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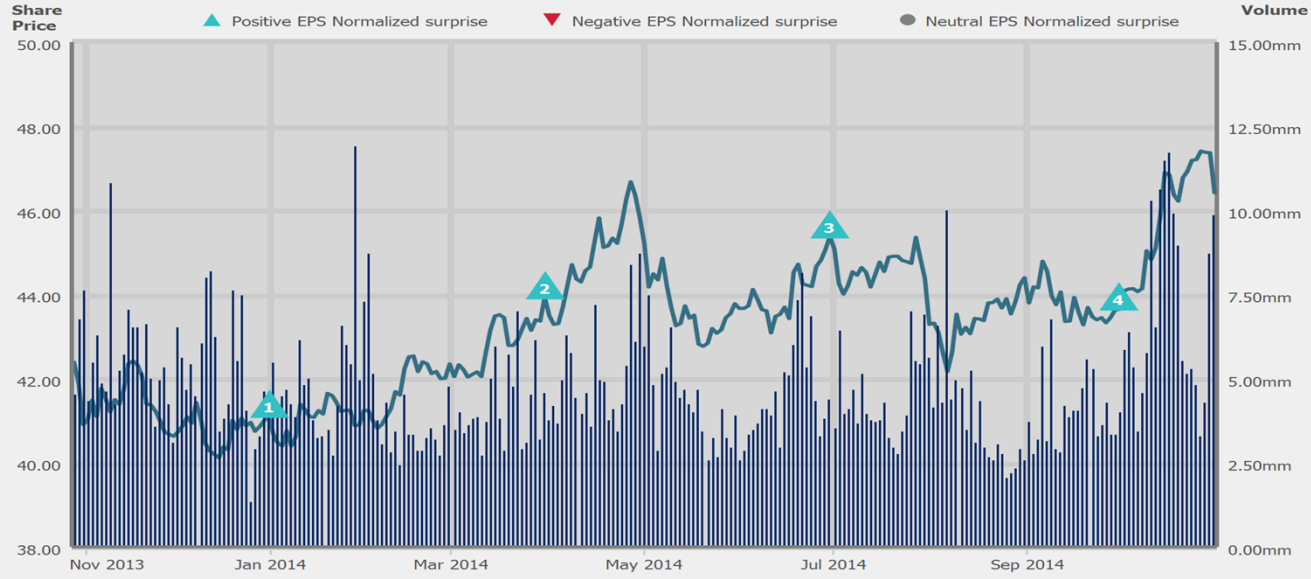
FQ3 2014 Earnings Call Transcripts

Wednesday, October 29, 2014 5:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2014-			-FQ4 2014-	-FY 2014-	-FY 2015-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.07	1.09	▲1.87	0.39	2.82	2.87
Revenue (mm)	5451.92	5339.00	▼(2.07 %)	4018.31	18167.70	18650.96

Currency: USD
Consensus as of Oct-29-2014 4:03 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2013	0.46	0.48	1 4.35 %
FQ1 2014	0.56	0.66	2 17.86 %
FQ2 2014	0.66	0.68	3 3.03 %
FQ3 2014	1.07	1.09	4 1.87 %

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Presentation

Operator

Good afternoon. My name is Scott, and I will be the conference operator today. At this time, I would like to welcome everyone to the Southern Company Third Quarter 2014 Earnings Call. [Operator Instructions] And as a reminder, this conference is being recorded Wednesday, October 29, 2014.

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

Daniel S. Tucker
Former Senior VP & Treasurer

Thank you, Scott, and welcome, everyone, to Southern Company's Third 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 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

Good afternoon, and thank you for joining us. 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 Kemper County and Plant Vogtle.

First, an update on the Kemper County IGCC project. Last night, we filed our latest 8-K and monthly PSC report for the project, which reflect a quarterly increase in cash costs of $418 million, consistent with an in-service date in the first half of 2016. As you recall, the 8-K we filed approximately 1 month ago reflected $88 million in increased non-schedule-related costs and indicated that the schedule was likely to be extended into late 2015 pending a review by the project team. Since that time, the project team has worked through their latest cost analysis and identified additional non-schedule-related costs of $20 million for a total of $108 million. The remaining cost increases totaling $310 million can all be attributed to the extension of the schedule by 10 months. We currently estimate that each additional month will cost $20 million to $30 million, and our increased forecast assumes the high end of that estimate.

As a reminder, major construction is essentially complete and the combined cycle portion of the plant has been in service since early August. It's been performing extremely well, running at a capacity factor of 80% and has an Equivalent Forced Outage Rate or EFOR of less than 1%. That compares to an industry average for combined cycles of closer to 4%.

With a combined cycle producing energy for customers, it's important to note that the schedule extension we have disclosed is for the gasifier and the gas clean-up systems of the facility. These 2 complex systems are key long-term value drivers for customers as the ability to utilize Mississippi lignite, along with the capture and sale of byproducts like CO2, are both key to delivering reliable, low-cost energy to customers for years to come.

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With this long-term value in mind, the project team has recommended, and we have agreed, to adopt a more methodical approach to operator training, control system design, start-up activity and integration of the gasifier and gas clean-up systems.

I'm proud of the work that has been done at Kemper. There is a very clear distinction between the outstanding quality of work on site and our frustrating difficulties thus far with accurately forecasting cost and schedule. We will continue to work diligently towards the successful completion of this project. And once we get past start-up and integration, which no doubt will include many challenges, we expect this facility to benefit Mississippi Power customers in a safe and reliable manner for decades to come.

Meanwhile, progress continues towards in-service dates for Plant Vogtle units 3 and 4. Our most recent major milestone was the setting of the CA-O5 module for Unit 3. This module provides structural [ph] support and also serves as a safety barrier within the containment vessel. The 50-foot tall lower ring of the containment vessel has also been set in Unit 3.

While the critical path and with it most of the external focus has been on the Unit 3 nuclear island, the progress around the remainder of the site is noteworthy as well. For example, the Unit 3 cooling tower is now more than 500 feet tall with less than 100 feet remaining to build. We have also made significant progress on the Unit 3 annex building, which is critical for the initial energization and testing of the plant's electrical component.

Meanwhile, at Unit 4, the first concreted support inside the containment vessel, and we've completed the foundation for the 500-kilovolt transmission switch yard that will serve the entire site.

Upcoming near-term milestones for Unit 3 include the reaching of elevation 100 in the nuclear island, bringing the initial shield building modules to ground level where they will serve as the foundation for the remainder of the shield building. We also expect to see Unit 3 cooling tower completed before year-end. The CA-01 module, which is scheduled to be placed during the first quarter of 2015, is the largest structural module to be placed in the nuclear island and will house the unit's steam generators.

Unit 4 also has several upcoming milestones, including structural module CA-04 and CB-65. Fabrication of CA-20 modules for Unit 4 is currently under way with on-site assembly expected to begin in the next few months.

As you know, the latest Vogtle Construction Monitoring Report was filed in late August. More recently, Georgia Power filed its direct testimony in support of the VCM 11 filing. Hearings are scheduled to begin November 5 with the commission voting next February.

Obviously, a project of this magnitude comes with many challenges. Including among these is the ongoing pressure on the construction schedule, which we believe is still achievable. We will continue to work through issues on a daily basis and are very pleased with how the project has proceeded thus far.

Through the combination of diligent oversight and quality assurance efforts, our fixed and firm EPC contract and a robust regulatory process, we believe we are well positioned for success with this project going forward.

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

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Thanks, Tom. For the third quarter of 2014, we earned $0.80 per share compared to $0.97 per share in the third quarter of 2013, a decrease of $0.17 per share.

