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The Southern Company NYSE:SO

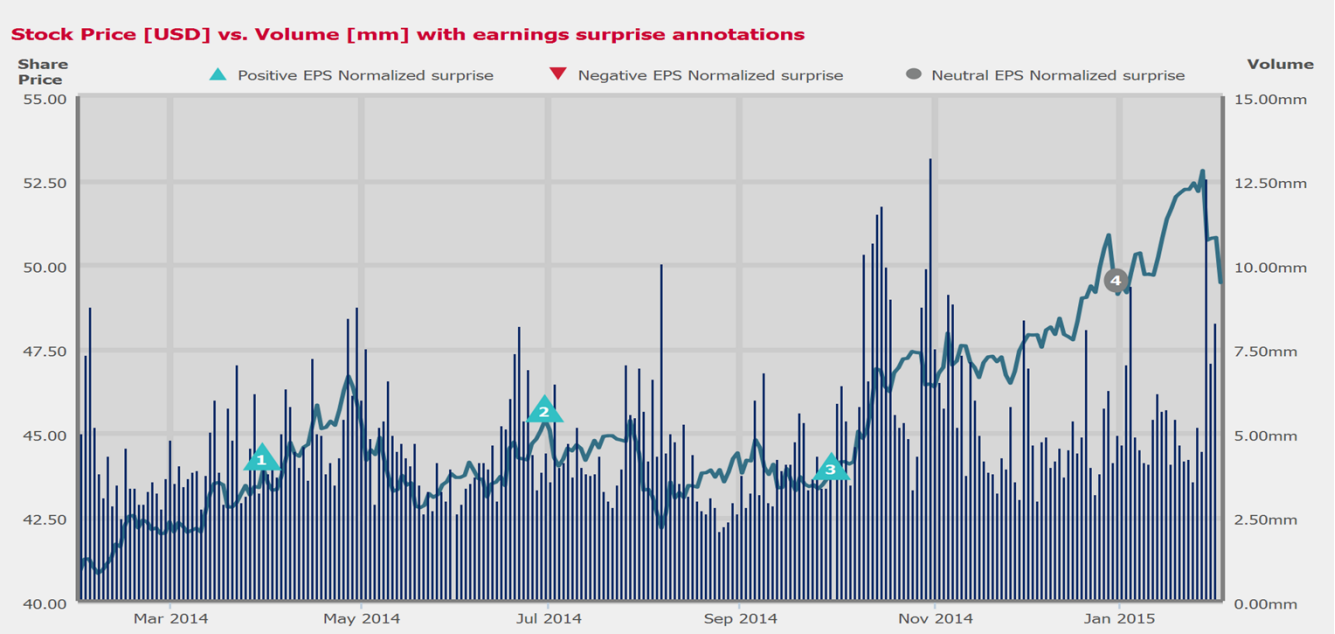
FQ4 2014 Earnings Call Transcripts

Wednesday, February 04, 2015 6:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2014-			-FQ1 2015-	-FY 2014-			-FY 2015-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	0.38	0.38	0.00	0.59	2.80	2.80	0.00	2.87
Revenue (mm)	3823.21	4049.00	▲5.91	4220.75	18157.39	18499.00	▲1.88	18760.89

Currency: USD
Consensus as of Feb-04-2015 3:17 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2014	0.56	0.66	1 17.86 %
FQ2 2014	0.66	0.68	2 3.03 %
FQ3 2014	1.07	1.09	3 1.87 %
FQ4 2014	0.38	0.38	4 0.00 %

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Presentation

Operator

Southern Company's Fourth Quarter Earnings call will feature slides that will be available at the beginning of the call on our investor relations website. You can access the slides at www.investor.southerncompany.com.

Good afternoon. My name is Rebecca, and I'll be your conference operator today. At this time, I would like to welcome everyone to the Southern Company Fourth Quarter 2014 Earnings Call. [Operator Instructions] As a reminder, this call is being recorded, Wednesday, February 4, 2015.

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, Rebecca. Welcome, everyone, to Southern Company's Fourth 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.

We have a full agenda for today's call. We will begin with a brief recap of 2014 operational highlights, followed by an update on the Kemper and Vogtle projects. We will then discuss fourth quarter and full year 2014 financial results and sales results. And finally, we'll provide earnings guidance for 2015.

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. I am pleased to report that Southern Company's franchise operations have never performed better than they did in 2014. In 2014, we continued to provide the best customer service in the business. In fact, Southern Company and its 4 traditional operating companies occupied the top 5 spots for all customer classes combined in the customer value benchmark survey, our annual peer comparison of United States electric utilities. This marks the 11th time in the past 13 years that Southern Company has ranked in the top quartile for all customer classes in that survey.

And earlier this month, those of our traditional operating companies that were rated in the J.D. Power and Associates survey all ranked either first or second in their respective categories. Alabama Power was also named the most trusted residential electric utility in America by Lifestory Research, an independent consumer market research firm.

In terms of system reliability, we have continued to set and raise the bar. Our 2014 peak season EFOR of 1.9% was particularly exceptional compared to the most recent 5-year national average of around 9%. And our transmission and distribution businesses performed superbly, setting all-time system records for frequency and duration of transmission outages, as well as an all-time system record for distribution outage frequency. Meanwhile, we achieved our second best year ever in the duration of distribution outages.

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We also continue to grow our wholesale renewable portfolio through our Southern Power subsidiary, which added 3 new solar facilities in 2014, the 20-megawatt Adobe facility in California, the 50-megawatt Macho Springs facility in New Mexico and the 150-megawatt Solar Gen 2 facility in California. Southern Power also has a 131-megawatt solar plant under development in Georgia that is expected to begin operation in late 2016. With completion of this facility, Southern Power's expected to own more than 460 megawatts of solar capacity and is clearly becoming an industry leader in the advancement and operation of this important technology.

In these areas and many others, Southern Company's franchise business continues to lead the way, strengthening existing operations and seeking new opportunities to expand our reach, all for the benefit of the customers and communities we serve.

Let's now discuss our 2 large construction projects, beginning with Plant Vogtle Units 3 and 4. As you can see from the site photo we've included in our slide deck, progress continues on Vogtle 3 and 4, including completion of the 601-foot Unit 3 cooling tower in December. Our focus continues to be on quality and safety for the entire project with the 2 nuclear islands as our critical path going forward.

Major concrete work is progressing on both units as we prepare for key module placements later this year. For Unit 3, we are working towards installation of the CA-01 module inside the containment vessel this spring, and the first shield building panels this summer. For Unit 4, we are working towards installation of the CA-04 module and the containment vessel, and assembly of the CA-20 Auxiliary Building.

Vogtle 3 and 4 remain a valuable investment for customers. Considering all of the $2.3 billion in projected customer benefits, including production tax credits, DOE loan guarantees and CB&I pay-in rate, in addition to the benefits of low-cost nuclear fuel, we expect the net rate effect on Georgia Power customers to be approximately 6.8%. Recall that when the Georgia Public Service Commission initially improved the project in 2009, base rates were expected to increase 12%.

Now late last week, we disclosed the receipt of a revised forecast for completion from our contractors that reflects an 18-month delay from the previous estimated in-service dates. The process of reviewing the revised forecast for completion, the drivers for change and possible mitigation opportunities continues. We have not agreed to any change to the guaranteed substantial completion dates, nor do we believe that all efforts to mitigate the contractor delays have been made. Based on our review thus far and considering the fixed and firm nature of our EPC contract, we believe the contractors are responsible for their costs associated with the delay and any costs to mitigate.

We will still be responsible for our share of the owners costs. For example, costs associated with oversight and operational readiness, which we estimate to be approximately $10 million per month. We will also continue to incur financing costs of approximately $30 million per month. Our contract also provides for liquidated damages for each day the 2 units are late, and this stipulation should help mitigate the cost of any delay.

Largely because of the protections provided in our EPC contract, even if one assumes the entire 18-month contractor delay, the rate impact to customers is minimal and were made solidly inside our earlier projection of 6% to 8%. We will continue our review process and plan to file our 12th Vogtle Construction Monitoring Report with the Georgia Public Service Commission on February 27.

Now let's turn to an update on the Kemper County IGCC project. As we shared with you in October, we are moving down 3 parallel paths towards first syngas production in the third quarter of this year. I'm pleased to report that all 3 paths, operational training, control systems validation and startup and checkout activities are underway and progressing well. Steam blows and a series of low-pressure tests were completed in late 2014.

The first quarter of this year will include critical airflow tests, as well as first fire of the gasifiers this spring. During the same time frame, we will be testing and tuning our lignite delivery system. The combined cycle at Kemper Project also continues to perform very well. We expect the fine tuning we've been able to do while operating the unit on natural gas will benefit the project greatly during the final integration with the gasifier.

