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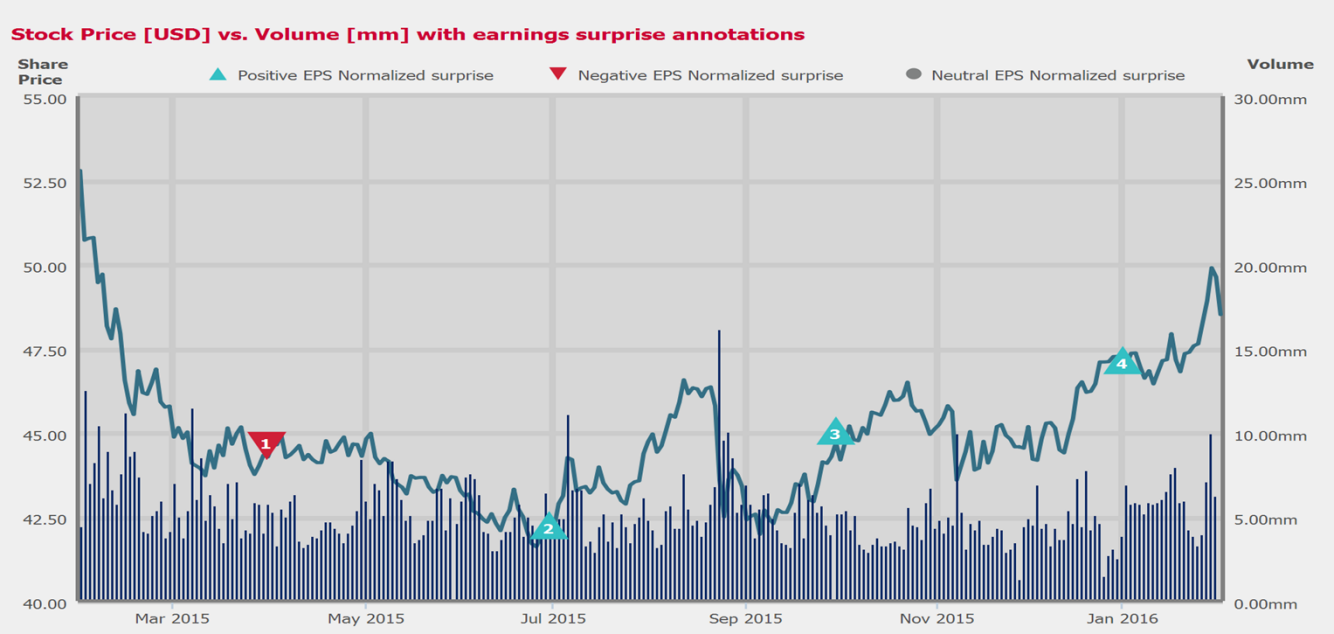
FQ4 2015 Earnings Call Transcripts

Wednesday, February 03, 2016 6:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2015-			-FQ1 2016-	-FY 2015-			-FY 2016-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	0.43	0.44	▲2.33	0.59	2.85	2.89	▲1.40	2.94
Revenue (mm)	4361.30	3606.00	▼(17.32 %)	4389.96	18645.28	17527.00	▼(6.00 %)	19292.93

Currency: USD
Consensus as of Feb-03-2016 4:13 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2015	0.58	0.56	1 (3.45 %)
FQ2 2015	0.70	0.71	2 1.43 %
FQ3 2015	1.15	1.17	3 1.74 %
FQ4 2015	0.43	0.44	4 2.33 %

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Presentation

Operator

Good afternoon. My name is Demetra, and I will be your conference operator today. At this time, I would like to welcome everyone to the Southern Company Fourth Quarter 2015 Earnings Call. [Operator Instructions] As a reminder, this conference is being recorded Wednesday, February 3, 2016.

I would now like to turn the conference over to Mr. Aaron Abramovitz, Director of Investor Relations. Please go ahead, sir.

Aaron Abramovitz

Thank you, Demetra. Welcome to Southern Company's Fourth Quarter 2015 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 measures are included in the financial information we released this morning as well as the slides for this conference call. The slides we will discuss on today's call may be viewed on our investor relations website at investor.southerncompany.com.

