets in the United States. And at the very end of the comments, I said something like, "And you know what, I would love to be in a position by the end of the year to announce that we're building -- that we're starting even more nuclear." In doing that, everybody should know that the way you start the process is the way we start the process at Vogtle 3 and 4, and that is you would begin a permitting process. Remember too that from kind of beginning to end is 10 years or so. So we're really talking about nuclear generation that could be in service in the middle of the next decade. And the first process that you start is a permitting process. But we would only do that, as we did with Vogtle 3 and 4, with the concurrence of our state regulatory jurisdiction, whichever one was relevant at that time. So that's all I was talking into. And what that does is preserves the option to build new nuclear if, in fact, that looks like it's desirable from a customer standpoint in the future.

Daniel L. Eggers
Crédit Suisse AG, Research Division

Tom, with the carbon rule kind of sitting out there, or with the review going on, what do you think is going to be the legal course, as you guys look at the rule, if it stays roughly as written in the final decision? And do you guys think there's a potential for a stay, or is that too big of an ask?

Thomas A. Fanning
Chairman, President & CEO

I mean it's a fascinating question, Dan. The overreach here, to me, is so clear. And it's interesting where the EPA says, "We're giving everybody flexibility." They can't give you what is not theirs to give. The inference must be that, somehow, Congress, via the Clean Air Act, gave the EPA more power over the electric utility industry and new power over relatively what has been the purview of the states than even the Federal Energy Regulatory Commission. In other words, somehow, EPA is taking the authority to require, in some respects, renewable portfolio standards, state energy efficiency standards. They're taking the power to obviate what has been the longstanding practice of economic dispatch and incorporate a concept of environmental dispatch and, in the course, raise prices significantly and perhaps reduce reliability. My sense is this overreach is so great, I think, there is, #1, a significant opportunity to amend the rule before it becomes final; and #2, to work in whatever jurisdiction is sensible to achieve a better structure or a better time frame in which to evaluate it.

Daniel L. Eggers
Crédit Suisse AG, Research Division

Will a determination on the final rule have bearing on the potential construction of additional nuclear? So you -- would starting this process now facilitate more?

Thomas A. Fanning
Chairman, President & CEO

Yes. In other words -- but there's also some unintended consequences. The nuclear rule as written really doesn't -- it actually helps to penalize people who have taken early action. Since 2005, Southern Company

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has reduced our carbon emissions 26%. We've led the United States in the renaissance of new nuclear, and essentially, we don't get onto getting credit for those actions. And even in the plans, even if you haven't started, if you've contemplated plans, they would include those in the calculations and you don't great credit for that. Now having said all that, any passage of further regulation around greenhouse gases does incent new nuclear. That is clear. And in fact, building new nuclear is -- in our view, has been a hedge against future carbon regulations.

Operator

And we'll get to our next question. It is from the line of Steven Fleishman with Wolfe Research.

Steven Isaac Fleishman
Wolfe Research, LLC

So first, I guess, just to clarify the clarification of the new nuclear -- the new, new nuclear, excuse me. So is this -- are you at a point when you're doing kind of your RFP process or other stuff where you need to be making decisions on a next round of baseload and thus looking at permitting nuclear or something else over the next 12 months or 24 months, or no?

Thomas A. Fanning
Chairman, President & CEO

There's nothing new in the statement that we haven't said numerous times already. We believe nuclear is a dominant solution in the portfolio of Southern Company's generation going forward. When all things considered, we need baseload, right? You need baseload, intermediate and peaking. We know that coal is kind of moving away from favor in America. So to the extent you're going to do coal, it looks like a Kemper plant. If you're not going to do coal, it's nuclear. And so if you're going to preserve nuclear as an option to add as a baseload resource in the middle of the next decade, you need to start thinking about the steps necessary to preserve that option. That's all I was referring to.

Steven Isaac Fleishman
Wolfe Research, LLC

Okay. And then switching gears. I think Georgia was going to do a pretty large solar RFP. Is there any update on that process?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, Steve, they have that process ongoing. There were bids that were made. I think it was in late April. There'll be a shortlist notification sometime the middle of August and then a final -- the final selection, I guess, will be mid-October of this year. And we'll know by then, I guess, whether Southern -- or Southern Power or Georgia Power will be either in the shortlist or the final list by the October call.