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With construction largely behind us and in recognition of the critical startup and operational activities ahead, in early December we augmented our existing team by adding a new site Vice President, Chip Troxclair. Chip brings over 30 years of industry experience to the project, primarily in the startup and operation of gasification plants. Chip's extensive background combined with existing expertise already on site, will help us navigate the startup process all the way through the operation of the facility.

Turning to the regulatory front. We continue to have constructive discussions with the PSC staff in Mississippi. As is our usual approach, we prefer to let those discussions conclude before we share any details.

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

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Thanks, Tom. As you can see from the materials we released this morning, we had solid results for the fourth quarter 2014 as well as for the full year 2014. For the fourth quarter of 2014, we earned $0.33 per share compared to $0.47 per share in the fourth quarter of 2013. For the full year 2014, we earned $2.21 per share compared to $1.88 per share in 2013.

Our results for the fourth quarter 2014 include after-tax charges of $43 million or $0.05 per share, and the earnings for the full year 2014 include after-tax charges totaling $536 million or $0.59 per share related to increased cost estimates for construction of Mississippi Power's Kemper County integrated gasification combined cycle project.

Earnings for the fourth quarter of 2013 include after-tax charges of $25 million or $0.03 per share, and earnings for the full year 2013 include after-tax charges totaling $729 million or $0.83 per share related to increased cost estimates for construction of the Kemper Project. As a reminder, Mississippi will not seek recovery of estimated cost to complete the facility above the $2.88 billion cost cap net of Department of Energy grants and exceptions to the cost cap.

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

Excluding these items, earnings for the fourth quarter and full year 2014 were $0.38 and $2.80 per share, respectively, compared with $0.48 and $2.71 per share, respectively, for the same periods in 2013. Earnings for the fourth quarter and full year 2014 were positively influenced by retail revenue effects at Southern Company's traditional operating companies, offset by increased operating and maintenance expenses. Full year 2014 earnings were further positively influenced by closer-to-normal weather and increased customer growth compared with the full year 2013.

Moving now to an economic and sales review of 2014. As expected, economic growth in 2014 was modest, but after experiencing weakness during the first quarter, the company expanded strongly throughout the remainder of the year. This expansion was led by manufacturing output, increased exports and a stronger domestic economy.

Total weather-adjusted retail sales grew 0.9% in 2014 led by industrial sales, which were up 2.3% in the fourth quarter and 3.3% for the year. We have now enjoyed 7 consecutive quarters of positive year-over-year industrial sales growth in our region.

We experienced growth across all major industrial segments, with sales now at prerecession levels. The strongest segments include primary metals, up 8% and transportation, up 6%. Housing-related industries continued to improve with both lumber and stone, clay and glass up 5%.

Weather-adjusted residential sales were essentially flat for 2014. Customer gains in the first quarter of 2014 were interrupted due to extreme weather, but began recovering in the second quarter. In fact, we added more than 31,500 new residential customers in 2014, 15% ahead of 2013, and saw the issuance of

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57,000 residential building permits or 6% more than in 2013. Personal income, meanwhile, grew at 2% in 2014 compared with flat growth in 2013, but a higher share of multifamily customer gains continues to challenge use per customer growth.

Weather-adjusted commercial sales were down 0.4% for the year and continued to be challenged by high office and retail vacancy rates. In Atlanta, for example, vacancy rates were 18% versus a national average of 17%. On the bright side, however, employment growth continues to absorb excess office and retail space in Atlanta, which is ranked #10 nationally in overall office market activity and #1 in hotel occupancy rates.

Meanwhile, our economic development pipeline remains robust, with more than 300 projects representing 43,000 potential jobs and over $29 billion in potential capital investment. Major announcements in the fourth quarter of 2014 included the decision by Mercedes-Benz to relocate its U.S. headquarters to Metro Atlanta, a move that will add some 800 jobs to the local economy; General Motors' decision to locate a technology development center in Metro Atlanta, creating 400 hundred jobs; and plans by Unisys for a research and development center in Augusta, which will create some 700 jobs. In addition, Häring, a manufacturer of precision automotive components, will locate a production facility in Hartwell, Georgia, creating an additional 800 jobs.

Looking ahead to 2015, industrial sales are expected to lead the way with growth of 1.7% continuing the momentum of the last 7 quarters. Some of our industrial customers could be positively impacted or affected by lower oil prices, while others could be negatively affected by an increase in the value of the dollar and a slowing global economy.

Elsewhere, we anticipate continued residential growth of around 1% and commercial sales growth of approximately 1.4%. The primary driver of residential sales growth should be continuing -- continued strengthening of residential customer growth and a continued recovery of the economy, the strengthening of personal income growth. Both residential and commercial sales should benefit from lower oil prices, which some have characterized as a $700 per car oil dividend.

As noted earlier, the Atlanta office market is one of the most active in the U.S., with vacancy rates dropping throughout 2014. In 2015, we expect to add more than 1 million square feet of office and retail space to be added in just 3 new Atlanta area mixed-use developments: Ponce City Market, Avalon and Buckhead, Atlanta. These new commercial projects are expected to absorb the majority of their new space during 2015 and should therefore contribute to increased energy sales this year.

As a final note, we reengaged earlier this month with our economic roundtable group of regional economists and executives from several of our largest customers that meets twice a year. The panelist indicated that they expect GDP growth of approximately 3% in 2015, consistent with our own expectations, but were cautious about the potential impact of a stronger dollar in the short term and higher oil prices later in the year. The group agrees with our expectation that industrial activity will continue to improve but believes that growth will be more restrained than in 2014, and that U.S. housing markets will continue on an upward trend. Meanwhile, the group expects the global economy to remain sluggish.

In addition to our new sales forecast, we have included an updated capital expenditure forecast and financing plan in our slide deck. Our CapEx forecast totals $16.6 billion for the 3-year period 2015 to 2017. With environmental compliance CapEx for MATS wrapping up in 2015 and early 2016, and Kemper CapEx concluding in early 2016, the CapEx for our traditional operating companies is projected to decline from $5.4 billion in 2015 to $4.2 billion and $3.9 billion in 2016 and '17, respectively.

As we highlighted during our call in October, and as Tom reiterated earlier in this call, Southern Power had tremendous success finding new renewable projects in 2014. The 2015 and 2016 base CapEx forecast for Southern Power include the projected investments for several of these projects. As we look ahead, Southern Power continues to pursue additional renewables projects that meet our investment criteria. To account for these new potential investments, we have designated $1.9 billion as a placeholder CapEx for 2015 to 2017. Since the 30% investment tax credit will be reduced to 10% after 2016, most of the placeholder dollars are allocated to 2015 and 2016.

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Our external financing plan reflects 0 equity needs for 2015 to 2017. Our forecast assumes more than $1.8 billion in additional draws over the 3-year period on our DOE loan guarantees for Plant Vogtle 3 and 4. And I would like to note that we have been very pleased with the success of this financing program. The financing savings we have captured through our draws to date have exceeded our projections, further increasing the benefits that we have gained for customers since certification of the project.

Moving now to EPS, our earnings per share outlook. Our earnings per share guidance for 2015 is $2.76 to $2.88 per share. We have slightly widened the range for 2015, particularly to address -- to account for potential variability in Southern Power's earnings. As I discussed earlier, our plans assume that Southern Power will continue its efforts to find renewable projects that meet our investment criteria. The middle of our guidance range assumes that Southern Power is able to invest all of the placeholder CapEx that we have included in our forecast. The size of the range recognizes that we may find fewer or more projects than we are currently forecasting. It also -- it is also intended to capture the potential for projects to slip out of 2015 and into 2016, which would shift the ITC benefits accordingly. Of course, our guidance range also accounts for the normal variability we have historically seen in our traditional operating companies as well as Southern Power, including normal variations in weather, the economy and wholesale energy prices.

As has been our practice for many years, we have considered much of this potential variability in developing our flexible O&M spending plan. Going forward, our long-term EPS growth outlook is still in the 3% to 4% range. In addition, our earnings estimate for the first quarter of 2015 is $0.55 per share.

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

Thomas A. Fanning
Chairman, President & CEO

Thanks, Art. After a successful year in 2014, Southern Company is entering the new year with a strong sense of momentum. We see a franchise business that is operating better than ever, solidifying its position as an industry leader in all phases of the business. We see important progress on major capital projects and a continued commitment to resolving challenges in a manner that is consistent with our customer-focused business model. And we see a strengthening economy and a region poised to grow in the months and years ahead.