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

Thomas A. Fanning
Chairman, President & CEO

Good afternoon, and thank you for joining us. And as always, we appreciate your interest in Southern Company.

2015 was a tremendous year for Southern Company, as we continued to see outstanding performance in our franchise operations. We saw strong financial performance from both our wholesale subsidiary, Southern Power, and our traditional operating companies. Our state-regulated utilities delivered these 2015 results despite the warmest December in the last 120 years. We continued our longstanding tradition of operational excellence, once again ranking among the best in our industry for customer satisfaction and solidifying our reputation as one of the most trusted energy providers in America. We experienced great success with strategic initiatives as both Southern Power and our traditional operating companies continued to build the energy portfolio of the future with significant expansions of their renewable energy resources. And in our ongoing quest to deliver superior risk-adjusted long-term growth, we entered into an agreement to acquire AGL Resources and create a platform from which we expect to compete for growth more broadly across the energy value chain.

Now regarding AGL Resources, I will just briefly add that activities related to the proposed merger are progressing in a timely fashion. The waiting period under the HSR Antitrust Improvements Act expired in late 2015, a necessary milestone for closing the transaction. In addition, AGL Resources shareholders voted in November to approve the merger. The merger remains subject to certain other customary closing conditions, including state regulatory approvals, and we are currently engaged in regulatory proceedings before the various state commissions. The transaction is expected to close in the second half of 2016.

In a few moments, Art will discuss the drivers of our financial performance in more detail and provide guidance for 2016. Before that, however, I will address the progress we've experienced with our major construction projects at Plant Vogtle and in Kemper County, Mississippi.

First, an update on the Plant Vogtle Units 3 and 4. As reported in our last quarterly call, we agreed to a settlement with our contractors for the 2 new units at Plant Vogtle. We have now finalized that settlement,

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and the related litigation has been dismissed. As a reminder, this $350 million settlement resolves all outstanding commercial issues for the project and amends our EPC agreement to provide even greater protections for customers. The settlement affirms and provides incentives for anticipated fuel load dates in December 2018 and 2019 as well as our expected in-service dates in June 2019 and 2020. In a related transaction, Westinghouse acquired the nuclear construction arm of Chicago Bridge & Iron. This move positions Westinghouse and its affiliates as the primary contractor under our EPC agreement. And they have engaged with Fluor to provide day-to-day construction leadership. We have worked very closely with the contractors through this transition, and I'm pleased to say that, thus far, we are very encouraged by the improved communication and efficiencies we've observed on site.

On January 21, Georgia Power filed an application for review of the settlement with the Georgia PSC. Yesterday, the PSC made and approved a motion asking Georgia Power to file further information within the next 60 days pertaining to the prudence of the project to date as well as the current schedule and cost forecasts. Other interested parties will have an opportunity to make filings of their own in response. This will allow the PSC to consider the settlement agreement in the context of a more comprehensive review of the full project cost and schedule. The Commission staff, which will not make any separate filings, will have 6 months to analyze these filings. If the staff identifies any issues of imprudence or unreasonableness, they are directed to work with Georgia Power toward a possible settlement of any such issues within that same 6-month period. During this 6-month period, there will be no hearings. If there is a settlement between the company and the staff, Georgia Power and the Commission staff will file that for the Commission to consider in the fall. If the parties do not come to a settlement, the Commission will decide how to proceed.

Let's turn now to an update on the Kemper County facility. The combined cycle performed exceptionally well in 2015, providing over 1/3 of the electricity consumed by Mississippi Power customers last year. Major startup activities are ongoing, and we continue to transition to operational testing. Fluidization trials on the first of 2 gasifiers are complete, and we were able to begin the cure-out process for the gasifier refractory. The fluidization process was an important validation of the scaleup of the technology, as the operators were able to use the control system to circulate sand and air at design flow rate through the gasifier, a good rehearsal for the eventual introduction of lignite to the operation. The team is currently working to repair a portion of the refractory on the first gasifier and making improvements to all of the nozzles in the refractory lining of both gasifiers to address hotspots identified during the initial cure-out process for the first gasifier. The type of work to repair and improve the refractory lining is similar to the refractory replacement that will be a common part of the plant's long-term maintenance. However, these activities are time intensive, and they are the primary driver for our schedule extension into the third quarter of 2016. As always, quality and safety are our top priorities as we are taking steps to help ensure that Mississippi Power's customers will enjoy the benefits of a reliable source of low-cost energy for decades to come. We expect to introduce lignite to gasifier A this spring. This critical step is the beginning of the important process of integrating all of the various systems of the facility.