Steven Isaac Fleishman
Wolfe Research, LLC

Okay, great. And then, I guess, one last question, I guess for Tom. Just we started seeing some more utility M&A activity recently in the sector. Could you maybe just give us an update in your thinking on consolidation in the sector and how Southern might or might not participate in that?

Thomas A. Fanning
Chairman, President & CEO

Well, here again, this is going to be a standard answer, Steve. We're not going to comment on any specific transaction, of course. And of course, it is standard for management to exercise its fiduciary responsibility to evaluate option enhancing -- I mean value-enhancing strategies for its shareholders. To the extent any of those opportunities come to fore, of course, we'll pursue it and, if successful, announce it. But it's something we do all the time. We look all the time. And you know our position is we're reasonably conservative from a financial standpoint. We believe in maintaining the highest level of financial integrity.

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I know one of the in-vogue ideas these days is to use cash. I think the underlying presumption there is to use debt, at least as a bridge underlying the cash, but I really don't have anything new to add that I haven't said before. We'll look at it all the time. They are extraordinarily hard to complete successfully that really do accrete to shareholder value, but that doesn't mean we won't be trying.

Operator

We'll get to our next question. It's from the line of Anthony Crowdell with Jefferies LLC.

Anthony Christopher Crowdell
Jefferies LLC, Research Division

Just hopefully a quick question on the Southern Power project. I'm just wondering like what type of returns are you seeing on solar now? And I think, with the advent of YieldCos and all these other type entities, has there been like a downward pressure on the returns you're getting from renewables?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, we continue to look that -- at that, Anthony. We've got a process whereby we evaluate every deal on its own. There's not a "one size fits all" approach here. We'll look at the terms and conditions around the -- whatever they may be, the offtaker; where the project's located; whether there's any other legal risks associated with the contracts within the states that we're looking at, and we'll adjust our hurdle rates based on those. But I'm not going to comment on any kind of return number that we look at because it varies, honestly, with every project we do.

Thomas A. Fanning
Chairman, President & CEO

But it's reasonably consistent, I think. We haven't changed our hurdle rates in respect of kind of what the market is showing us. I haven't seen a dramatic change in what YieldCos are offering in the market.

Operator

And we'll get to our next question. It's from the line of Mark Barnett with Morningstar.

Mark Barnett
Morningstar Inc., Research Division

This is going to be a tough question, but I know you can't really comment on the details, but I guess maybe the larger items that we should really be focused on when we see the outcome of the Mississippi prudency process there. If you could maybe walk us through how that's going to -- what -- how it'll be announced and what to look for?

Thomas A. Fanning
Chairman, President & CEO

So we alluded to it in the opening comments, and it really kind of goes to the idea of this global settlement. There's a whole host of issues that could be taken into account in what we describe as our ongoing constructive dialogue with the staff. We've thought a lot about how to respond to the natural questions that I know you all will say about, "Where are you in that?" And I think the best thing for us to say right now is to let the people do their work, and when we have something to announce, we'll announce it, to not say too much at this point. We remain optimistic about a result.

Mark Barnett
Morningstar Inc., Research Division

Okay, okay, but the -- I guess the most likely outcome, like you mentioned, is maybe more of a settlement between the related -- or the parties involved.

Thomas A. Fanning
Chairman, President & CEO

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Well, sure. We have been working on the so-called global settlement that takes into account a number of issues, and we think we're having constructive dialogue about that issue.

Mark Barnett
Morningstar Inc., Research Division

I know that's pretty hard to talk about at this point. Just a quick question on operations. It's a smaller item but kind of an ongoing trend from the last quarter: You have a pretty major shift in your non-Powder River burn away from the Powder River Basin. So is this just a function of where your contracts and pricing are at? Or is there something else moving that needle?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, Anthony, I think that's a function of outages. We had some of our Powder River units on outage in both first and second quarter this year, so that's why you're seeing those numbers down a bit.

Mark Barnett
Morningstar Inc., Research Division

Okay, so mostly driven by that then. All right.

Operator

We'll get to our next question. It's from the line of Paul Ridzon with KeyBanc.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

Just any updates on the Vogtle dispute?

Thomas A. Fanning
Chairman, President & CEO

No. We have all engaged in conversations. There's kind of 2 ways to think about that. And you -- and I would direct you to go to their earnings calls as well. But there is the nature of the conversation between Georgia Power and the consortium. Recall, the consortium is Toshiba, Westinghouse and Chicago Bridge & Iron. And then there is the conversation within the consortium among and between Westinghouse, Chicago Bridge & Iron and Toshiba. In effect, what I'm saying is both of those have to be resolved in order for us to reach a settlement.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

Any venture guesses as to the timeline to a settlement?