In short, we believe Southern Company is well positioned to succeed in the year ahead, behind the strength of our 26,000 employees and their commitment to provide clean, safe, reliable and affordable energy to the customers and communities we're proud to serve.
We are now ready to take your questions. So operator, we'll now take the first question.

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Question and Answer

Operator

Our first question comes from the line of Greg Gordon with Evercore ISI.

Gregory Harmon Gordon
Evercore ISI Institutional Equities, Research Division

So a couple of questions. When I look at the guidance range for this year, it's like $0.03 lower on the high end and maybe $0.04, $0.05 lower on the low end than the aspiration you had in the last year's fourth quarter earnings call. Can you -- it's not -- those aren't big numbers, but can you give us a sense of what the drivers were that caused the range to come down slightly year-over-year?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, Greg. You're right, it's a little lower. We are where we were with some minor tweaks. We've had some cropping of the top end due to a couple of things, additional bonus depreciation that we had not factored into last year's numbers. And we issued slightly more equity than we had communicated last year. Most of that being due to stock option exercises, primarily in the fourth quarter. So instead of raising $600 million of new equity, we raised $800 million of new equity. So we've got more shares outstanding and those 2 things will crop the top end a little bit. The bottom end really is, as I said in the script, mostly related to a performance variability around Southern Power. If we didn't get any of those placeholder investments, then that's where we'd be at the bottom.

Thomas A. Fanning
Chairman, President & CEO

And timing of those as well.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Correct.

Gregory Harmon Gordon
Evercore ISI Institutional Equities, Research Division

Okay. Two more questions. Second question, when I look at Southern Power on Page 8 of the actual -- of your earnings release, you give the quarter ending and year ending net income by segment and Southern Power did $172 million in '14. Is it your expectation that at the midpoint of guidance you'd be at around the same number? The high end? The low end? Or are you higher or lower than that?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. It might be in and around that, maybe a little more than that. But it would require that we do something similar that we did last year in the terms of our solar acquisition.

Thomas A. Fanning
Chairman, President & CEO

Yes. Greg, that number at midpoint is $180 million.

Gregory Harmon Gordon
Evercore ISI Institutional Equities, Research Division

$180 million, great. And that assumes you deployed the amount of capital you just articulated.

Thomas A. Fanning

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Chairman, President & CEO

That's right.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Correct.

Thomas A. Fanning
Chairman, President & CEO

But as Art said, it's highly dependent on how much and when and all that. It's a little lumpy, yes.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes.

Gregory Harmon Gordon
Evercore ISI Institutional Equities, Research Division

I get it. Final question, can you give us a sense of -- I understand your legal and financial position with regard to your relationship with your constructor at Vogtle. What are the next series of milestones that we need to be mindful of to see how this interaction evolves? Do you work with them to get the performance that you want? And they, in turn, push back against you on what they deem to be their perspective on the costs?

Thomas A. Fanning
Chairman, President & CEO

Well, just recently, we were given a 10,000-page document that speaks to an integrated project schedule. And so the very first steps are to kind of wade through all of that detail and to really kind of turn data into information. We need to work with the contractors to understand the assumptions underlying this new schedule that they have provided. Even from the outset, we believe that they have not taken -- this is in the words I've been using consistently, this is like an unmitigated schedule and that we believe there's lots of things that they could do to improve it. Weighing against that are the fact that, and this has been disclosed thoroughly in VCM 11, and that they just have continued issues with respect of engineering and construction. And we look forward to their efforts to resolve those issues. If you want to look at something that describe those issues, it's the VCM 11 process, it's an exceedingly open process. The independent monitor, Dr. Jacobs, testifies at length in VCM 11. So you can get all the information you want to get. I think it's very clear that the contractors have just had continued difficulties. We say all along that you will always have challenges and the issue is how successful you are is determined by how well you resolve the challenges. We are working with the contractors to resolve their challenges. Complicating to solve these issues is the fact that we believe there are financial disputes among and between Westinghouse and Chicago Bridge & Iron. And we think that's having an impact on the schedule that they had delivered to us. So it's really going through all that. We're very comforted by the fact that we are committed to building a quality plant and a safe plant. And we are also very much comforted by the fact that for the additional costs, even if you believe it's going to be an 18-month delay, which we dispute, that the rate increases to customers remains within the 6% to 8% level, not the 12% that was originally contemplated. And we believe that for our additional costs, there are liquidated damages to help offset those costs.

Operator

The next question comes from Dan Eggers. [Operator Instructions]

Daniel L. Eggers
Crédit Suisse AG, Research Division

Just on the CapEx plans and last year, if you compare last year's CapEx to this year's CapEx plans, obviously, they all have this backward shape but you shifted it out a year from what you have last year.

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What do you see is the ability to fill in kind of '16 and '17 to maybe stabilize that CapEx plan looking out? Or are we going to have to wait until further in the decade to see that happen?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. Dan, this is Art. What we've got in there now are placeholders from Southern Power. Obviously, we could do more. We've got the tax appetite to do a little more than what we've outlined there. But we are still incubating other opportunities at around the things that we talked about last year, be it expansion of our ability to take advantage of additional rate base items but -- and our investment in pipes and other things. But we're not in a position to work -- to talk about that yet. But in addition to that, we've got opportunities possibly on the environmental side, which aren't fully vetted yet. But Tom, do you...

Thomas A. Fanning
Chairman, President & CEO

Well, what I would add is this kind of spectrum I've chatted about here on the stump really since the Dallas Financial Conference and then again in South Florida. We kind of have this spectrum of opportunity, Dan, of kind of, at a minimum, buying back our own shares. We've talked about how, for the amount of business risk we see, we may be equity overcapitalized. On the other hand, given the kind of high market-to-book, PE ratios, however you want to describe it, maybe it's more attractive to buy somebody else's shares. But as we've talked in the past, that's always been a very challenging proposition for us to cross. We are a big easy A shop. We believe that we would have to be reasonably clear about a way to earn a return on and return of the premium associated with any sort of activity there. And I think in the middle is kind of where we've tipped our hand as to our sweet spot, and that is buying other assets. Certainly, that's what we did in '14. So look for us to be active, creative and aggressive and looking for opportunities.

Daniel L. Eggers
Crédit Suisse AG, Research Division

And then you spend a lot of money on assets this year successfully, or in the process, but it didn't really change the growth rate with the deployment of capital. Is that reflective of the fact you're seeing some pressure on the returns you're getting on those projects? Or is it other things that are mitigating some of that upward inflation you would have expected on growth?

Thomas A. Fanning
Chairman, President & CEO

We've always been reasonably conservative in terms of setting our IRR curves with the kind of risks and projects we see. One of the things we mentioned back in October that we thought was emerging in the market remains true, and that is we do have, compared to a lot of people, scale and a robust tax appetite. And therefore, we look like a pretty good customer, a pretty good partner in these deals. So my sense is we're still going to see those opportunities. It's not causing us to drop our IRRs in any respect. We're able to maintain those to our satisfaction.

Daniel L. Eggers
Crédit Suisse AG, Research Division

Okay. And I think this is one last question on load growth. The expectations at residential and commercial show your positive year-on-year comps, after this year not really showing those gains. What do you think are the biggest factors to convert that from flat to growth this year?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. Dan, this is Art. We're looking at a lot of strong employment growth. I think we've seen that across-the-board, especially in the Southeast, we've actually outstripped the U.S. growth rate in employment. And our manufacturing employment is also stronger than the U.S. As the economy continues to improve, as consumers consume the benefit of this oil dividend that we mentioned in our script, we think household income is also going to be helped by the portion of that household income that's disposable. That

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will translate, we think, into more commercial sales and hopefully, will translate into more household formations which, I believe, jumped pretty strongly in the fourth quarter nationally. We saw pretty strong customer growth in our fourth quarter period as well, about 10,000 new customers on the residential side. So there's a number of elements there that we're looking at. I mentioned on the commercial end, we've got a lot of new projects coming in and around Atlanta. There are really 3 areas of Atlanta that are trending towards real strong growth. One is around the perimeter, and that is where Mercedes is going to more than likely announce their headquarters. And that's a really strong market for new office complexes. There's a midtown development in and around Georgia Tech, which is mostly office related. But it has been real strong as of late as new companies have announced sighting of that to take advantage of the technology development out of Georgia Tech. And then most recently, as Porsche moved their headquarters down near the airport. And that is a longer-term development opportunity, but they're looking at expanding office space, class A hotel space and other residential opportunities in and around that particular area. So there are a number of things that we point to, some will affect 2015 directly, some will be later. But those are real strong indicators to us that we're going to see a turnaround in commercial and residential growth per customer.