For the 9 months ended September 30, 2014, we earned $1.88 per share compared to $1.41 per share for the same period in 2013, an increase of $0.47 per share.

Earnings for the 3 and 9 months ended September 30, 2014, include an after-tax -- include after-tax charges of $258 million or $0.29 per share and $493 million or $0.55 per share, respectively, related to increased cost estimates for the construction of Mississippi Power's Kemper County project.

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Earnings for the 3 and 9 months ended September 30, 2013, include after-tax charges of $93 million or $0.11 per share and $704 million or $0.81 per share, respectively, related to the Kemper County project.

Earnings for the first 9 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 third quarter of 2014 were $1.09 per share compared with $1.08 per share for the third quarter of 2013, an increase of $0.01 per share.

Earnings for the 9 months ended September 30, 2014, excluding these items, were $2.43 per share compared with $2.24 per share for the same period in 2013, an increase of $0.19 per share.

A primary driver for our 2014 third quarter results was more normal weather compared to the same period in 2013, resulting in an increase of $0.06 per share on a quarter-over-quarter basis. Third quarter 2014 earnings also benefited from retail revenue effects at our traditional operating companies as well as increased industrial sales and residential customer growth. Revenue increases were largely offset 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 and sales growth in our region reflect a recovering economy. And for the remainder of this year, we anticipate continued improvement with expected quarter-over-quarter GDP growth of 3% for both the third and fourth quarters of 2014. Despite recent volatility, consumer confidence has improved more than 10 points since 2013. Residential building permits are 11% higher for the first 9 months of 2014 compared to the same period in 2013, and initial unemployment claims are now close to prerecession levels. Additionally, the monthly U.S. economic policy uncertainty index is trending toward prerecession levels.

In summary, the economy is recovering but still considered fragile and subject to event risk. This economic data is reflected in our sales results. Industrial sales were up nearly 5% in the third quarter of 2014 compared with the third quarter of 2013 with expansion across all major segments. For the first 9 months of 2014, 6 of our top 10 industrial segments show sales above prerecession levels, while our housing-related segments are recovering strongly but remain below their prerecession marks. Segments with the strongest growth include primary metals, up 12%; transportation, up 7%; and housing-related segments of stone, clay and glass and lumber, up 7% and 6%, respectively.

Expectations for continued strength in the industrial segment are upbeat. This is supported by an expanding ISM Manufacturing Index, which indicates increasing levels of employment, production inventory, new orders and supplier deliveries. Also, our surveys of top industrial customers continue to indicate that a majority expect continuing strong product demand from their customers for the next 6 months.

Meanwhile, weather-normal residential and commercial sales remain relatively flat in the third quarter of 2014 compared to the third quarter of 2013. Residential customer growth continues to recover with Southern Company reporting positive customer additions during the third quarter 2014. For the first 9 months of 2014, we have added more than 21,000 new residential customers, about 4,000 more than expected. However, weak household income growth continues to challenge growth in customer usage.

We continue to see evidence of strong economic development activity within our region. One recent example is the announcement of the new Army Cyber Command headquarters at Fort Gordon near Augusta, Georgia, consolidating U.S. Army cyber security functions for the first time and bringing nearly 4,000 jobs to East Georgia.

And just this morning, the Navy Federal Credit Union announced it will be adding 5,000 new jobs in Pensacola, Florida. These are in addition to the 2,000 new jobs announced in May of this year. The first 2,000 jobs will be in place by 2016, and the additional 5,000 are expected to be in place by the early 2020s.

Other economic development announcements include a tractor manufacturer adding 650 jobs to an existing facility in Hall County, Georgia; a carpet manufacturing facility expansion that will bring 350

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jobs to Cartersville, Georgia; and a new medical research and development facility bringing 300 jobs to Metro Atlanta. So overall, our economic development pipeline remains robust and on a positive long-term trajectory.

Now turning to our fourth quarter estimate and EPS guidance for 2014. Our fourth quarter estimate is $0.37 per share. This implies a year-end result of $2.80 per share, excluding charges related to Kemper, which is at the very top of our annual guidance range of $2.72 to $2.80 per share. Included in our fourth quarter estimate is the initial earnings impact of the Solar Gen 2 project recently announced by Southern Power. This transaction with First Solar will increase the size of Southern Power's growing solar portfolio by almost 30%. The 150-megawatt project, which will be 51% owned by Southern Power and used to serve a 25-year purchase power agreement with San Diego Gas & Electric, is expected to be completed in December of this year.

In addition to the Solar Gen 2 project, Southern Power also completed a transaction to purchase 90% of the 50-megawatt Macho Springs Solar Facility in New Mexico earlier this year and recently purchased options to acquire development rights to approximately 100 megawatts of utility-scale projects associated with Georgia Power's Advanced Solar Initiative.

As you know, we previously provided a forecast of placeholder CapEx for Southern Power of $1.4 billion over the 3-year period 2014 to 2016. With the projects we had either already completed or for which we have options to purchase, we have already utilized about $1 billion of that estimate. Given our recent successes in the solar power market and the availability of additional projects, we will reassess our placeholder forecast for Southern Power in conjunction with our fourth quarter 2014 earnings call in February of next year.

One final note. We do not anticipate issuing additional new equity beyond what we had planned to issue even with the recognition of additional costs for the extension of schedule at Kemper County. We will continue to assess on a consolidated basis the level of equity capital needed to maintain our financial integrity. This will be a function of many factors, including potential changes to our CapEx forecast and potential extension of bonus depreciation.

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

Thomas A. Fanning
Chairman, President & CEO

Thanks, Art. As Art indicated, we are having great success with solar power. In fact, Southern Power's accomplishments are only one example of our growing reputation as a national leader in the development of solar resources. Notably, in Georgia, in addition to the approval of Georgia Power's Advanced Solar Initiative, the Georgia Public Service Commission recently approved 3 rate-based solar projects totaling approximately 90 megawatts at forts Benning, Stewart and Gordon. These projects are expected to be the largest solar generation facilities operating on any U.S. military base.

In addition, the commission recognized a memorandum of understanding between Georgia Power and the U.S. Navy to build a 30-megawatt solar facility at Kings Bay submarine base near St. Marys, Georgia. Final approval of this project is expected soon.

In recognition of these initiatives, which could increase Georgia Power's solar resources to nearly 900 megawatts by 2016, Georgia Power was recently named the 2014 Investor-Owned Utility of the Year by the Solar Electric Power Association.

Renewable energy is just one component of our commitment to build the nation's only truly diversified generation portfolio, one that makes use of new nuclear, 21st century coal, natural gas, renewables and energy efficiency. Our ability to balance fuel diversity benefits customers directly by helping keep prices well below the national average. Add to that our industry-leading reliability, as evidenced by our 2014 summer peak season EFOR of 1.6% compared to the most recent 5-year national average of around 9%. Likewise, our transmission and distribution businesses have performed superbly with our rate of service interruptions and the duration of those interruptions at historically low levels. As a result, it's no wonder

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our 4 traditional franchise utilities scored the 4 highest customer satisfaction ratings among national peer utilities this year as measured by our annual customer value benchmark survey.

I am intensely focused, as is the entire management team here at Southern, on start-up activities at Kemper County. Despite those challenges, the Southern Company franchise is in as good a shape as it has ever been. Our customer-focused business model, with its emphasis on outstanding reliability, exceptional customer service and prices well below the national average, remains the cornerstone of our business and a key driver of long-term value to Southern Company's shareholders.
We're now ready to take your questions. So operator, we'll now take the first question.