Thomas A. Fanning
Chairman, President & CEO

No. It -- I've said this before and I don't mean to sound glib, but it's something that could happen quickly or it's something that could take a long time, including going to litigation. Recall, venue is Augusta, Georgia.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

And then just back to the new, new nuclear. So anyone who is expecting an announcement out of Southern by year end took your comments out of context?

Thomas A. Fanning
Chairman, President & CEO

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Oh, sure, yes. Look, that's something we've said consistently. I was kind of surprised at the amount of press it got. But love to be in a position by the end of the year to announce and what you do when you start that process is you undertake essentially a permitting process, and we would only do that with the approval of the relevant jurisdiction in order to recover those costs. Recall also, that's not a commitment to build. That's a commitment to gain the option to build. So this is something that will -- these are the first steps you take in order to achieve new generation by the middle of the next decade, for heaven's sakes, something like that.

Operator

And we'll get to our next question. It's from the line of Ali Agha with SunTrust.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Just a couple of questions. One, Tom or Art, can you remind us, in your '14 numbers what weather-normalized electric sales have you assumed for the year? And how are you looking at them on a longer-term basis? Can you just remind us of those numbers?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. On the -- if we look at '14, total retail sales, we expected to be up 0.7% over 2013 levels. And then beyond that, it really is around 1% to maybe a little stronger than that, but that's a function of how fast the economy grows in the '15, '16 time frame.

Thomas A. Fanning
Chairman, President & CEO

And year-to-date.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Year-to-date we are standing at 1.1%.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Right. And I know third quarter obviously is the biggest, but given the trends you're seeing, would that cause you to change your full year outlook at this point?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

No. We don't comment on that until the third quarter.

Thomas A. Fanning
Chairman, President & CEO

Yes. And just to remind everybody, we only talk about guidance twice in a year: once when we give it and once when we kind of update it in October.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Okay. Separately, Art, I know, last time, I think it was in the last earnings call, you had mentioned with regards to equity, paid for equity, that you were pretty much close to your limit in staying out of the equity issuance side. Are we still there? Or can you just give us an update on your latest thoughts regarding equity needs perhaps in the future?

Arthur P. Beattie

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Former Executive VP & Chief Risk Officer

Yes, Ali, what we talked about is issuing about $600 million of new equity this year. And through June, we've issued $331 million, so we're well on track to hit our target. And our target hasn't changed.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Okay. And last question, Tom, for you. Again, you all have given us an update longer term, talking about your earnings trajectory, slight slowdown next couple of years and then a pickup again down the road. Are you seeing opportunities that could change that trajectory and cause the near-term growth to go up as well? Or is that still the profile we should be looking at for the next 5 years or so?

Thomas A. Fanning
Chairman, President & CEO

So that's still the profile. You know that we're a conservative company. And so we wanted to give you kind of a -- we've never really gone out that far talking about what our earnings trajectory might be. And the reason we did that was because we felt it had a shape, and so we wanted to describe the shape to you all. We continue to work hard on ways to improve that shape. We have several things that we're kicking around internally here, opportunities with Southern Power, opportunities around the traditional business, but nothing that we want to give the weight that would be derived from conversation in this forum. Still kicking around a lot of stuff.

Operator

And we'll get to our next question. It is from the line of Paul Patterson of the Glenrock Association.

Paul Patterson
Glenrock Associates LLC

Just -- a lot of my questions have been answered, but just to sort of fall back on Kemper: If I understood your comments earlier, it sounds like you guys pretty much feel that the boundaries of -- are sort of laid out in such a way that there probably isn't going to be much more of a cost increase potential there. Is that -- am I understanding that correctly?

Thomas A. Fanning
Chairman, President & CEO

So I'm looking at all those risks. If I were to focus more on startup risks, what would the risks be? And I used the funny phrase unknown unknowns, right? So let's say, as we go through startup, some piece of equipment fails that we didn't anticipate. We'd try to mitigate or at least be proactive in mitigating startup risks by providing, I think, extra amount of inventory of what we see -- of what we think are critical parts of the plant. But in startup, if something does not perform well or needs to be redesigned or whatever, that could add more months to the schedule, for example, and that would require increased costs. Right now, we have reserves through, I guess, the very end of May, June 1, whatever you want to call it. So we've maintained that estimate. Obviously, if we didn't have common sense, maybe we would have changed it. We had a good quarter in construction. And I think being pipe tight, so that means essentially all the pipe is erected, now we still need to test it and other thing, we just had a good quarter. And I want to make sure that the folks on the site there that are just working like crazy understand that we appreciate their effectiveness this quarter. The challenge now transitions, I think, largely from a construction project to a startup project. That will have its own set of issues. We'll see.