Thomas A. Fanning
Chairman, President & CEO

Dan, let me do a quick deconstruction of the household income statement. When you look at the revenue part of the household, its wages, and while we have seen some pressure there from a variety of factors, people withdrawing from the workforce or people moving from full-time to part-time, or whatever full-time jobs they have, a disproportionate share going to service kind of industries, we still see pressure on the revenue side. But on the cost side, the expense side, if you will, of the household, as Art mentioned, I think energy prices, low gas prices have really helped. So the net consequence is net income may go up. And we believe it's either going to be through increased savings, in other words retiring household debt, which is a good thing and makes the economy more resilient, or more consumption.

Operator

Our next question comes from the line of Steven Fleishman with Wolfe Research.

Steven Isaac Fleishman
Wolfe Research, LLC

Just a first, quick question. Just where did 2014 CapEx come in at?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Hold on a second, Steve. Let me get that in front of me. We were very close, I think we slightly underspent the totals that we had, but it was lumpy around where...

Steven Isaac Fleishman
Wolfe Research, LLC

I guess the reason I ask, it's a bit of the same question. But from what I can tell, just going back to last year, your 2015 CapEx is up $1.4 billion from a year ago for '15 projection. 2016 looks like it's up $1 billion. But it's the same growth rate and it's not even a little bit of a lower 2015 base. So again, just to clarify, the bonus depreciation, I guess, is a piece of that. And maybe you could quantify how much that might be impacting the rate base?

Thomas A. Fanning
Chairman, President & CEO

Yes. And Steve, you're right. The delta there is Southern Power. That's kind of what we're looking at. Remember, what we did in '14 was essentially put almost a 3-year CapEx allocation into 1 year. And that was kind of $1 billion to $1.4 billion -- low $1 billion kind of allocation number. We're moving that number up to around $2.5 billion. So that's kind of what we're doing on CapEx. The delta is mostly with Southern Power. Art?

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Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. Steve, if you look at the traditional operating companies, we were within $20 million in total of what we budgeted for the year. You throw Southern Power in, we actually spent $310 million more than we had forecast. So from a CapEx perspective.

Steven Isaac Fleishman
Wolfe Research, LLC

Okay. And just separate question on the Vogtle information. Did you get any -- and I know you disclosed expected monthly costs for owners cost for delay. But did you get any update from the consortium in terms of what the expected total construction cost of the plant will be?

Thomas A. Fanning
Chairman, President & CEO

No.

Steven Isaac Fleishman
Wolfe Research, LLC

And is there any way, based on the issues that they've mentioned in the thing, to kind of estimate that?

Thomas A. Fanning
Chairman, President & CEO

Well, just remember, Steve, we are still going through the details of the latest integrated schedule. So we really don't know what's involved and what their assumptions are and everything else. It's 10,000 pages, and so we got to go through that. I mean -- and what we really need to know, I think, is our belief and we received assertions from executive management of the contractors and throughout 2014 that, in fact, the schedule could be short. So we need to understand what their position is. We need to understand what's required. Our contract is very clear that it is the obligation of the contractor to undertake all methods necessary to meet the schedule requirements in the contract. That means adding new shifts, adding more people, paying overtime, typical things you would expect to see on any construction undertaking. So I won't know the answer to your question until we kind of sort through all those issues. We're working as hard as we can to do that right now. You should look to VCM 12. It's probably a more instructive kind of position for us to be in. We'll file that February 27.

Operator

[Operator Instructions] Our next question comes from Jonathan Arnold with Deutsche Bank.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

So just picking up on Steve's questioning. Just curious if -- you've said here today that liquidated damages should help to mitigate the impact of your costs, which I imagine means the $40 million a month number you referenced. So is it a safe assumption that the sort of per diem amount is -- adds up to a little less than $40 million a month? Or have you disclosed that at any point?

Thomas A. Fanning
Chairman, President & CEO

We have not, but we've gotten a lot of questions about it and we've informed our partners that we probably needed to disclose what we think the amount is. So here we go. If you -- there's a lot of factors that I'm going to give you a subject to, but essentially, if you evaluate kind of the maximum amount of liquidated damages assuming the full 18-month delay, again, subject to a lot of factors, we believe that Georgia Power's share would be about $240 million.

Jonathan P. Arnold

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Deutsche Bank AG, Research Division

So wouldn't -- what about -- you say 18-month delay, but don't the LDs kick in, in April of next year pending your current litigation?

Thomas A. Fanning
Chairman, President & CEO

No. The -- yes, right. They would kick in as of the guaranteed substantial completion date, which is a term in the contract of April '16 and April '17.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

So that $240 million number you've just given for Georgia Power share, is that more than 18 months? Is that kind of from April '16 to '17? So it's more like a 3 year?

Thomas A. Fanning
Chairman, President & CEO

Yes. That's right. You got it.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

Okay. And then I'm just curious on the...

Thomas A. Fanning
Chairman, President & CEO

Wait, Jonathan, I think an important point, excuse me. And I apologize for interrupting. There's a limit, we aren't anywhere close to it right now. So I just want to give you that. To the extent there's other issues, there could be more liquidated damages.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

So what is the math behind that $240 million? Is it a daily amount or is it...

Thomas A. Fanning
Chairman, President & CEO

That's what it is, it's a daily amount. And you can back into that if you want to.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

And the limit is $240 million? Or the limit -- when you say that you mean if...

Thomas A. Fanning
Chairman, President & CEO

It's way in excess.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

So there's a longer delay effectively that would come into play.

Thomas A. Fanning
Chairman, President & CEO

Right. That's right.

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Jonathan P. Arnold
Deutsche Bank AG, Research Division

Okay. And then just you mentioned a couple of times that you would remain within the 6% to 8% range on customer rate impact.

Thomas A. Fanning
Chairman, President & CEO

Yes.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

What are you assuming in that? You faced the incremental costs you've talked about, less this $240 million, something like that?

Thomas A. Fanning
Chairman, President & CEO

That's right.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

Okay. And what's the rule of thumb of -- is there any rule of thumb you can give us of what would push you above that range?

Thomas A. Fanning
Chairman, President & CEO

We think we are still way short of exceeding that range. We've talked a lot about estimates and all. We are more near the middle of the range than we are at the top, let me say it that way. And we think we've got lots of room to stay within that range that we've been discussing.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

Okay. And just one final housekeeping thing. There was a big downtick in depreciation in the fourth quarter, it was $424 million, it has been $500-ish million a quarter. Was there something unusual happened there?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. Jonathan, there was. Alabama Power had been deferring some costs, some O&M costs, under a previous commission order, accounting order. And they filed a new depreciation study with the commission last year. And they found out they had available some costs of removal elements of the depreciation that they could offset these other deferred costs with. And so there was an entry made in the fourth quarter of last year at Alabama which actually increased non-fuel O&M and decreased depreciation. And so it had 0 effect on income, but -- that's why you see the deltas in those particular line items.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

Okay. Great. On the subject of non-fuel O&M, as you talk about your 2015 guidance, is -- what's a sensible run rate given you've had to oversee some noise in the numbers this year?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

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Yes. We got back to what I would call a more normal element this year. So I would take the 2014 number and grow it by 3% to 3.5%. About 1% of that would be environmental and the remainder would be just normal company operation.

Thomas A. Fanning
Chairman, President & CEO

And Jonathan, let me just add a little more and line you up on that. The reason we're able to keep the 6% to 8% range in play is because of all of the benefits that we've added on this $2.3 billion. We mentioned in the course, I think, of the opening comments that we've been very happy with our ability to finance under the DOE loan guarantees. And in fact, we're exceeding where we thought we'd be on our estimates on that. In fact we did a draw in December $200 million for about 3%, and the average life was 22 years or something like that. So it's been a terrific vehicle for us and actually performing better than what we thought. So that $2.3 billion looks awfully good.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

Does that include the 800 of PTCs, correct?

Thomas A. Fanning
Chairman, President & CEO

That's right.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

And would you have any recourse against the contractor if further delay sort of push those off the table?

Thomas A. Fanning
Chairman, President & CEO

I don't know, Jon. Here's my view. I frankly think, my opinion, the contractor has given us what we believe is an unmitigated schedule. We think there's flexibility to improve the schedule. It doesn't take into account the comparative good progress to-date of our plant. I think we still have a decent amount of room before we're exposed to losing any of the PTCs for Unit 4. Unit 3, we're still very well protected.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

Okay. But if you did, would you have recourse to that?

Thomas A. Fanning
Chairman, President & CEO

I don't know. I don't think so. But that's to be decided by a lawyer, I guess. You can claim anything in a lawsuit.