In December, the Mississippi Public Service Commission unanimously approved rates for the combined-cycle assets already in service. Mississippi Power plans to seek recovery of the remaining assets after they are placed into service.

Art will now provide a financial update, including an outlook for 2016 and beyond.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Thanks, Tom, and good afternoon, everyone.

As you can see from the materials released this morning, we had solid results for the fourth quarter as well as for the full year of 2015.

For the fourth quarter of 2015, we earned $0.30 per share compared to $0.31 per share in the fourth quarter of 2014. For the full year of 2015, we earned $2.60 per share compared to $2.19 per share in 2014, an increase of $0.41 per share. Excluding certain adjustments listed in the earnings materials, earnings for the fourth quarter and full year of 2015 were $0.44 and $2.89 per share, respectively,

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compared with $0.38 and $2.80 per share, respectively, for the same periods in 2014. As Tom mentioned earlier, our adjusted annual result of $2.89 was just above the top of our 2015 guidance range we established a year ago. The major earnings drivers when compared to our $2.80 adjusted result for 2014 were residential and commercial sales growth, retail revenue effects and tremendous success with renewable projects at Southern Power. These positive drivers were partially offset by increased shares; higher depreciation, operation and maintenance costs; and weather. A more comprehensive list of drivers is included in the materials we released this morning.

Moving now to an economic and sales review of 2015.

The economy within our region continues to experience modest growth. Favorable domestic market fundamentals include strong employment growth that have served to underpin consumer confidence and spending. At the same time, the effects of a strong dollar, low commodity prices and economic weakness abroad have combined to constrain manufacturing growth in our region.

Total weather-adjusted retail sales grew by 0.3% in 2015, led by commercial sales, which were up almost 1% for the year. We experienced positive growth for the commercial sales in every quarter in 2015, which we have not seen since before the recession. Weather-adjusted residential sales grew by 0.4% during 2015. Growth in the residential sector has been fueled largely by customer growth, as the Southeast continues to see positive in-migration. More than 37,000 new residential customers were added in 2015, an increase from 2014, when we added some 31,500 new customers.

Industrial sales fell by 0.3% in 2015. We experienced a modest deceleration in industrial growth in our region as a result of the strong dollar, low oil price and natural gas prices and significant economic slowdown in China and other emerging markets. We have seen the impact of these factors on 3 of our largest industrial segments: primary metals, chemicals and paper. However, transportation and housing related industries have supported growth, and we expect those segments to continue to do well in 2016.

Economic development activity remains robust and consistent with previous quarters' activities. Job creation and capital investment for 2015 exceeded 2014 levels, and the pipeline of potential projects grew significantly compared to recent years. Corporate announcements and potential projects represent a broad cross-section of industries, including automotive, primary and fabricated metals, aerospace and chemical segments. Also within our region, Alabama was named the top state for economic development by Business Facilities magazine, and Georgia has been ranked first for business climate by Site Selection magazine for the third consecutive year. Despite economic headwinds from overseas, our regional economy remains in a positive growth mode. During our most recent economic roundtable, the consensus of the participants was that the economy will grow in 2016 supported by robust employment and spending growth, modest income gains and a steady housing recovery, all pointing to further growth in energy demands.

Our sales growth guidance for 2016 is 1.1% for retail sales, 1.2% for residential sales and 1% for both commercial and industrial sales.