Paul Patterson
Glenrock Associates LLC

Okay. And so something like the -- I did notice that the first fire gasifier A schedules have been pushed out. Would that be a key thing to look for in September, October as being one of the key tests [ph]...?

Thomas A. Fanning
Chairman, President & CEO

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Yes, it would -- that's right, Paul. I mean, if -- to the extent you can't meet that kind of schedule, that puts pressure on the back end. We moved the schedule in concert with the new estimated, you remember, when we came up with the May schedule. It's when we changed a lot of the major components along that way. So that schedule is consistent with a completion date at the end of May.

Paul Patterson
Glenrock Associates LLC

Okay. And then I think Steve was asking you about M&A. And I remember, previously, that you guys had a preference for the super Southeast. And I was sort of wondering, just sort of geographically, does that -- I'm not sure exactly what that means. Does that include Texas? Or is that still something that you guys have, a preference for the Southeast versus other areas?

Thomas A. Fanning
Chairman, President & CEO

Let me speak very broadly about that. The preference in something like the super Southeast would be where you could gain natural synergies. That's what that comment alludes to, okay? So -- and let me just pick stuff out of the air. We would have more synergies operationally in a company that was inside our footprint or adjacent to it or whatever than we would for a company in Canada. That's really the concept you're after there. So in preferring the super Southeast, it is the idea that you can more readily gain operational synergies. And let me also distinguish between asset M&A, where you don't really require synergies so much, that's like building a solar plant in New Mexico; relative to corporate M&A, which is I think what you're referring to.

Operator

And we'll get to our next question. It's from the line of Michael Lapides with Goldman Sachs.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Really a near-term one, and this may be more of an Art one.

Third quarter guidance, if I back out all of the onetime items from third quarter of last year, is flat to actually down a little bit. How should we think about the puts and takes not really just for third quarter but also for fourth quarter? Meaning kind of the -- what's weighing on third quarter? Why isn't there a little growth year-over-year third quarter of '13 to third quarter of '14? And what does that mean or imply for fourth quarter? Is it O&M timing issue? Is it a view on kind of the summer? Just trying to ask some of the near-term puts and takes.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, well, O&M is certainly an aspect of that. If you look at our history, we're a second-half-spending company and depending on actually how the third quarter goes, because the third quarter represents fully 45% of our annual earnings, it's a big player. And that points directly at fourth quarter earnings over the last 5 years. We've earned anywhere from $0.18 in 2010 to $0.48 last year, and that's a reflection of where we end up through the third quarter. We also have weather impacts, as well, as you know. And we're assuming normal weather throughout the remainder of the year, but that's certainly something we have to play into account for. The other aspect is the share count, and share counts are up. We've talked about issuing new shares this year. So you got to weigh that in too. And once you factor all of that in, that -- these are all of the things that are, as you say, puts and takes on where the number will end up.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Got it. And when we think about just the next year, 1.5 years, maybe a year or so, what's next on the horizon going across the Southern system in terms of just thinking about rate filings, rate actions that

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could involve kind of not just pretty small numbers but where there's stuff on the horizon that folks should pay a lot of attention to?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Michael, this is Art. Georgia completed their rate case last year, right? So they're good through 2016 from a new rate filing perspective. And when you look at Gulf: Gulf Power missed a -- or they filed a rate case last year. That was settled. They're good through 2016 as well. Alabama, as you know, has filings every year. And they'll file that sometime in the fall. So you would need to look at there as to what that particular filing would have. There are also clauses at some of our operating companies that could operate as well, Alabama being one of those. You also have fuel issues at each of our operating companies. Right now, systemwide, we're about $283 million under-recovered on fuel. And some of our companies have had to file with their regulatory bodies just as information, not necessarily for a change in rate. But some of them may be dealt with. Some of them may be pushed off. And then Mississippi, I believe, is good through 2015, 2016 as well, from their PEP filings. So it varies, but I think, to a large degree, all of those are pretty well settled, Alabama being the annual filing that you would have to watch each year.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

And in Alabama, you would attempt to recover the deferral that you made in the prior RSE process.