Operator

Our next question comes from Paul Ridzon with KeyBanc.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

What are you assuming with regards to stock options in your '15 guidance?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

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Paul, we got no assumption for additional equity in 2015, '16 or '17. To the degree we have stock option exercises, we have plans to put in place a repurchase program that would, to the degree we have proceeds, to reduce those back down to as close to a 0 level as possible.

Thomas A. Fanning
Chairman, President & CEO

And I guess given that you are already 200 million ahead based on last year.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Based on last year, but that's where we're holding it. And we'll obviously see some more this year, but that's our plan to address it.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

And then what have you achieved -- what remains to be done or to qualify for the full DOE benefits or tax benefits at Kemper?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

We have filed for those -- oh, at Kemper, I'm sorry, I was thinking of Vogtle, I'm sorry. You're talking about investment tax credits?

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

Yes.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. You're talking about the Phase 2 investment tax credits that would relate to our carbon capture percentages. We have -- yes, we have to have it in service by April of '16 to qualify for those. So right now, our schedule would meet that requirement and there would have to be 65% or proof of 65% of carbon capture for all of the gas that was produced, the same gas that's produced.

Thomas A. Fanning
Chairman, President & CEO

And that is our target.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

That's the only hurdle?

Thomas A. Fanning
Chairman, President & CEO

Yes, so deadline and an amount removed.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

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And then the 200 million over where you are on the options, are you going to use that to buy stock in '15?

Thomas A. Fanning
Chairman, President & CEO

At this point, we're just going to see what kind of activity we get and we'll make whatever adjustments we think are necessary. The idea going forward, no new equity issuances.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

That's correct. We ended up the year with a common equity ratio of about 43.5%. And so that's still within our margin of planning. We don't plan on going north of that. But again, we'll just see what we get and we'll take out, as Tom described, what we, as much of what we raised as possible.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

What was your year end share count?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

I'm sorry?

Thomas A. Fanning
Chairman, President & CEO

Year end share count.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Just over 900 million shares.

Operator

Our next question comes from Michael Lapides of Goldman Sachs.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Have 1 or 2 Vogtle questions and then some housekeeping ones. When you go back and read the Vogtle testimonies, some of the interveners, not the public staff, are kind of waving the flag of prudency, meaning -- or imprudency. Just curious for any comments you have in that regard, whether they really have a leg to stand on by making that type of argument. What is the requirement in Georgia for something to be -- for a prudency disallowance or a prudency review of Vogtle? Can you kind of just go through that from a regulatory construct, please.

Thomas A. Fanning
Chairman, President & CEO

Yes. Sure. We don't think there's been any credible testament that would suggest there's anything imprudent in the project to date. When you think about kind of the brick-and-mortar cost of the plant as provided by the contractors, where -- I forget the last number I think was 0.5%, I mean, it's right on the money. In terms of our own oversight cost, this is kind of the $10 million per month that we see. It's absolutely prudent for us to have oversight because we are absolutely committed to providing the highest quality, safest project possible. Recall also, part of those costs are tax issues and insurance and some other things. I just don't see very many legs at all for any prudent -- imprudent evaluations of that.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

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Got it. And just some housekeeping items. How much bonus depreciation cash flow benefit do you expect in 2015? And which of your segments rate basis will have the greatest impact on?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Okay. Mike, let's see. About $625 million that would impact 2015 and maybe $125 million to $140 million in '15 that would impact '16. And it's mostly in the regulated OpCos, but I don't have a split for you.

Thomas A. Fanning
Chairman, President & CEO

We can certainly get that to you later if you want.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Okay, or just kind of prorated across the subs based on size and scale, somehow.

Thomas A. Fanning
Chairman, President & CEO

That would be reasonable.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Okay. And Art, a comment, you answered an earlier question about Alabama and what happened to D&A in the fourth quarter. When we think about going forward, is that the new run rate, kind of what we saw or the new base, kind of a lower new base what we saw in the fourth quarter of '14? Or is that more kind of the run rate of what we saw in prior quarters and the fourth quarter '14 was a one-off?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

I think the prior quarters would be the better run rate number to go with. But when you think about nonfuel O&M in that regard, most of those deferred costs were deferred in 2014, so I would leave those in the base for nonfuel O&M.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Meaning grow O&M by a couple of percent a year like you commented but also ensure the D&A is kind of looking at the 20 -- the first 9 months kind of run rate-ish.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, exactly.

Operator

Our next question comes from Stephen Byrd with Morgan Stanley.

Stephen Calder Byrd
Morgan Stanley, Research Division

Just wanted to talk about growth in terms of gas demand and as you think about supplying your customers, as you think about your growth profile, are there some moving parts that could cause you to want to be more aggressive in terms of growth in gas infrastructure investment? How are you all thinking about that these days?

Thomas A. Fanning

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Chairman, President & CEO

Oh, absolutely, yes. It's really interesting stuff there. If you dial back to 2014, remember, we've switched a lot away from coal to natural gas in '14 and one of the things that we always warn people was that gas was more volatile and there were certain risks around it, it was not a panacea. What we saw in the year 2014 was that we generated about the same amount of energy with coal as we did gas, about 40% each. Why was that? Because we had the fuel flexibility during Polar Vortex 1 and 2 to switch off spiking gas and be able to run our much cheaper coal fleet. In fact, over the year, we saved about $125 million in fuel savings because we had that flexibility. So let's keep in mind what's trying to happen in regulatory space in terms of shutting down coal in America. Now interestingly, in the fourth quarter, we flipped that with very cheap gas prices. We ran the numbers. Gas generation went up to about 49%. Coal flipped back to about 31%. So going forward, what do we expect? The budget for 2015 would show gas at 44% and coal at 36%. So we'll see. Now how does that impact kind of our appetite for gas infrastructure? I've mentioned to you all before that we could see ourselves getting involved in gas pipelines. Now because gas is much more kind of synergistic with the rest of our business as opposed to, say, where we were 5, 6, 7 years ago. One of the things we find is that there are lots of price disparities of gas transportation, say, from the east to west side of our system. We've been able to evaluate a lot of opportunities. We're seeking those out aggressively. And I think the kind of notion would be that we would in fact be an anchor tenant to whatever we invest in. So we're working very hard to make those things come real. We'll see.

Stephen Calder Byrd
Morgan Stanley, Research Division

Okay. But -- so it sounds like just given the kind of commodity environment we're in though that certainly more gas supply and becoming an anchor tenant certainly very high in your list of things you're interested in doing.

Thomas A. Fanning
Chairman, President & CEO

Sure it is, and we're going to be disciplined in how we invest. And I'll tell you something else, here again commenting on 111(b). To the extent that we've got to add more gas units in the future, we need more infrastructure. We're pretty well filled up right now in terms of FT, which is how we cover all of our units. So we need a competitive supply of gas. We need more infrastructure, and we can participate in that.

Stephen Calder Byrd
Morgan Stanley, Research Division

Okay. And that's really -- that would be effectively additive to the kind of spending that you all are thinking about currently?

Thomas A. Fanning
Chairman, President & CEO

That's correct.

Stephen Calder Byrd
Morgan Stanley, Research Division

Okay. And just quickly on new nuclear. Just curious as you watch the progress in China, especially at the Sanmen project, anything to report there? Or is it just sort of moving along as planned?

Thomas A. Fanning
Chairman, President & CEO

I think it's moving along. They're resolving the valve issue there. So I think it will not have a complete impact on kind of where we are. So when you think about the reactor coolant pumps, there have been some design issues that have manifested themselves in China. We think those are getting dealt with satisfactory. We don't think that they will impact our critical path. Said another way, we're benefiting from not being the alpha plant here and we're learning from our Chinese experience. So we have people located

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in China. We follow those very closely. We've learned from them already. We're happy with where we are, at least from our China experience.

Operator

Our next question comes from Brian Chin with Bank of America Merrill Lynch.

Brian James Chin
BofA Merrill Lynch, Research Division

Springboarding off of Stephen's question on gas infrastructure, we've seen a little bit more color on how alternative capitalization structures trade. Just what are your latest thoughts and if you were to go into that route, would that be considered more part of your regulated utility operations? Would you consider alternate capitalization structures for those? Just a little bit of updated thoughts there.

Thomas A. Fanning
Chairman, President & CEO

Okay. So you guys have heard the old saying that I believe in the long run view of financers, lots of tricks, but there's no magic. If there is a structure that makes sense, then we'll certainly consider it. We've never been a fan of YieldCos. We think those are short-term positive, long-term troublesome. If it's an MLP, if there's a real tax advantage, we'd certainly consider those things. But we believe that keeping a simple balance sheet and providing long-term value is really the right course of action for us. But we'll consider anything.