Before we cover the details of our capital expenditure forecast, financing plan and earnings per share guidance, I'd like to speak to the impact of the recent extension of tax benefits on our financial outlook. We currently project that a 5-year extension of bonus depreciation will improve cash flows by approximately $4 billion through 2020 and potentially more, assuming Southern Power is able to execute on its growth plan. This translates to a significant uplift in the value of the enterprise. Over the next few years, some of the biggest tax benefits are expected to be generated by Plant Ratcliffe, Plant Vogtle Units 3 and 4, along with a variety of renewable energy projects and environmental compliance investments. Considering our customer-focused business model, this is very good news. All else being equal, our customers should benefit from lower retail rates over time. In addition to the implied reduction in regulatory risks, we expect to enjoy reduced exposure to both debt and equity capital markets over the next several years.

Perhaps the greatest benefit of all these tax benefits is the level of cash flow support we project for our common dividend. Of course, dividend policy is ultimately subject to the approval of our Board of Directors, but our expected cash coverage of dividends is greatly improved compared to how we

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characterized our dividend growth at the time of the AGL Resources merger announcement. We fundamentally believe that value is a function of risk and return. Given the magnitude of the dollars and the high degree of certainty inherent in these deductions, Southern Company's value proposition should be greatly improved.

We provided an updated forecast of capital expenditures for 2016 through 2018 in our slide presentation. This stand-alone projection does not include AGL Resources. Anticipating continued success at Southern Power, we are excited about the possibilities that exist with the extension of tax benefits for both wind and solar projects. We have enjoyed a higher-than-anticipated growth from Southern Power in recent years. In fact, a year ago, our 2015 through 2017 CapEx forecast was approximately $3 billion. Today, based on our recent success, we estimate the same period to be about $5 billion of investment for Southern Power. Going forward, we expect to sustain that same level of activity and success. In fact, our Southern Power forecast for 2016 through 2018 includes CapEx of $5 billion for wind, solar and traditional natural gas generation projects.

Our CapEx forecast for our traditional operating companies does not include projects specific to the Clean Power Plan. If our ultimate compliance plans require investment prior to 2019, our current CapEx projection could or would increase. Our forecasted $1.8 billion investment in environmental compliance over the next 3 years is largely associated with EPA's Effluent Guidelines and final coal combustion residuals rules.

Included in the appendix of our slide deck are a projected financing plan, credit ratings and a schedule of maturities in a liquidity summary. Within our financing plan, you will note the anticipated debt issuances to fund the AGL Resources merger. We expect these notes to be issued shortly before the closing of the acquisition and to include a blend of maturities. Additionally, we are planning on a $1.2 billion in equity issuances in the calendar year of 2016. As discussed earlier, the extension of bonus depreciation is expected to reduce our exposure to the capital markets, and that has resulted in a favorable impact to the remainder of our financing plan.

Considering the incremental cash flow, along with our Department of Energy loan facility for Plant Vogtle construction and an assumption that we will utilize securitized financing for a significant portion of Kemper, which is subject to approval by the Mississippi Public Service Commission, our exposure to the debt markets for our traditional operating companies over the next 3 years should be limited. Southern Power's debt financing needs will be driven largely by their success in finding suitable projects to fill the placeholders in the CapEx forecast.

An additional benefit of the incremental cash flow from bonus depreciation is the effect on our need to issue new equity. We currently project no additional equity issuances beyond the $1.2 billion in 2016. Financial integrity and strong credit ratings have always been priorities for us, and that emphasis remains unchanged. Our financial outlook, including our expected credit metrics in 2016 through 2018, has improved, and we continue to believe our credit profile is fully supportive of our credit ratings.

Moving now to our earnings per share outlook. You will recall that we began issuing new shares in the fourth quarter of 2015 under our internal equity programs, largely to fund the AGL transaction and to reinforce our commitment to financial integrity. The cumulative effect of the shares issued in 2015 and projected for 2016 equates to a $0.06 dilutive impact on our stand-alone 2016 earnings per share. In addition, the estimated impact of bonus depreciation is $0.04. But for the cumulative impact of these shares and bonus depreciation, we would have been in the top half of our 3% to 4% stand-alone trajectory for 2016. Considering these drivers, our stand-alone 2016 earnings per share guidance, excluding any costs to achieve the AGL Resources merger, is $2.76 to $2.88 per share. Assuming the AGL merger closes later this year, our long-term earnings per share growth outlook remains a range of 4% to 5%.