Thomas A. Fanning
Chairman, President & CEO

That's always -- I think it's [indiscernible].

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, the O&M deferral, is that what you're referring to?

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Yes, yes.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, that's correct. And that's over another period of time, I think, over 3 years.

Thomas A. Fanning
Chairman, President & CEO

Yes. Any of that is always part of the calculus.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Got it. And then last item, just thoughts on bonus depreciation. It's kind of been bantered around back and forth a little bit in D.C. Just curious in terms of, a, what the impact would be on cash, I don't know, needs and uses for next year, a little bit, if it gets extended; and b, just the general, from a policy and from a impact on Southern spending level, kind of how you think about it in the kind of the broader energy policy framework?

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Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, Michael, it's Art again. In 2014, we were looking at anywhere $200 million to $225 million, but when you look at 2015, it's -- it would certainly impact some of our assets and it will impact some of our MATS compliance. So I don't have a number to share with you, but it could dramatically impact the financing that we do from a cash flow perspective. The other side of that sword is the fact that it reduces rate base growth. So there are good and bad associated with bonus depreciation.

Operator

We'll get to our next question. It's from the line of Vedula Murti with CD Capital -- CDP Capital, excuse me.

Vedula Murti

I've got 2 questions. Kind of first one is much more industry type of thing versus you guys specifically. There's been a lot of press recently about, a couple of years ago, there was a huge solar flare that came awfully close to threatening our entire grid and they were dealing with that. And there was supposedly an historical event back in like 1859, it knocked out all the telegraphs and things of that nature. So I'm just kind of wondering, one, kind of what the -- what yourselves and the industry are doing to possibly prepare for that type of event that's just like kind of tail-end kind of thing? And then it also ties into the fiber issue as well. So if you could just kind of talk a little bit about, obviously given your position in the industry, I'm sure you guys are extremely involved in all this, so I'd just like to get a sense of that. And then I've got a separate -- secondary, separate question.

Thomas A. Fanning
Chairman, President & CEO

Yes, so we are involved. I chair for the industry. And that's not just IOUs. It includes co-ops and municipal utilities. It's called the ESCC, the Electricity Sector Coordination Council. You may know that the under the Department of Homeland Security, they've cut commerce in the United States. They've segmented it into 16 different pieces, if you will. And so our sector is 1 of the 16. So I chair the Electricity Sector Coordinating Council, and we are responsible essentially for proactive planning and adaptive responses to all things cyber, physical terrorism and natural disasters. And some of the things you suggest are absolutely part of our purview. And there is quite a bit of activity going on. And in fact, the government -- I think you can look this up, the government has held the electricity sector up as the -- I think, the best sector in terms of preparedness and response to different threats. Lots of different things we could go into here. You know that we have been involved in the response to the kind of requests for additional physical security updates, so this kind of interrogatories, back-and-forth between NRC, the cyber issue. You may know, that we have adopted a single kind of cyber threat regime, a set of software that's kind of under the auspices of the government, which will be able to detect anomalies within electronic commerce, servers, other things; assess those anomalies; and then be able to piece together information around the potential for threats and the best way to either protect or respond to a current threat. All of that is going on right now. And I would say, on the third sector, this response to natural disasters, Nick Akins, CEO of AEP, great friend of mine, great guy, has been leading an effort in the industry to knit together a more effective response from what they call the RMAGs, the Regional Mutual Assistance Groups. We actually, I think, performed well with Hurricane Sandy, but I think, even now, we will perform better. And I think we're much better suited from a comprehensive storm to be able to respond great. So I would be glad to fill you up with a lot more details, but that's the quick flyby. The ESCC governs cyber terrorism, physical terrorism, natural disasters. We work hand in glove with the Department of Homeland Security through the Department of Energy. We have, I think, unique, among all the other industries a deep CEO participation. This is nothing that's delegated down. And I think we've already demonstrated, I think, really good plans and responses to threats.

Vedula Murti

How much is this costing a year or cumulatively over a period of time in order to address all these possibilities?

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Thomas A. Fanning
Chairman, President & CEO

Vedula, that change is based on each company. Each company is going to have a different kind of response to that question. So if you have somebody in mind, it's much better for you to ask them than me, but I'll have to say this -- no, let me just give you the aggregate answer. The amounts of money that we're talking about pale in comparison to the benefits. As an industry, we have always been committed to providing the best reliability. And we understand that the United States is in a new era. And we all understand that not only responding to but being proactive to defend ourselves against these threats is job 1 for us. So yes, it's going to require some more money, but I think the cost pales in comparison to the benefit.