Brian James Chin
BofA Merrill Lynch, Research Division

Got you. Got you. And then one last question for me. Could you just remind us again of the dividend policy and dividend outlook given the revised change in CapEx spending and guidance?

Thomas A. Fanning
Chairman, President & CEO

Sure. Of course, everything I say about dividend is subject to board approval. That's their deal. But we've been on a $0.07 trajectory for some time now. And we feel that having a regular, predictable, sustainable flow of earnings per share that permits for a regular, predictable and sustainable dividend policy is how you maximize value. If you look at our TSR over any kind of long-ish timeframe, you will see that the vast majority of TSR for us is driven by our dividend policy. So that remains foremost in our thinking about how to grow value for shareholders. So of course, I got to be subject to everything but, most importantly, subject to final board authority. But we feel very confident in our ability to deliver a sustainable dividend policy, as we have in the past, into the future.

Operator

Our next question comes from Ali Agha with SunTrust.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Tom or Art, I just wanted to clarify, the 3% to 4% growth rate in EPS that you showed us off this new 2015 base, was that specifically referring to 2016 or '15? Or was that a longer-term growth rate?

Thomas A. Fanning
Chairman, President & CEO

Long-term. It's kind of both, but it's long-term. What we see in our projections is that we're able to stay within that envelope pretty comfortably over a long time frame. And I got to give you all of the admonishments about things that are unknown and everything else. But for what we know right now, we can stay within that envelope for a long time.

Ali Agha

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SunTrust Robinson Humphrey, Inc., Research Division

Okay. And Tom, just correct me if I'm wrong, but I thought previously when you guys had originally given us '14 through '16 earnings guidance and then some longer-term outlook, I thought the plan was given the way the spending was working, the 3% to 4% was '14 through '16 and then you'd accelerate beyond that. But I guess that's not the case.

Thomas A. Fanning
Chairman, President & CEO

No, no, no. Here's kind of where we are. We're kind of in the same spot. Let's think about the years ahead here so -- and I don't want to give too much more color other than the kind of the commentary we provided in the past. But if you look at kind of '15 to '16, things look pretty normal there. '16 to '17, you have the expiration of the 30% investment tax credit, that could have some impact on your ability to impact earnings per share through investment tax credit investments associated with Solar. So that could have a shaping impact. And then beyond that, we've always talked about really environmental CapEx and the startup of new generation CapEx. All of that remains the same, and that really shifts the nature of your curve. So what we said was when you consider the impacts of 111(d), which, depending on how the final rule looks, could have a dramatic effect of the back end CapEx curve as well as coal ash and 316(b) and a variety of other things. We'll just have to see how those turn out. That's all what I've been talking about.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Okay. So think of this really '15 through '18 or that time period and then later in the decade, things change?

Thomas A. Fanning
Chairman, President & CEO

Well, certainly as we know more, we'll adjust it. What you should take comfort in is for what we know, we think this is a very comfortable envelope.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Yes. Separate question. Art, if I did my math right, it looked to me that your effective tax rate in '14 came in lower than previously thought. What was driving that? And how should we think of an effective tax rate for '15 and beyond?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Ali, are you talking about the cash tax rate? Or are you talking about the accounting book effective tax rate?

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

I'm talking about the book tax rate, Art, adjusting for Kemper charges and all of that. If you exclude all of that, the book rate looked a little low to me.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. Well, I'm looking at over the last few years in total though, you could have had some effects from Southern Power in their investment tax credits, which was booked in the fourth quarter of this year. And then you got higher AFUDC as well, which is not taxable.

Thomas A. Fanning

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Chairman, President & CEO

But your book tax rate doesn't change very much. Your cash tax rate changes a lot, right? And for 2014, Art, it looks like a little over 8% there.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Okay. And then, Tom, as far as Kemper is concerned, are you at a position now with the latest round of charges to kind of say, is the confidence much higher than, hey, I think we've got it all now under control cost? Why is -- or still too early to make that statement?

Thomas A. Fanning
Chairman, President & CEO

Yes, Ali, I've been burned in the past, haven't I? Look, we've got Chip Troxclair in place here, and we've had very good conversations. In fact, I had the whole management counsel at Southern Company at Kemper about a week ago. And I think the team is working hard. The thing -- and so yes, we got a lot of confidence, okay, especially in the schedule. We're doing, I think, a better job at managing kind of the want tos in terms of CapEx as opposed to the must haves in terms of CapEx as we finish startup. The one caveat I just have to throw out to you all that I've been consistent about from day 1 are the unknown unknowns. As you start the thing up, something may happen that nobody thought about. We've added more inventory to insulate ourselves against risks for machines that don't work the way they're supposed to or just defective workmanship. The good news is, when I evaluate kind of the work we've done in pressurizing trains A and B, steam blows, welding inspections, other things, we've done pretty well. We had some hiccups here recently in some of the pulverizers and some of the lignite drying equipment, but we've already provided for fixing those issues. We're working hard to stay within the estimates we've given you. So as confident as I can be, there are things that could cause us trouble in the future, but I feel as good as I've been.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

And my last question, Tom, when I look at the weather-normalized sales that you provide us and I looked at the 4 quarters of '14, this fourth quarter was the slowest over the 2014 period. Was there anything particularly that was causing this slowdown which you don't think will continue in '15? Or how would you explain that?

Thomas A. Fanning
Chairman, President & CEO

Ali, I don't get excited about core evaluations whenever I look at this stuff because especially on weather-normal adjustments, there's all sorts of variability. I tend to look at kind of longer term, longer trends, and see what's going on. The biggest issue, I think, facing kind of residential and commercial sales growth is this issue of, and it's curses and blessings, industrial strength during the downturn. Recall that a lot of our industrial customers retooled, put in technology and, in fact, we've been able to grow, but the efficiency of output has been terrific. Well, the good news is, that's given us strength even against the weakening dollar, right? The bad news is, we haven't added jobs as much as we thought we would. And therefore, wages haven't grown. We think that we are starting to kind of take up that slack, and we're starting to see the signals, as the things Art went through, that in fact jobs will return, wages will increase and, therefore, spending will increase. Those are the longer-term trends we see. And don't just hang it on wages, remember the information Art gave you about the household income statement and how the expense item, largely for energy, thank goodness, are going down. People have more money in their pockets to spend.

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Operator

Our next question comes from Mark Barnett with Morningstar.

Mark Barnett
Morningstar Inc., Research Division

So you talked a lot about kind of the bigger projects and whatnot and I appreciate the new details. That's really helpful for us. Just wondering more maybe on the O&M trajectory that you've seen so far this year. Would you say that -- I mean, the fourth quarter haven't seen the segment breakout yet. So would you say that you're seeing more of that in one particular OpCo or another? I mean for example, there's a lot of that being driven out of Alabama.

Thomas A. Fanning
Chairman, President & CEO

Real quick, here again as I was talking to Ali about, don't go off on one quarter about consumption. Don't go off in one quarter about O&M. Because we have this flex O&M system we have in place for years now, which helps kind of attenuate our ultimate financial results.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

But there is something, Mark, and I've addressed it on an earlier question, was related to the Alabama entries that roughly bumped up nonfuel O&M by $100 million or so, more than what we expected in the year. But that occurred in the fourth quarter. So Alabama, if any of them, and as I said earlier, most of those were 2014 deferrals anyway, so they would have occurred throughout the year had we not deferred them and then cleared them up in the year.

Thomas A. Fanning
Chairman, President & CEO

So what kind of a long-term O&M growth rate '14 to '15?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

3% to 3.5%.

Thomas A. Fanning
Chairman, President & CEO

3% to 3.5%, that's a good trend.

Mark Barnett
Morningstar Inc., Research Division

Yes, yes. I know there can be some quarterly noise. I just want to clarify because it sounded like it was probably related to those regulatory things. Just a second question, I guess, maybe another way of looking at some of the comments you've made already about the clean power plan. What kind of conversations have you started, particularly in Alabama and Georgia, about kind of handling compliance and handling the plans that would be necessary should it survive in its current state? Or how to, I guess, approach proposals?