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Question and Answer

Operator

[Operator Instructions] And our first question is from the line of Greg Gordon with ISI Group.

Gregory Harmon Gordon
ISI Group Inc., Research Division

So can I talk about -- can we talk about the CapEx forecast a bit?

Thomas A. Fanning
Chairman, President & CEO

Sure.

Gregory Harmon Gordon
ISI Group Inc., Research Division

So on 2 fronts. One, on Southern Power, you've indicated you're doing really well finding opportunities to put that placeholder capital to work, a lot of it in solar, and that you're going to reassess whether there's an opportunity to spend more basically. Do you see a big enough opportunity that -- to put capital to work at a good enough return that it could move you outside of the 3% to 4% earnings guidance range that you've laid out for people for '14 to '16? Or is it sort of -- it pushes you around inside that range?

Thomas A. Fanning
Chairman, President & CEO

Let's carry that conversation next February. I'm a little hesitant to get into kind of revising the forward forecast. Let's just say that we've had a better-than-expected rate of success in solar so far using up all of our kind of allocation for CapEx there in solar, and I think the presumption is that there is opportunities to do more. With respect to the long-term forecast, we'll handle that in February, if that's okay.

Gregory Harmon Gordon
ISI Group Inc., Research Division

Okay. Let me ask the question a little differently then. The assumption inside the current guidance was that you'd spend the $1.4 billion...

Thomas A. Fanning
Chairman, President & CEO

That's right.

Gregory Harmon Gordon
ISI Group Inc., Research Division

And earn some sort of reasonable return on that capital. Is that fair?

Thomas A. Fanning
Chairman, President & CEO

Yes.

Gregory Harmon Gordon
ISI Group Inc., Research Division

Okay. And my second question goes to everything you're seeing on the economic development front. Seems like things are going really well. The industrial load for -- has been great. At what point do you reassess your 2015, '16, '17, '18 kind of CapEx forecast in light of any sort of upside changes in the

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economic forecast? Or do you think that you -- your current cash is sort of insufficient to have the infrastructure you need to keep up with the way the economy is ramping?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. I think I got it, Greg. And as we look forward, I think you're talking about new capacity additions, I assume, beyond what we have?

Gregory Harmon Gordon
ISI Group Inc., Research Division

Yes, or increased distribution spending to -- because of housing formation. You name it.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, there'll be some minor effects there. But new generation is still in the mid-2020s, at least under the current economic forecast that we have. So it would be on the likes of more distribution growth to serve some of these customers, maybe some transmission. But it wouldn't be a lot, at least under the current forecast.

Thomas A. Fanning
Chairman, President & CEO

Yes, Greg, the other thing I would just add, there is an enormous swing variable, and that deals with where EPA is going to come out with this carbon rule, 111(b). By their own calculation, this is EPA's own calculation, not ours, they would have us projected to build over 5,000 megawatts of combined cycles by 2020. Now I don't think that's a practical assumption not only given the lead times required to build combined cycles plus considering the state of natural gas infrastructure in the Southeast. So my sense is these things are going to have to be a bit more fluid than what EPA is assuming. But depending on how that rule turns out, you could see a swing in CapEx also.

Operator

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

Daniel L. Eggers
Crédit Suisse AG, Research Division

Just Tom, I just want to make sure I didn't -- I'm not reading too much into your comment on Vogtle. But you made a comment about ongoing pressure in the construction cycle, but you guys thought still manageable. Did I, a, hear that correctly? And can you just maybe give a little more color on what's going on that's putting some pressure on timelines?

Thomas A. Fanning
Chairman, President & CEO

Yes, and I guess it's out there. SCANA has had some announcements about schedule and cost and all that, and we have not. I think that's an obvious kind of conclusion people will make. I would just point to the fact, without commenting on SCANA's situation, that we have a different site, a different state of construction and, certainly, a different contract. Our contract is essentially a fixed-price turnkey arrangement. And while there is always challenges with respect to cost and schedule, I think, given the commercial status of our contract with the consortium, we have been assured by consortium personnel that in fact we can meet the schedule. It's always a challenge. It's subject to change. But we believe, as we sit here right now, that we can go in service Unit 3 at the end of '17 and in service Unit 4 at the end of '18.

Daniel L. Eggers
Crédit Suisse AG, Research Division

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And then I guess just kind of against the Kemper rule of thumb of the $20 million to $30 million a month for the delays, would that not apply in the Vogtle situation because of the contract you guys have in place? Of course, they can't do that, I guess.

Thomas A. Fanning
Chairman, President & CEO

No. there are -- if there were a scheduled delay, there would be owner's costs, potentially overhead cost with our own oversight. But certainly, the costs involved with housing workers and whatever other time-related costs would really be for the account of the consortium.

Daniel L. Eggers
Crédit Suisse AG, Research Division

Okay. And then I guess just one last question. On the solar development, we've talked to you about the YieldCos before. But can you explain where you guys are taking advantage to win some of these projects rather the development[ph] of the YieldCo. You seemingly have reasonably low cost of capital at this point?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, Dan, this is Art. We feel like we've got a lot of the relationships with the developers out there. We've done a lot of projects with the likes of First Solar. The one thing they know is when they do a deal with us, that we're going to be able to close and we're going to be able to do it in an efficient manner. We have access to low-cost capital with decent credit ratings. So we still feel like we can be competitive. This recent transaction that we did with First Solar was a little different than some of the others. We basically bought not only 51% of the operating asset but basically the vast majority of the tax benefits. So we're finding different ways to get deals done, and this was a -- what we thought would be a win-win for both Southern Power and for First Solar and we think that both parties are pretty happy with.

Thomas A. Fanning
Chairman, President & CEO

The other thing I'll just add here, too, is you know that we have been very careful about not overextending on our tax appetite. We have found ourselves in a substantial carryforward position. It's -- we've always kind of been very careful about tax advantaged investing. I think given that we do have a tax appetite and that we have a strategic kind of reason for being in this space, it gives us a very nice niche in this market that seems to be evolving. And I think we tend to be a pretty attractive partner for that reason and all the reasons Art just mentioned. So my sense is there will be some more opportunities ahead.

Daniel L. Eggers
Crédit Suisse AG, Research Division

So the kind of the $1.2 billion of CapEx you were able to spend with the tax credits coming back to you without -- with bonus depreciation, would that affect your ability to monetize some of those benefits if you think about perpetuating this level of investment? Or can you manage bonus and these tax credits?

Thomas A. Fanning
Chairman, President & CEO

Well, one can only say what's going to happen with bonus. It'll move things slightly through time. But even if you get some enormous sense of new tax benefits, it won't move us but a year or so. So yes, does that shift your IRR curve? Sure, but it's not in a substantial way, nothing like multiple years of carryforward.

Operator

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

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James Darrell von Riesemann
CRT Capital Group LLC, Research Division

A question for you. Actually a couple of questions. The first one is on the fourth quarter earnings estimate. Can you remind us what would drive the $0.11 decline year-over-year?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, if you go back and look at our fourth quarter earnings from, say, 2010 forward, there's a pretty good variability in our level of earnings in the fourth quarter, and it's subject to where we are at the end of the third. And that's true this year. We plan on making up for what has year-to-date been an underspending of our non-fuel O&M. And as you know, we traditionally do that in the last half of the year. And in this case, a lot of it will be done in the fourth quarter. So that is the main driver in the reduction in year-over-year earnings from 2013 in the fourth quarter to 2014 in the fourth quarter.