Vedula Murti

Okay. And I guess, one last thing. It's going back to the old M&A question from a couple of times. I mean, in my career, the last time you guys ever did a corporate-on-corporate was when I first showed up in 1987, when you guys bought Savannah. And I'm just wondering, given the state of the industry, I mean, other than finding something discrete, is there anything that is within what's going on in the industry that makes your attention or interest in M&A any higher than what it's ever been in the past?

Thomas A. Fanning
Chairman, President & CEO

That's a very interesting question. My quick answer is, probably not. Not really. I think we are where we have been. We've always been very consistent in our love of the integrated, regulated utility model. We always think that we generate the best long-term value for shareholders by providing the best risk-adjusted returns around. We think that our jurisdictions have demonstrated that we can deliver attractive returns with low-risk profiles, and therefore, from an EVA sense, deliver, I think, a terrific value proposition. For us to undertake M&A activity we have to be convinced in the long run that we can preserve that kind of performance. That's just a big challenge. When you look around, we use the expression also, "Don't chase fads." A lot of companies will pursue things in the short run. We really are focused on the long run. So we don't get kind of dazzled by short-term trends. We try to keep our eye on the right long star here.

Operator

And we'll get to our next question. It's from the line of Andy Levi with Avon Capital.

Andrew Levi

And I thought that was a very good question by Vedula, that last one, well asked. And I apologize ahead of time for asking this question, but I feel it's a question that needs to be asked just because I just kind of noticed it's coming up in one of the companies that you're doing business with. So if you look at kind of CBI and its stock price, it's dropped from 85 to 60. And I am by no means an accounting expert or an expert in CBI, but obviously, there's been some financial issues that were brought up, whether they're true or not. But I just want to know how kind of that affects your thinking and whether it's affected any of the construction, or are there any concerns that Southern has relative to CBI's?

Thomas A. Fanning
Chairman, President & CEO

Yes, and Andy, thank you for the question. You all know this, we're completely transparent. We love question. Anything you want to ask is fully fair game, so never apologize. The second thing is we think CBI is a great partner in this project. We think, the performance, frankly, of the project, the challenges have been reduced since they've come in. And I meet periodically with Philip Asherman, their CEO. In fact, Buzz Miller and I flew to Houston 2 weeks ago to meet with him just to go eye-to-eye on certain issues. We do that all the time. And frankly, I think, this week, we're meeting with Westinghouse and Toshiba personnel in D.C. So this is something that we do as an ongoing manner. This is not constructing plant Vogtle 3 and 4. In many respects, it's not a delegated activity, but Buzz Miller certainly does a great job. But we're all

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involved. With respect of any challenges that CBI has had recently that have been in the press, look, the right people to ask about that is CBI. We can't speak for them at all. And we do look at their earnings calls, and, at least from our position, in terms of the interrelationship we have on Plant Vogtle 3 and 4, we think they've fully explained that to the investment community. And we are very satisfied with their relationship in the consortium and their relationship to us.

Operator

And we'll get to our next question, on the line of Dan Jenkins with the State of Wisconsin Investment Board.

Dan Jenkins

I have a couple of questions on your slides on Vogtle, Kemper, and then some on -- related to your sales. And excuse me if these are repeats, but I kind of missed the beginning. I had some issues with calling in. But I just wanted to try to get a sense, on Slide 4, what -- how we should think about the timing, the things you have listed as near term and on the horizon? Are those things that will occur in the third quarter? Or will it -- how should we think about the timing of those items that you have classified there?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, Dan, this is Art. CA-05, I think, we addressed in the script that we talked about this morning. And we're looking at, I think it was, September before CA-05. That -- what we did comment there was it's out of the module assembly building, but it is awaiting -- it's going under further modifications, but it's -- it'll be lifted sometime within the next month or 2 into the nuclear island. But setting the containment vessel, lower ring, those are already complete and ready to go. They're going to probably do that after they insert CA-05. So again, from a timing perspective, it's sometime probably September. And then the cooling tower vertical construction, I guess, on Unit 3, I'm guessing, Dan, it is sometime in the next 4 months. But then, that really is not what we would call critical path. Critical path is all in the nuclear island. In terms of Unit 4, again, module fabrication has just begun on their major modules. The nuclear wall installation will continue. And by the way, we're making great progress on Unit 4. If you compare activities, we're learning a lot of lessons from our construction at Unit 3 and applying them to Unit 4. And then the turbine building vertical construction is certainly not critical path either on Unit 4, but it is going very well, and you'll see steel come up out of the ground probably sometime late this year.