Thomas A. Fanning
Chairman, President & CEO

Yes. Look, Mark, thanks for kind of raising that. We haven't really talked about that. You know that we work in a real-time fashion with the folks in our states. We have a common purpose, and that is to serve the customers and communities with clean, safe, reliable, affordable power, and I know that certain initiatives out of EPA or elsewhere get high focus on certain issues, particularly 111(d) would be carbon. We have to balance those results for the benefit of the communities we're privileged to serve. When I

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think about where EPA is on 111(d), we know and I think they know that they have a flawed proposed rule. And they've received, I forget what the number is, over 4 million comments or something, it's unbelievable. But they're going to have to, I think, deal with some of the low hanging fruit, if you will, in the final rule. I'm guessing we do get a final rule sometime in the summertime, maybe call it August. And I think they'll deal with some resolution on this kind of cliff 2020 date. I think they'll also fix things like nuclear, particularly nuclear under construction. So look, I think it's almost premature to comment kind of where we think they'll end up. We've had lots of opportunities to talk to them, so has everybody else. 31, 32 states have come after them in terms of comments, Attorney General, governors, Public Service Commission. I think there's a lot of ground to cover before we have a final rule. Let's see what the final rule looks like. And then the ball will be in the court of the states in order to implement their state implementation plan.

Operator

Our next question comes from Michael Weinstein with UBS.

Julien Patrick Dumoulin-Smith
UBS Investment Bank, Research Division

It's Julien here. So I wanted to follow back up here quickly on Southern Power. Rewinding back to the start of the call there. The $180 million midpoint you talked about I think for '15, how much of the ITC benefit is baked in there? And probably kind of the second part of that question is really you talked about the '16 to '17 expiration. What kind of an impact do you think that is in terms of the headwind as you kind of lose those benefits for new projects? I know it's a little detailed.

Thomas A. Fanning
Chairman, President & CEO

Yes, yes, yes. I'm going to guess that kind of the benefits from ITC, and don't get too precise on the $180 million, that's a planning estimate, it's very lumpy, okay? But the specific question was, what's the assumption in the midpoint? It's $180 million. The contribution of ITC is probably over $40 million, okay? So that's what you should think of.

Julien Patrick Dumoulin-Smith
UBS Investment Bank, Research Division

But then it probably falls off pretty materially in '16, right? So the roll off by '17 is....

Thomas A. Fanning
Chairman, President & CEO

No, no, no. '16's probably okay, it would probably be a similar number, perhaps even more depending. So you have a project that comes in, you think it's going to come in, in December of '15, slides into '16. So it really is lumpy and dependent upon when you close these deals and when they go in service. So '17, you should kind of estimate that as ITC drops from 30% to a 10% kind of number under current tax law, then you should shave off some percentage. So let's say 2/3 of $40 million to $50 million number, just in rough math, right? So that's the kind of math I would use if I were you. That would be the earnings per share headwind. And I'm talking specifically about solar right now. To the extent we invest in wind, it has a different profile. To the extent some of our CapEx is associated with gas pipelines, it has a different profile. So I'm attaching all of that on solar.

Julien Patrick Dumoulin-Smith
UBS Investment Bank, Research Division

Right. And I was going to ask you more holistically, what do you think about solar spend in general? I mean the Southeast has seen a lot of projects. But we haven't heard much on you guys from Florida or Alabama. I mean is there potential there? I mean either via the utilities themselves or via Southern Power? I mean is this something that you could see more spend in '16 or is it tricky to see that happens just given the timeline on the 30% ITC, et cetera?

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Thomas A. Fanning
Chairman, President & CEO

Yes. I frankly would expect to see more of the solar outside the Southeast. There may be more opportunities. But when we originally got into solar, we really started looking at where the solar resources were the best, right? The Southeast tends to be kind of cloudy. It has high humidity. It doesn't -- it's not the best area for solar, even though there's been a lot of movement in the state of Georgia. Recall, Georgia Power was voted the Investor-Owned Utility of the Year last year by the solar industry. So we're going to continue to look wherever I think the resources are best, where the contracts are the best. A particular area of emphasis for us also has been with the DoD, the Department of Defense. We've announced several base solar deals in Georgia, and I think we've announced one in Gulf, and then we'll see about other bases elsewhere in the Southeast. So look for that.

Julien Patrick Dumoulin-Smith
UBS Investment Bank, Research Division

Right. And then let me turn my attention just a little differently here. The gas infrastructure that you alluded to earlier, is that under Southern Power as well? And when do we find out details about that? I mean I imagine that's probably tied to your talk earlier about carbon rules and finalization and ultimately what kind of coal and gas switching we really are going to see in the Southeast, is that kind of a good way to think about it?

Thomas A. Fanning
Chairman, President & CEO

Julien, whatever you did to Michael is kind of what I'll have to say about gas pipelines. I really -- we can't -- I don't want to reveal the nature of discussions on any gas pipelines at this point. The specific question you asked about kind of would it be under Southern Power? I wouldn't be surprised that if we put it in another sub besides Southern Power. That's really kind of a governance question.

Julien Patrick Dumoulin-Smith
UBS Investment Bank, Research Division

All right. Got you. And lastly, it looks -- turning back to Kemper quickly. You kind of alluded to potentially hashing out a deal in the state again. And I know you don't want to touch it too much, but what's the timeline there? Because I know we've talked about before having a deal and then it seems like that slid a little bit just given the timeline on the project itself led [ph]. When can we see something come to resolution there, if you will? I mean -- and what does it relate to specifically? Is this the first half prudency review that you guys are going to try to hash out? And again I don't mean to pry too much.

Thomas A. Fanning
Chairman, President & CEO

Yes, you do. It's your job, and I appreciate it. Julien, what we talked about in the past is kind of a grand settlement where we wrap together all of the kind of issues that relate to Mississippi Power and for a host of reasons, I know you understand, we don't want to say too much about that. We would like to see those issues resolved sooner rather than later. So let's just leave it there if we could. I appreciate your indulgence. One other comment I just want to make. We talk about other subs, other subs could be OpCos, right, for gas infrastructure.

Julien Patrick Dumoulin-Smith
UBS Investment Bank, Research Division

The utility OpCos?

Thomas A. Fanning
Chairman, President & CEO

Yes. It just depends on opportunity.

Operator

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Our next question comes from Paul Patterson with Glenrock Associates.

Paul Patterson
Glenrock Associates LLC

I wanted to follow up on a comment you made regarding the consortium and potential conflicts among the contractors as to who's supposed to cover what. I was wondering if you can just elaborate a little bit more on that.

Thomas A. Fanning
Chairman, President & CEO

What I would prefer that you do is go to their own statements. CBI has been reasonably public about these things. They have -- these are my words, not theirs. With respect to the contract, they have essentially, I call it, an inter-creditor agreement, but it's an agreement to share the cost and benefits of the contract among and between themselves. And I think there are some financial disputes between the 2 of them. And we believe, anyway, that those disputes have some bearing on this unmitigated schedule we got.

Paul Patterson
Glenrock Associates LLC

Okay. That's great. I -- that actually leads me to my sort of second question which is if one of the contractors, I know this is kind of a little extreme, but let's say one of the contractors is unable to fulfill their obligations. Are the other contractors obligated? Is there a surety bond? Is there any protection, I guess?

Thomas A. Fanning
Chairman, President & CEO

Yes, Paul. The major mechanism you should look for in the contract is the guarantee, the corporate guarantee of Toshiba for the financial integrity of the obligations of the participants as contractors.

Paul Patterson
Glenrock Associates LLC

Okay. Excellent. And then finally, with respect to the sales growth, just to sort of follow up on Dan's question. The numbers have been coming in a lot less than what you guys have expected in the past. And you do mention sort of some of the things, the oil prices and what have you, and some of the developments that are happening there that you think will be -- that will improve the situation, I guess, going forward. But just -- I know you guys analyze this very closely, have you guys reappraised what you think long-term customer usage will be? Efficiency deployment, what have you? Is there any -- because the numbers do seem to have come in just historically a lot lower, and I'm just wondering if you guys have any sort of new ideas or any differing ideas as to what you've had in the past about what's going on with electric -- yes.

Thomas A. Fanning
Chairman, President & CEO

Yes, man. Let me just kind of pick at that a little. Our plan was set last year at 0.7% sales growth. We actually have 0.9%. The difference was the fact that industrial was a blockbuster year at 3.3%, relative to weather-normal flat elsewhere.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Correct. Paul, it's a long-term sales growth number. Total retail sales are going to be in the 1.2 percentage range. Now whether that's a reassessment or not, that's kind of our current look long term. I don't know that it would be termed a reassessment of that, but it's probably lower than it was 5, 7 years ago. But a couple of other things you need to think about is in migration into the states. We continue to see that. And to give you a little more lagniappe around that, it's -- we look at things like United Van Lines is -- ranks

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their top 10 states for inbound moves. Georgia and Florida are #8 and #2, respectively. We've seen most of our customer growth in those particular regions, 1.1% customer growth in both Gulf and Georgia the last year.