Thomas A. Fanning
Chairman, President & CEO

I think we did a presentation at one of the investor conferences where we were able to show that over the past 10 years or so, we've hit our range 100% of the time. We can't ever guarantee that going forward, but that is our past history. You know that for a long time we have had a practice of being able to structure our O&M spending in such a way that we essentially account for, through optionality, variability in weather and for a reasonable variability in economics sales forecast coming to fruition, et cetera. My sense is we'll continue that practice of managing in the fourth quarter here.

James Darrell von Riesemann
CRT Capital Group LLC, Research Division

Okay. And second question is on the dividend. A lot of folks are raising their dividend more than historical rates, and I just wanted to get a sense, Tom, as to what you're thinking about the dividend, especially as it relates to a GAAP payout ratio going forward.

Thomas A. Fanning
Chairman, President & CEO

So we've been very consistent with this. One of the Southern mantras here is regular, predictable, sustainable increases in earnings per share, which provides a regular, predictable, sustainable increases in dividends per share. For a long time now, we've been on a $0.07 per year increase in the dividends per share rate. While this ultimately is the decision of the Southern Company Board, management is in a position where we believe very strongly we'll be able to continue that trajectory for years to come.

James Darrell von Riesemann
CRT Capital Group LLC, Research Division

Okay. Just double-checking.

Operator

And our next question is from Jonathan Arnold with Deutsche Bank.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

Can I just ask you to maybe clarify the -- how the accounting will work on the solar deal in the fourth quarter and perhaps quantify what the impact on the quarter is?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. Jonathan, this is Art. Basically, the Solar Gen 2 project will, I believe, provide about $30 million of net income on its own and -- or so. And then there are some other year-over-year effects that will mitigate

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that number somewhat for Southern Power, along with the other expenses at Southern that I talked about on the earlier call that will get us to our 2 37[ph] estimate. But we can give you more detail on that if you like off-line, Jonathan. But basically, it'll be 51%. The cash flows will go to us, and we'll get the vast majority of the investment tax credit.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

And -- but you'll -- and in terms of timing of how that gets booked, is that all being booked in Q4? Or [indiscernible]...

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

That's why -- yes, that's our expectation.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

Okay. So the ongoing number will be less, but the $30 million is the right number to use in the quarter?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

That's approximately correct. But there are lots of details in there around basis differences and how much ITC. So we can give you more detail on that.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

Okay. And then a second topic. I was just curious on the -- can you give us -- shed a bit more light, Tom, maybe on what -- you said that the project managers have sort of recommended, and you have agreed, that you should sort of be more methodical about how you work through start-up. So in practice, what is -- even if this is obviously a significant delay and a large number, what -- can you give us some more color as to what exactly you're going to do differently and how you've arrived at that determination?

Thomas A. Fanning
Chairman, President & CEO

Sure. And I just want to tell all -- you all investors of Southern I'll bet you I'm more frustrated than you are and I certainly empathize with any of you that are frustrated. I can tell you that we have had very direct, candid, tough conversations with the team on executing on this. What the more methodical approach deals with is essentially an extended schedule that relates to training. Recall not only is this an electric project, but it is a chemical and gas process project. There is specialized training. And given that this is a first-of-a-kind technology, we're doing kind of a more methodical approach to moving people through all facets of any kind of operational requirements with respect to running this plant. The second, we talked about a lot over time -- and that deals with recall -- remember about how complex the integration of this project is, and we often use kind of the example of in order to get a combined cycle plant to work, you need to integrate 3 systems. This plant has 13 systems. One of the efforts that we are spending a lot of time on in order to do it well is essentially the digital control equipment and a simulator associated with that. And so as you would think about the challenges involved in integrating these 13 processes, we are following that through on the simulator as well and that also extends to training so that when we get the digital control equipment exactly the way we want it and the simulator the way we want it and the training the way we want it, we will have moved people through, again, an extended process whereby when we reach the intended in-service date, we're ready to go. And I would point to -- when we turned on the combined cycle, it has worked beautifully. Did we have to fine-tune it a bit? Yes. But overall, when you look at the performance of that part of the plant, it's fantastic. And when we've looked at whatever we've completed on construction and the pressure testing we've done so far and everything else, the plant has performed well. Our intention is to do start-up so that at the end of the day, this plant operates as well as it can when we put it into service. The final piece of all of this is adding a little more

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time into the start-up processes, the packages, the turnover packages, the execution of the checkout of the systems. The analog to this in the nuclear world would be the I-tags [ph]. In other words, as we go through the various turning on the various systems before we get them all to run together, just being very kind of methodical there also, allowing more time. So I guess what I'm saying is, when you consider training all personnel in all facets of this plant, when you consider the integration of the digitized systems and the simulator, when you consider the time involved in going through the start-up processes of all the segments, we have added more time in there. We've had a lot of tough discussions about this. Like I say, I'm frustrated with it. I think this is the best of our judgment. I think this approach is painful in the short term, but I think it gives us the best long-term result that will demonstrate the value of this technology.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

So I'm just following up on one thing you just said. It seems you might be suggesting that you don't really kind of have the training protocols established to your satisfaction yet. So it's -- you got to do that and then implement the training? Or is it just -- am I understanding that right?

Thomas A. Fanning
Chairman, President & CEO

No, it's -- here's the deal. In this world, it's called PSM, okay? It's called Process Safety Management. And that involves when you basically -- it's a regime under which procedures have to be followed when you turn the plant on and introduce syngas live into the turbines. That is a whole new regime. There are no bright white lines about how you must operate. And I think we have brought in a lot of external consultants here, people that worked with Chevron, people that worked with BP and other places. And I would say here again, our approach, rather than trying to push something that might qualify, we are taking more time to do more in terms of training so that everybody is essentially up to speed on all facets of the plant. For example, one thing you could do is just train certain people on certain aspects of the plant. We're taking this methodical approach to make sure that we have the best kind of a foundation for a safe, reliable operation once we go in service.

Operator

And our next question is from Paul Ridzon with KeyBanc.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

Art, you indicated that despite the latest Kemper write-off, you don't think you need to backfill equities to protect the balance sheet. Kind of where are you finding that upside?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, we -- and as I said in the call or in the script, we continue to look at it on a consolidated basis. We -- as you know, we had contemplated issuing $600 million of equity this year. We're on very -- we're on track to do that. We may in fact issue just a hair more than that this year, but we'll see. So at the end of this year, we should be in fine shape. And as we move forward, it's going to be a function of our need for capital, which is also a function of our CapEx, is also a function of accelerated depreciation opportunities and those things. So it's difficult for me to sit here and a bit premature to say I'll need x amount of equity in order to do this.

Thomas A. Fanning
Chairman, President & CEO

But based on our plans, we had assumed no new issuances of equity in '15 and '16. When we look at the plans that we have in place, we already had, shall we say, placeholders, room for additional problems elsewhere, for example, at Kemper or somewhere else. What we're seeing at Kemper fits within those thresholds. And within those thresholds, we don't believe we need to issue new equity. And what Art is referring to is one of the big swings that I would see, is what if Southern Power had lots more opportunity

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that could give rise, depending on when tax law changes, that could give rise. But we already had contemplated. We had placeholders, room, so that the kind of equity issuances we've talked about and really turning off equity was already provided for. We're well within where we think we need to be from an equity capitalization standpoint. The last thing I'll just mention here, when you look at our profile in terms of reducing CapEx compared to our rather immense invested capital base, we start throwing off cash flow. And one of the things we've suggested in the past still is in front of it as an option, and that is reducing our equity capitalization as a percent. So my sense is we have room.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

So you're just kind of eating the headroom that you've built in conservatively?