Thomas A. Fanning
Chairman, President & CEO

Yes. If I just did that real quick, I would say, and this just goes back, Dan, to maybe you missed the reading of the script: CA-05, September; CA-01, late fourth quarter or early fourth -- first quarter next year; elevation 100 concrete pour, near year end.

Dan Jenkins

Okay. And then on Kemper, I was wondering. Just I was looking prior to the call, at your presentation, I think, you did back in June, and I just want to make sure I understand the terminology. You've mentioned first gasifier fire expected late third quarter or early fourth, where earlier it said first gasifier heat-up targeted for mid- to late summer. So is heat-up and fire different, or are they the same? Or how should I think about that?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Dan, those are the same. And there's no doubt. Again, it's getting ready, doing a lot of the milestones ahead of that, like air flow testing and making sure the lignite dryers work like they're designed to do. So there are tests all along the way with equipment that Tom described earlier in the call, but these are all elements of the startup process.

Thomas A. Fanning

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Chairman, President & CEO

And we're kind of gratified with where we've gone so far. The pressure rising, the pressure test on train A took a couple or 3 weeks or whatever. The pressure on train B went very quickly. So we're very gratified with our progress so far.

Dan Jenkins

I know last quarter I think you talked a little bit about how the timing of these in-service dates on Kemper have some implications for the tax credits and so forth, or the tax -- investment tax credits. And you have here first SIM gas production expected late this year. Would that be enough to qualify that for those credits this year or not, if you were able to achieve that?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, Dan, what we will get credit for on a -- from a tax perspective, from an bonus depreciation perspective will be the combined cycle by putting it in service this year, along with other elements of the plant. But be mindful that there could be an extender bill that pushes bonus depreciation into 2015 as well. So we'll just have to wait. That probably wouldn't happen until later this year. But we really don't want to get into all the details of that because we don't want to front-run the regulatory discussions going on in Mississippi.

Dan Jenkins

Okay. And then just the last question I had is kind of related to your industrial sales year-to-date have been up almost 3%, which is quite a bit stronger than, I think, your forecast. I wonder if you can give us a little more color just on terms of like geographically where that's coming from and if you expect that to continue in the second half.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. We commented that on the script as well, Dan, but I'll catch you up. Yes, it was broad based. If you look at our top 10 industrial segments, all of them show growth both for the quarter and year-to-date period. That's chemicals, our largest segment, was up 5.4% for the quarter. Primary metals, our second largest, was up 3.5%. So it's been very broad based. And you think geographically, it was across our entire footprint. All the operating companies participated in the growth, the expansion on the industrial side.

Thomas A. Fanning
Chairman, President & CEO

End year roundtable, economic roundtable, seems to suggest that people were bullish about prospects going forward. So we expect this to continue.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, yes. One other element that you may have missed, Dan, was that we also survey our top customers about what their sales are going to be over the next 6 months. And 90% of the respondents to that survey indicated that they expected their sales to make -- remain equal to or greater than their sales year-to-date through 2014. So that's a very bullish indicator to me that they're expecting similar sales in -- of their products into the market.

Dan Jenkins

Okay. And then the last thing, just on the residential side in terms of customer growth. Is the customer growth in line with what you expected? Or how is that tracking?

Arthur P. Beattie

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Former Executive VP & Chief Risk Officer

Yes, it's going directly in line with what we expected. We've added 13,300 customers, residential customers, since the end of last year. And if you look at it year-over-year, it's right at 25,000. So it is going directly in line with our expectations for the year.

Operator

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

Thomas A. Fanning
Chairman, President & CEO

Yes. I just want to say thank you again for participating with us this afternoon. The team here is working hard to generate value by continuing the attractive returns that we're able to demonstrate, and manage risk, especially in our major projects, as we go forward.

We appreciate your attendance, and we'll be with you shortly as we hit the road, as we always do. Thank you very much.

Operator
Thank you, sir. Ladies and gentlemen, this does conclude the Southern Company Second Quarter 2014 Earnings Call. You may now disconnect. Have a good day, everyone.

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