Thomas A. Fanning
Chairman, President & CEO

And if you recall, they're in the recession and migration froze up. We think that's was all housing related. Now that housing is freeing up, we're seeing a migration again.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. So it's a reflection of -- yes, is it a turning point? We certainly hope so, but it's based on the evidence, not just a bunch of drawing lines and hopes and wishes.

Thomas A. Fanning
Chairman, President & CEO

The other thing that I think I would point to is the information that we've been traveling under is kind of similar to what the Fed has been traveling under. The Fed has called for some higher GDPs and actually show up, and where the softness is in their projection has been in household wealth creation, just as we talked about. So as we improve that, I think our overall picture will improve.

Operator

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

Dan Jenkins

So I just had a couple of clarifications related to the construction projects. First, on Kemper, I think you mentioned on your slide that the next set of milestones are the gasifier perspire and I think they said that's going to be in March. But I was wondering on the gasifier airflow testing what the timing is of that milestone?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. We're currently in the process of that. But we still look at 3 main milestones here. First, fire to the gasifier, is it going to be this spring? Okay. The first syngas production, which is the second milestone I would point you to is sometime this summer. And then in the late summer and fall, we expect to have reliable syngas to each combustion turbine. Those are the 3 milestones that we would rather point to than the micro milestones of what you mentioned, the...

Thomas A. Fanning
Chairman, President & CEO

Airflows.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Airflows. Those are subprocesses to the major milestones that I'm pointing to.

Thomas A. Fanning
Chairman, President & CEO

And in fact, Dan, what we've been doing so far and that's what I'm kind of gratified with, the tests that we've done so far that have gone reasonably well have been testing the financial integrity of the construction and it's gone very well.

Dan Jenkins

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Okay. And what did you say again was the timeline for the production of the turbine, the third?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Reliable syngas was for one turbine, it's late summer. For the second, it's fall this year.

Dan Jenkins

Okay. And then looking at your Slides 5 and 6, I just want to make sure I understand. I think you mentioned in your opening remarks that for Unit 3, the CA-01 set is going to be in the spring. That's not in the picture, I don't think, on Slide 6.

Thomas A. Fanning
Chairman, President & CEO

That's right. CA-01 is not in the picture.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Correct.

Dan Jenkins

Okay. But that would be -- that is a near-term thing in the spring, pretty much, is that CA-01 set?

Thomas A. Fanning
Chairman, President & CEO

Yes. The spring could go -- I mean theoretically, it's April, May, June, is kind of what we're looking for on CA-01.

Dan Jenkins

And then in your third quarter slide, you had some talk on -- for Unit 4 on horizon, the CA-20, which I think, if I'm not mistaken, that's what the green one is on Unit 3, right?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, that's correct.

Dan Jenkins

When is that supposed to be set for Unit 4, the CA-20?

Thomas A. Fanning
Chairman, President & CEO

Dan, if I could, here's -- instead of getting specific here, if I could add on this, we just got this new integrated project schedule. And there may be some impact for the longer-term issue. That's why we stuck with near term here and kind of very near term. The longer-term issues could be impacted by the resolution of the schedule. And so we're going to have to be a little -- I don't know, a little vague until we probably get to VCM 12, VCM 12 that we file later this month and then will kind of be discussed throughout the spring. We'll have much more detail there for you. I think we'll be in a much better position to estimate those kinds of issues.

Dan Jenkins

Okay. So I guess what you're saying, you want to retain some flexibility around that based on...

Thomas A. Fanning
Chairman, President & CEO

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That's right. Thank you for that.

Dan Jenkins

Okay. And then just -- you talk about the fact that there's been -- there's this unmitigated proposal by the contractors. But what do you see as some of the potential mitigation efforts that haven't, I guess, moved forward so far that you think would give us some confidence that the schedule could be shorter than what -- the 18 months.

Thomas A. Fanning
Chairman, President & CEO

Dan, here again, I got to ask your patience. Let us go through what they've given us. We received assurances by executive management of the contractors in 2014. We have our own ability to adjust. We have our own schedule progress to date. There's a host of issues here that cause the foundation for our belief to be that there is something we could do and the contractors aren't exercising all of their obligations required under the contract. But let us get to the end of this discussion with contractors before I open up what the number may be.

Operator

Our final question comes from Ashar Khan with Visium.

Ashar Khan

Most of my questions are answered. But Tom, this is a -- I guess I keep asking the strategy question, because when you were the CFO, the risk adjusted was kind of the cornerstone. And so as you and the board look into investing in solar, what it hasn't used is now a higher range on the earnings variability, which further adds to the volatility of a kind of a risk-free investment as it used to be. And I'm just trying to understand why that is happening.

Thomas A. Fanning
Chairman, President & CEO

I got you. Absolutely. There's kind of a glib answer and there's kind of a deeper answer. The deeper answer is, you know having known me for, gosh, over 10 years or whatever it is, a long time, that I have been a deep proponent of the notion that value is a function of risk and return. And when we think about our business model, we always seek to achieve the best risk-adjusted return. When you look at the value driven by our franchise, which is the overwhelming delivery of value to Southern, the franchise is as good as it's ever been, and I feel terrific about the state of the franchise. When I go to the opportunity that is in front of us, with particularly solar, it's driven by kind of -- that opportunity is driven by kind of the initiative that we have seen when we originally dabbled our foot in the water on solar, we thought it might be applicable in the Southeast. Sure enough, it was, and so we started slow and gained some momentum. And in fact, Georgia has turned out to be a big participant in the solar market. Along the way, particularly last year, we were surprised by the fact that a lot of people were really looking to Southern because we had scale. We had a tax appetite. We're a great partner. We understand technology. And I think -- and I've mentioned before First Solar is kind of in that realm. The only risk that we see that adds to kind of our corporate data, if you will, is just the lumpiness of the investments, not the technology of the investments. And we think the degree of investing is achievable. So I wouldn't -- while you may see some spread over time, we think we'll be able to hit the numbers that we put out there. The final comment, you all know that I've never been an enormous fan of tax advantage investing. Certainly, the ITC profile is something that's attractive. We think we have tax appetite to be able to consume those tax benefits in a timely manner. And remember, too, that one of the coincident benefits of that kind of investing has been the very strong cash flow compared to our EBITDA in the long run. So as we see ourselves moving through time, where we're slowing down our CapEx from a corporate standpoint, particularly at the operating companies, we're finishing up a construction cycle, the fact that these opportunities avail themselves, the fact that they help earnings, the fact that they improve cash flow, the fact that long term we believe there's very low technology risk and we're dealing with very credible partners, we think maintains this very attractive risk-adjusted profile. Recall, too, at the end of the day, the foundation of our investment

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is based on our ability to deliver long-term dividend growth. I think we finished our -- in 2014 with a payout ratio around 74%. We've been able to perform. The other thing that we said, I think, in October, I always get my calls confused, but we're 1 of, I think, 2 companies in the industry that over the last 10 years, somewhere in there, has been able to produce within our earnings range every year 100% of the time. For all my purposes, I can't guarantee that going forward, but at least our track record is exemplary. And I think when you think about management teams around the system, around the industry, when you think about business models around the industry, I think Southern Company is a company that's going to continue to deliver that performance, in my opinion, for a long time.

Ashar Khan

No, I totally agree with your later points, but just creates, right -- Tom, as we used to write, there used to be, I forget what those terms used to be called, synfuel tax credit earnings which progress used to have and everything. These are now ITC earnings now coming into utilities of things. There is a differentiation of quality of earnings going down.

Thomas A. Fanning
Chairman, President & CEO

Yes. But Ashar, I would really differentiate, and we should take this offline, just for the benefit of everybody else on the call, but we should really differentiate synfuel from ITC. Gee whiz, there's an enormous industry for solar. It's pretty clear that not only the administration, but Congress, is in favor of promoting tax code that helps renewables. That's very different than synfuel. And I feel very confident about the ability to sustain these tax credits and how they will improve our cash flow and really help Southern and, therefore, our shareholders, for years to come. I really would think about those differently.

Operator

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

Thomas A. Fanning
Chairman, President & CEO

Yes. Thank you. Once again, thank you, all, for joining us. We really enjoy these times together. I'm really delighted with the results that we've been able to show in '14. When I was just talking with Ashar about the value of the franchise, when you look at the foundation that is Southern Company, it is as good today as it has ever been in my memory. And I think we can continue to produce the kind of results that have tremendous value to our customers and our shareholders. We're taking advantage of other opportunities in the market in solar and other areas and we're seeking to add to that platform of value creation. So thank you for your time today. We will continue relentlessly to meet the challenges and provide the best opportunity available as an investment to you all. Thank you very much.

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

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