Thomas A. Fanning
Chairman, President & CEO

It's the way we planned.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

And things continue to evolve. So we'll evaluate that, and we'll assess it as we move through time.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

I'm kind of going out on a limb here. Given your conservative D&A, would you guys ever think of an alternative financial structure like a YieldCo?

Thomas A. Fanning
Chairman, President & CEO

Boy, I did a -- at one of the recent conferences, I did a presentation on YieldCos, and I don't think they make sense for Southern. If you're interested in the -- something other than a Reader's Digest version, I'd be glad to give it to you. I don't think they make sense for us.

Operator

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

Michael Weinstein
UBS Investment Bank, Research Division

Just on -- a lot of my questions are already answered, so I just wanted to follow-up on the throwing off of cash flow. You're saying that, that might also be Vogtle and Kemper together, potentially be cash flow producers so that you might be able to withstand a little more of lower equity ratio until they do. Is that basically what you're saying?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

That's correct. They would be after those are operational and then we start depreciating those assets, it's going to be throwing off a lot of cash.

Michael Weinstein
UBS Investment Bank, Research Division

Okay. And also is there any consideration of other than solar in Southern Power's, which is biomass opportunities or any other opportunities, and other forms of renewable energy that you might be...

Thomas A. Fanning
Chairman, President & CEO

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Yes, sure. One that we've looked at in the past, this was all way back to my time as CFO, those of you who had been around that long may remember, we used to have a placeholder in the plant for like $250 million of wind, and we used to push around in all the different wind deals. The reason we've always been bullish on solar is it had direct application into our service territory. And so therefore, we love especially PV solar, we weren't really bullish on thermal solar. When we thought about when, especially looking at the portfolios in that timeframe, we were of the opinion that the risk return profile really didn't fit us, given some of the technology challenges and some of the other challenges that industry was facing. What we're seeing now is a more mature technology, certainly in terms of technology, it seems like there's 2 or 3 kind of really mature ways to harvest wind energy. And recall also that wind doesn't make sense really in the Southeast, except for maybe offshore. We don't have the climatology. So my comment on wind as a potential would be that I think we're finding that area to be a bit more suitable, and we would most likely do it other than the Southeast. So that's something we could do. We're very happy with our biomass deal in Nacogdoches, Texas. That was the largest bubbling bed technology in North America. And I guess that's the biggest in the world, that was the biggest biomass plant in North America when it was built. And unlike Kemper, we built that on time, on schedule, and it's worked beautifully. To the extent there are other biomass facilities available, we'll certainly look at that. They come and go on our project development list given all the environmental issues. It's kind of hard to get those done, but we certainly would consider that. And let me just leave you with all this discussion about renewables. For us, gas is still a priority. We think we're the preeminent competitive generator in gas and we have just a terrific track record of executing there. So you know what? If EPA comes forward and they start requiring more shutdowns of coal and more gas to be built, we're going to be very well-positioned to help execute in that regime.

Michael Weinstein
UBS Investment Bank, Research Division

Do you have any kind of estimate as to what the timeline is for EPA at this point, like where they stand on the issue?

Thomas A. Fanning
Chairman, President & CEO

You know that, I guess, yesterday there was kind of a new alert out that they were willing to rethink some of the points of their proposed rule. But what I understand right now, and this is very premature, we're just kind of understanding what's in that latest update, is that they're going to try and maintain the same schedule of responses and final rule-making. So my sense is you're going to see responses by around December 1, and you're going to see a final rule in next summer.

Operator

And we have a question from the line of Michael Lapides with Goldman Sachs.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Two questions for you. One, can you give a little insight, it's been a couple of quarters now in terms of the big spread between what you're seeing in weather-normalized industrial demand versus what you're seeing in weather-normalized commercial and residential demand? That's one question. Second question, totally unrelated. Can you give an update at all on the litigation between you and the consortium members regarding some of the, I think, it was like $900 million or so of potential cost related to Vogtle?

Thomas A. Fanning
Chairman, President & CEO

Yes. You know what I'm going to do, I'm going to give you a top answer on the first one, and I'm going to let Art dive into more detail there. The second one on the litigation, I think I can hit pretty easily, and I don't mean to sound glib here, but there's just nothing much to report. We continue to have very productive discussions. We meet with Phil Asherman and Danny Roderick and members of Toshiba regularly. There are courtroom meetings. We get along, we solve problems. But you know, there is kind of 2 ways to think about how those discussions occur. One is between us and the consortium. The other

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is within the consortium they have obligations. And so it's not just as simple as us and them, it's them and them. That's about all I can say on that. There's always been a big difference in weather between industrial and residential and commercial. Industrial sales just aren't very weather-sensitive. Certainly, the residential and commercial are. Art, do you want to give more color there?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, Michael, as I said in the script, a lot of it's driven by household income and the lack of growth in household income. If you look at the split of residential between growth in customers and growth in usage, growth in customers was actually positive 0.7%, I think, on a year-to-date basis, and growth in usage has been a negative 0.6%. So I mean, we are flat. So that's an indication that our people are sitting at -- in their kitchens trying to make decisions on how to make the budgets work, and so we're feeling the effects of some of that. I think you're also seeing that through say it at Walmart. Walmart lowered their sales forecast growth for the same reason. Another factor to think about on the residential side, when we look at new customer additions, about 35% of our new customer additions are in multifamily homes rather than single-family homes. Our existing customer base is about 20% multifamily. So multifamily additions use about 70% of the energy of a single-family home. So that could be another factor. So because we add a new customer, it doesn't mean that they're all the same. And these are factors that we have to think about as we move forward and try to predict where sales are going to be.

Thomas A. Fanning
Chairman, President & CEO

I gave some comments on this, I have in the past, on some [ph] thoughts, I did this morning just a bit, in that very kind of interesting exchange with Joe Kiernan, but we -- I think the Fed and economists all over have overshot where we thought we would be on GDP recovery. I think it's because you have a bit, a bit of a false signal, a false positive on improving unemployment when you consider the jobs that they're getting there, that are getting filled are lower paying service-related jobs compared to the past, when you consider more part-time labor accounted for, when you consider disaffected workers, household incomes are generally flat. And that's what we've got to look to. The people that are having flat incomes, that are making tough kitchen table economic decisions, as Art said, aren't spending money. And I think they have this kind of psychological issue of dealing with the recent recession, and something that I don't think is all bad is savings rates are up. So people are consuming less. I don't think that's all that. We don't need an economy and people's incomes living on the edge. I actually kind of -- I'm okay with where we are on that. But that seems to be, I think, in my opinion, a more important statistic than household incomes than say unemployment.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

And Michael, yes, I was going to comment on the commercial end unless you want to ask a different question.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

No, that's exactly where I was going.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Okay. The commercial side, it's still flat to slightly negative. If you do the splits there, customer growth is up, but usage is down. And so what we see in Georgia, particularly around Atlanta, is there was an overbuilt market, especially in the retail side, and especially in the office side. And it's a little different. The perimeter is doing great, but the Center City, there's lots of vacancy. So it's a different story depending on where you go. But the other thing on the retail side is what I call the amazon.com effect is the fact that more shipments are being made by mail and by the Internet. I think they doubled since 2009. And so you're seeing that effect on the vacancy issues around the retail space.

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Thomas A. Fanning
Chairman, President & CEO

When Art said perimeter, he's referring to a highway that runs in a ring essentially around Atlanta. It's about 60 mile-long highway around Atlanta. So that's where you're seeing some commercial growth rather than the internal kind of core part of the city.

Operator

And our next question is from the line of Mark Barnett with Morningstar Financial.

Mark Barnett
Morningstar Inc., Research Division

Just a couple of follow-up questions actually on that last point. I might have missed it, but when you talk about some of these factors that are underpinning the changes in retail and commercial -- residential and commercial demand, can you talk about maybe what your look-forward is for 2015? And I know you do a lot of work on your numbers and a final kind of demand, not expecting that kind of a number, but what you sort of see in your forecast and in your budgets up to this point, and how that's going to impact 2015 versus 2014 so far?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Again, it's going to be a function of the economy as it always is. And we don't want to get out in front of where we're going to be in February. We'll talk more robustly in February when we have our revised numbers. But if you go back to the 2014 forecast for '14 to '16, it was roughly a 1% growth, maybe a little stronger than that as you move through the year '16. But again, we redo that every year and we'll comment more on that in February about our new look. And without regard to the future, this year our plan was based up on 0.7% retail sales, and it's 1%. So we are reasonably above where we thought we'd be. So the question that we'll answer in February is what's our forward guess on that.

Mark Barnett
Morningstar Inc., Research Division

Okay. And just a quick one on Southern Power. Obviously, solar has been in the headlines and you've had some nice progress there so far this year. I'm just wondering, given where in generation economics have moved for a lot of people this year, have you seen any interesting gas projects that you'd be considering? Or is that sort of lower priority at this point?

Thomas A. Fanning
Chairman, President & CEO

Yes. We actually think there are some on the shelf. I want to kind of lay low on that, but you want to know a really good kind of target audience for us with respect to those projects are co-ops and municipal utilities. We have a great track record of serving them here in the Southeast. I would bet you 40 years ago, they were kind of the enemy. And now, they are great partners and they're wonderful people and we've gotten along great and produced, I think, really good business results for them and us. And I think our reputation is preceding us. And I think we have around the United States more prospects to do more such deals with other co-ops and munis in the United States away from the Southeast. So I think there will be some opportunity there. And I'll tell you something else. You know that outside the Southeast in the United States, they presume that we're in the so-called organized markets. Our business model will remain the same, long-term bilateral contracts, creditworthy counterparties, no fuel risk, no transmission risk. That's the way we like to do them.

Operator

Our next question is from the line of Stephen Byrd with Morgan Stanley.

Stephen Calder Byrd
Morgan Stanley, Research Division

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Most of my questions have been covered. I just wondered if we could discuss the Sanmen nuclear project in China and just generally interested in your thoughts on progress there, lessons learned for the U.S. or sort of as you look at execution risk in China, how's that project been going?

Thomas A. Fanning
Chairman, President & CEO

Well, you know we've had people did live in China that kind of work around that site and we have teams of people that regularly visit Sanmen to bring back those learnings. I would bet you, I don't know, I'd love to see what Buzz's opinion is here, something like I'll bet you 60% of what they do is applicable to what we do. Where we are different than them is in the degree of automation, particularly in welding practices. They tend to use a lot more manpower. We tend to use a lot more automation. And it's worked pretty well. We kind of believe that they're going to be in service some time late 2015, and as they commission that plant, that will be very helpful. The other thing that has been helpful to us is some -- they are dealing with some issues with the vendor, for example, the design of reactor coolant pumps. And I think as they resolve those problems, that will enure to our benefit.

Operator

And our next question is from Ali Agha with SunTrust.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Just a couple of questions. One, Art, can you remind us through the 9 months how much equity you've issued so far this year?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. We are right at $500 million through September 30.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Okay. If I heard you right, you may cross the $600 million by the time the year is over?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, but it's not going to be significant.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Okay. And then can you also remind us on a normalized basis, what's the O&M base we should be thinking about for you guys and the growth rate of that going forward?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, Ali, I think what we outlined for this year is that we'd be in the -- if you look at total Southern, we'd be just over $4 billion, and I think we're going to be very close to that number if we spend what we're going to spend. And as we move forward, I'd say a 3% growth rate, maybe 2%, maybe 3% to 3.5%. 2% of that would be, or 2%, 2.5% might be just core. And the other 1% would be related to environmental, environmental O&M as we start up all these environmental projects. That adds a different layer of O&M that we -- to the core now.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

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Okay. And my third question, can you remind us why was Southern Power down so significantly quarter-over-quarter in the third quarter? And then related to [indiscernible] Solar Gen 2 project, in the past I know Tom you've talked about the run rate of net income for Southern Power around the $170 million a year level. How should we now think of that with the portfolio changes going forward?

Thomas A. Fanning
Chairman, President & CEO

Yes, Ali, I think what I said, and we actually checked this in preparation of this call, I think I gave a range, didn't I? Of about $145 million to $175 million, somewhere around that. And I think we're going to end the year at the upper end of that range.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Okay. And why was it down?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, why was it down? It was benefited from solar revenues this year, additional plans and things versus last. But there was a particularly high depreciation expense related to new plants in service. There was a slight change in the methodology, went to a units-of-production method of depreciation that also caused some delta. And then we did some major outage work at one of our units where we had to really catch up on some accelerated retirements just due to the accounting issues related to that one particular plant. And that really drove a lot of expense into Q3 of this year versus last, and that's why it's down quarter-to-quarter.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Okay. And Tom, to be clear, are you suggesting that one call it 170, 175 run rate, is that a good run rate going forward as well? Or does that change with this solar Gen 2 and other activities that you've done there?

Thomas A. Fanning
Chairman, President & CEO

So if I recall kind of the forward curve, Southern Power in the near term, that's a decent run rate, kind of 160 to 170, something like that. It certainly picks up. What you have is kind of a filler. We have contracted capacity that picks up again in a certain timeframe. So at the end of the decade, it goes up into the 200s. But for now, I think it's a decent assumption, and certainly, we'll update you in February on that.

Operator

And we have a question from the line of Steven Fleishman with Wolfe Research.

David Jerome Malat
Wolfe Research, LLC

Yes. This is David Malat for Steve Fleishman. Just quick question, Tom. Going back to Vogtle, do you expect a -- is there a time -- a timeline for when you get a new schedule for post 2015?

Thomas A. Fanning
Chairman, President & CEO

Yes. It's under consideration right now. They're rebase-lining and what they're working hard on is -- see what you always kind of work on here is you have heard that they have had some challenges out of their Lake Charles facility. And so the consortium is working hard on mitigating whatever challenges that they see, certainly with respect to the schedule. And they're obligated to meet that schedule to us via the contract. So one of the things that we meet with them on when I say that Asherman and Roderick and the

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pertinent members of Toshiba get together, it is to give us the new schedule. Right now, they know that they have a commercial responsibility to fulfill. And so, we look forward to seeing how they're going to do that. So that's kind of it. I don't have a timeframe in which we will see a new schedule, but I can tell you that is a topic of current conversation.

Operator

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

Vedula Murti

Let's see, earlier during the call, you referenced your tax appetite. And I'm wondering if you can -- in the cumulative sense, give us sense what your cumulative tax appetite is and kind of like the options in which you are looking at in order to optimize that? And whether the optimization of that balance has been considered as part of your -- the forward views that you have provided us in the past.

Thomas A. Fanning
Chairman, President & CEO

Yes. When you say tax appetite, a lot of it varies on bonus depreciation or not, right? So the number is going to swing around a good bit. Absent kind of an extension of bonus depreciation, our number would imply an investment appetite of over $2.5 billion, okay. So to the extent you get bonus depreciation passed, it could subtract, in its current form, if we got current bonus depreciation, extend it again. It would probably take away about $1 billion of that over $2.5 billion number, and I'm being very general here, because there's a lot of uncertainty with respect to how these things will manifest themselves. But that would be a decent working number for you to think about.

Vedula Murti

And in terms of the way to utilize a lot of these tax hurdles, that usually, I think, you're implying earlier about taxable income creation or acquisition in order to optimize utilization of various renewable credits and those types of things. Can you expand a little bit on that, if I understood you probably, or how we should think about that?

Thomas A. Fanning
Chairman, President & CEO

I'm not sure, Vedula, I mean what that basically says is in normal circumstances, Southern Company as a taxpayer and our kind of cash tax rate, not our book taxes, but our cash tax rate is reasonably high. To the extent we get bonus depreciation or something else that serves to reduce our effective cash tax rate, I think right now, this year, I'm going to say our cash -- effective cash tax rate is around 7% or 8%. So there's still a little bit of headroom. It's those kinds of factors. So my sense is when you look at our normal business, we don't have significant tax deferral items in play. So letting the system run on its own, we become a full taxpayer. That gives rise to the $2.5 billion, $2.6 billion investment opportunity, given the extension of investment tax credit for solar and wind and everything else. To the extent that moves from a 30% number to a 10% ITC number, then your investment opportunity your appetite actually goes up. So there's a lot of swing here. What I've tried to do is outline what I like as caveman math. Under current circumstances, without an extension, you're somewhere in the $2.5 billion, $2.6 billion investment opportunity range. Obviously, that can swing.

Vedula Murti

And these are all cash items? This doesn't affect what we end up seeing on the GAAP financials. These are all cash flow items in terms of how these things swing, correct?

Thomas A. Fanning
Chairman, President & CEO

Well, in terms of calculating tax appetite, that's right. Ultimately, there is a booking comment impact such as Art described on Solar Gen 2.

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Vedula Murti

Okay. And if next week or whatever, with the elections if the Republicans get the Senate, particularly talking about bonus depreciation extension or whatever, if that comes to pass, given the folks you've talked to, what do you think is reasonable or feasible that could occur that's relevant to your business that you'd like?

Thomas A. Fanning
Chairman, President & CEO

Yes. That's just pure speculation. My sense is you're going to see some sort of extender Bill, whether the Democrats hold the Senate or whether the Republicans get it, whether it's a permanent, whether it's a 2 year, whether you'll extend out kind of the provisions related to wind and solar, in my sense is, whichever party gets the Senate, you're going to see something. That would be my guess. It just -- it may also depend on how comprehensive they want to go, and therefore, what the timing will be of the implementation of that.

Operator

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

Anthony Christopher Crowdell
Jefferies LLC, Research Division

I just wanted to hit on Kemper, 2 questions. One is, you kind of gave a risk of I guess the schedule each month the cost that shareholders could bear. I just want to know if there is any regulatory risk associated with I guess that 7 year settlement that, "hey, the gasifier is not in service," was that part of the settlement that had to be in service by a certain date? And the second question I guess is, when do we get through the forest[ph] here. Is there a point in the schedule where is it the gasifier goes online and that's when we could exhale? Or another point in time when we know that -- the write-offs are behind us?

Thomas A. Fanning
Chairman, President & CEO

Yes. It does not include anything for the settlement, the grant proposal we're working on. And certainly, there is risk in that. I can't say that there's not. What I can say about the settlement is again, we continue to have productive discussions, but I can't predict the outcome of those discussions. What was the other thing you wanted?

Anthony Christopher Crowdell
Jefferies LLC, Research Division

I want to know like. . .

Thomas A. Fanning
Chairman, President & CEO

Yes, when are we going to get first gas through the gasifier? When is that?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

That's scheduled until July of '15.

Thomas A. Fanning
Chairman, President & CEO

Summer of '15. That will be a big deal. What we'll provide you in EEI is essentially a chart that will lay out kind of 3 segments of risk. One is all the milestones that we need to accomplish before we get gas to the turbines and then kind of once we get gas to the turbines, what are the milestones following that. And like again, I think we're looking at summer of '15 for that event to occur. That's kind of what I would say in a broad sense. We'll have more detail for you, actually a handout, I think, in Dallas.

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Anthony Christopher Crowdell
Jefferies LLC, Research Division

How -- just lastly I guess with the gasifier and you think of that 7 year global settlement, how much of that I guess, what's in rate base or what is being recovered in rates is related to the gasifier?

Thomas A. Fanning
Chairman, President & CEO

Well, we have rates in place, an 18% increase associated with a $2.4 billion total capital investment that we earn on. There is securitization bond to take it to $2.88 billion. Those are all represented by rates. It's hard to say if you wanted to segment out what is currently part of the combined cycle, I would say something like $1 billion, $900 million to $1 billion, somewhere around there, of the $2.88 billion. Round numbers again.

Operator

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

Kit Konolige
BGC Partners, Inc., Research Division

Just thought a lot of my questions have been answered. I thought I'd inquire about your interest in the pipeline business. As you say, you burn a lot of gas in your power plants, utility and Southern Power and a couple of the big companies around you next year into Florida and Duke and Dominion, I've talked about the Atlantic coast pipeline. How do you look at the pipeline business as far as your forward book of business goes?

Thomas A. Fanning
Chairman, President & CEO

You bet. So it's interesting. We actually go through a process. It's pretty disciplined, pretty rigorous here, whenever we think about different companies or different lines of business, and frankly, we just covered this with our board a week ago in our off-site kind of strategy board meeting. And the way I tend to think about it is kind of the red, yellow, green chart. So green for us would be an integrated regulated electric utility with make, move and sell elements within that. Yellow to me would be things like a gas pipeline. It has kind of a similar risk return characteristic. It is not necessarily something we know and have -- in depth and that we have decades of experience with like we do with others, but it is certainly something we would consider. You're right. When people think about Southern Company, still run into it from time to time, people think we're a big coal company. We're still big, but rest assured that Southern Company, I think, is the third-largest consumer of natural gas in the United States. Gas is a part of our future, will become increasingly important. And so, therefore, it makes sense for us to consider gas-oriented investments along the way. So Kit, it's something we absolutely would consider.

Operator

And we have a follow-up question from the line of Greg Gordon with ISI Group.

Gregory Harmon Gordon
ISI Group Inc., Research Division

Tom, quick question for you, on Page 12 of your handout, you show that your Q3 gas combined cycle capacity factor's up to 76% versus 68%. Non-PRB Is up 44% versus 40%. And where do you see your capacity factor for gas in going to the fourth quarter? And where do you think you'll end up for the year, it's been quite a turnaround as natural gas prices have come down, right?

Thomas A. Fanning
Chairman, President & CEO

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Yes, it sure has. I mean, Greg, you're all over it. I think it just depends on kind of what the weather holds and everything else. But gee whiz, we're seeing sub $4 gas right now, and you're going to see pretty strong performance by our combined cycle fleet over time. At some time...

Gregory Harmon Gordon
ISI Group Inc., Research Division

You think you'll be at or above the 66% capacity factor you ended the year at -- last year at the rate you're currently running?

Thomas A. Fanning
Chairman, President & CEO

Pure gas, yes. Depends on a host of factors. But yes, if you've asked me to bet, I would bet.

Operator

And our next question is from the line of Andy Levi with Avon Capital.

Andrew Levi

Just to make sure, I think when you said this I didn't hear it correctly, kind of that stuff came out right, I think when it was being discussed. But what did you say about rebaselining and -- in the consortium? And did you say that you are expecting them to come back with some rebaselining? I guess...

Thomas A. Fanning
Chairman, President & CEO

Sure. The question I think, I forget who even asked that, somebody asked the right question and that is, in fact, the consortium SCANA talks about that they're coming back from us -- they're coming back to us with schedules that will meet our in-service date. And in talking with senior management, we believe that can be done. Now in order for that to be done, they have had a lack of performance, particularly in the Lake Charles facility. And so you're always in this position of mitigation, right? So to the extent Lake Charles hasn't performed the way you wanted it to, what they'll do is essentially farm business out as they have to Newport News, to make sure that we get the material and the documentation I think was pointed out appropriately in a suitable manner. So the consortium is working hard to mitigate whatever operational challenges they have. That has always been the case. We believe they can mitigate to the extent they preserve our in-service date. That's all that is. That's an ongoing process.

Andrew Levi

So I guess again from what I think you're saying is either you stay on schedule and costs to stay out of schedule could potentially go higher to stay on schedule or cost could kind of not go up as much and timeline would slip. Is that kind of the way to think about it?

Thomas A. Fanning
Chairman, President & CEO

Well, here's the way I would think about it. You get into -- they're going to provide us a schedule that mitigates any problems they have so that they can abide by the contract we have, which is essentially a fixed-price turnkey contract, okay. I wouldn't be surprised that they try to issue change orders to that effect. But whether or not we accept the change orders depends on what caused the delay or whatever. If it is their own performance, it's for their account. If it is because the NRC did something, which made them do something different, then that would be a change order that we would likely accept. Right now, we believe that they are down to deliver a plant in service and we believe they can deliver it, and we look forward to their -- meeting their obligations under the contract. And like I say, we have good constructive conversations with these folks.

Andrew Levi

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And when do you think we should -- you should hear from them and then us hear from you? Will that be in the fourth quarter? or would that be some time in 2015?

Thomas A. Fanning
Chairman, President & CEO

Again, we are having conversations with them right now, and I think the other thing I try to suggest, I hope I wasn't too obscure when I did it, I was talking about the consortium in respect of the commercial dispute. And I said, it isn't just between us and the consortium. There in effect is, in my words, I mean you know that there is a relationship, an inter-creditor agreement, whatever, there was a sharing agreement within the consortium, among them between Westinghouse and CBI overwritten by Toshiba. So to the extent there are commercial obligations that the consortium has to fulfill, they have to decide as partners how they're going to fulfill that, that really doesn't have anything to do with us. It's those issues which have to be worked out, which complicates the delivery to us of a fully mitigated schedule. We continue to work constructively on it, and we look forward to that happening in the next few months or so. I can't guarantee you a date in which we will get a fully mitigated schedule, but we're working on it.

Andrew Levi

Got it. And then just back on an earlier question as well, same subject matter, but kind of going back in time. So on the original dispute between Westinghouse, CBI and your group, what exactly is kind of going on there? Were there actually talks going on? Or is there an arbitrator? Or are we kind of just in the court stage that's going to take a while? Can you give us any update on that, because I guess CBI seems to suggest on their call, again was just kind of a one liner that things hadn't moved along anywhere on that or were not going...

Thomas A. Fanning
Chairman, President & CEO

Well, look what I can say is this. We're in litigation mode. So in other words, we're going through periods of discovery. We're taking depositions. I can get you detail on when we think the hearings will begin and all that. And of course, that's all subject to a judge ruling on certain matters. Whereas the venue is Augusta, Georgia. That's kind of where we are. At the same time, parallel activity, we are having settlement discussions with the consortium and they're very cordial. So this is not bomb throwing and missile launching. This is good constructive talk, and I'm trying to convey that it's not just us and them, it's them and them with us.

Andrew Levi

I understand. So basically there are talks going on, but at the same time, parallel the court process continues, and could take quite some time to play out, is that fair?

Thomas A. Fanning
Chairman, President & CEO

That's right, sure. And we love the settlement, but we're also prepared to go to litigation as we go to a settlement that is desirable for the benefit of our customers.

Andrew Levi

And then just as far as the cost for that or any rebaseline, just to understand, that's something that would be negotiated, it sounds like based on your contract between CBI and Westinghouse and your position right now at this stage is that you're not willing, "well I don't want to negotiate on the telephone," but basically we should expect those 2 to be paying that difference, at least that's kind of your position at this point. Is that kind of fair? I mean, there's some big dollars involved.

Thomas A. Fanning
Chairman, President & CEO

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That's right. My only point is it's pretty clear, it's been public knowledge that there's been some challenges with materials coming out of Lake Charles, and it's a way to help mitigate their challenges and fulfilling their obligations under the contract. They enlisted some contractors, for example, new sport news. To the extent they're able to perform, my sense is they're going to be able to hit our in-service dates and everybody's going to be happy with the ultimate outcome. That's where we believe we are right now.

Andrew Levi

Just the kind of the dollars involved and who's going to eat those dollars, and I guess CBI doesn't have as much flexibility, obviously as Westinghouse or Southern Company or people within your group. So...

Thomas A. Fanning
Chairman, President & CEO

Andy, I think we need to -- I'm not going to go there on who...

Andrew Levi

No, I understood. It's interesting to see how it ultimately plays out.

Thomas A. Fanning
Chairman, President & CEO

It sure is.

Operator

And our last registered question at this time is with Dan Jenkins from the State of Wisconsin Investment Board.

Dan Jenkins

So first, I just have a clarification on what you said a little bit ago about Kemper. I think you mentioned July '15 is when you're looking for syngas to go through the gas fire, is that what I heard?

Thomas A. Fanning
Chairman, President & CEO

That's a good general date. I won't get that precise, but yes. That's our target.

Dan Jenkins

Is that the same as first syngas production that you were talking about on your slide from last quarters?

Thomas A. Fanning
Chairman, President & CEO

Yes.

Dan Jenkins

Okay. Then I also had a couple of clarification questions on your Vogtle construction update on Page 5 of the presentation. Just trying to get a sense of timing when like near-term items or those items you expect to occur in, were queue or what's the timing kind of related to the cooling tower and then for Unit 4 for the CA-4 and CB-65. Is that before year end or how should we think about that?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Dan, I think the CA-01 module is first quarter next year. We should complete the cooling tower in the fourth quarter of this year. And then as far as Unit 4, we certainly should do in the fourth quarter of setting CA-04 and CB-65. I think that's where we are.

Thomas A. Fanning

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Attachment to STF-238-7

Chairman, President & CEO

The way I would read that is near-term is kind of year end.

Dan Jenkins

Okay. And then on the horizon is early next year?

Thomas A. Fanning
Chairman, President & CEO

Yes.

Operator

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

Thomas A. Fanning
Chairman, President & CEO

Yes, sir. Thank you, all, for being on the call. Thank you for being loyal shareholders. I'm disappointed with our schedule and cost performance. We are just rigorously directed to improve the performance there. I think we put out a methodical schedule that we can hit. I'm going to put intense focus and make sure that we do just as well as we can. The project team there understands the intensity of my focus. Other than Kemper, I would say that the franchise is operating just as well as it ever has, when you look at customer service, you look at reliability, you look at safety, you look at just kind of how we're delivering value to communities we're privileged to serve, this company has never been better. Thank you for being with us, and we look forward to chatting with you in Dallas in the weeks ahead.

Operator
Thank you, sir. Ladies and gentlemen, this does conclude the Southern Company third quarter 2014 earnings call. You may now disconnect.

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