In addition to our earnings estimate for the -- in addition, our earnings estimate for the first quarter of 2016 is $0.53 per share.

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

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Thomas A. Fanning
Chairman, President & CEO

Thanks, Art.

As evidenced by our discussion today, 2015 was indeed a remarkable year for Southern Company, and we enter 2016 with strong momentum. Our franchise business is performing at a high level, solidifying its industry leadership. We see great progress on major capital projects with the completion of the Kemper County facility on a near-term horizon and Plant Vogtle Units 3 and 4 over 60% complete. We anticipate the addition of AGL Resources later this year. And we see a stable economy in a region poised for continued growth. Our cash flow and credit profiles are significantly improved, and we continue to project 4% to 5% long-term growth in our business. With the strength of our 26,000 employees and their commitment to provide clean, safe, reliable and affordable energy to the customers and communities we are privileged to serve, we believe Southern Company is well positioned to succeed in the months and years ahead.
We are now ready to take your questions. Operator, we'll now take the first question.

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Question and Answer

Operator

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

Daniel L. Eggers
Crédit Suisse AG, Research Division

First question for you, just on the load growth outlook. Kind of '15 seemed maybe a little tougher than hoped. And you look at the kind of the rally in '16. Can you just maybe share a little bit more what you're seeing, particularly on the residential side, that are you seeing some usage gains? Or what do you see kind of sprucing that up? And then kind of on the industrial front, it doesn't seem like the world's getting a whole lot better; that the idea that, that's going to bounce this year also.

Thomas A. Fanning
Chairman, President & CEO

So residential, we're seeing a continued in-migration of customers. That's the big deal. And we think that our projection of 1% is going to be driven largely by that. Interestingly, through the work I see in the Fed, we see similarly here in terms of consumption, consumption is kind of flattish. And you're seeing that also in the Federal Reserve data as well. That's not all bad. There's this long-term dividend by cheap oil, therefore, cheap gasoline prices, cheap natural gas prices all is accruing to increase essentially the disposable income of households throughout the Southeast. Interestingly, they're tending to increase their savings rate rather than their consumption rate at that point. Not all bad because that typically serves as an insulator against future economic shocks. So that would be kind of my first comment. Art?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. Dan, you asked about industrial. We commented about the 3 largest segments, primary metals and chemicals and paper were down last year. We expect them to kind of be flattish this year. There are still elements of strength in the primary metals group. I think, if you look at automotive steel, there is still good demand for that. Architectural steel is actually doing pretty well, to boot. And then in the automotive sector, automotive is -- or transportation is expected to expand. And we've got expansions going on at some of the customers in our jurisdiction, Mercedes being one of those. There's model expansions as well, so we expect those numbers to actually do well next year. And then the housing-related industries, primarily in Georgia, are expected to continue to grow, which is kind of a reflection of the continued growth on the residential and commercial end.

Thomas A. Fanning
Chairman, President & CEO

When I commented earlier this morning on Squawk Box about this -- throughout '15, as I appeared in that forum, culminating in a December meeting I had with Dennis Lockhart there on set, it was interesting, our leading indicators started showing softening. Our lagging indicators in commercial were really good. And I had been kind of bearish, particularly in the December telecast. Our guys do a bottom-up forecast, and we've done this business roundtable discussion here in the Southeast with all the economists of the major entities here, and based on a bottoms-up analysis, plus what we're seeing from the roundtable here in the Southeast, we do expect these major industrial participants to start adjusting to this new reality and improve their performance into the end of the year.

Daniel L. Eggers
Crédit Suisse AG, Research Division

Okay, got it. And I guess just the bonus depreciation cash is a pretty huge amount of money coming back to you guys. Was there any way for some of that cash to offset the equity raise you guys needed at AGL? And is that...

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Thomas A. Fanning
Chairman, President & CEO

Yes.

Daniel L. Eggers
Crédit Suisse AG, Research Division

So is there a way to mitigate down the numbers you guys gave when you announced the deal, so maybe the equity issuance is going to be less than the $1.1 billion or whatever that number was originally?

Thomas A. Fanning
Chairman, President & CEO

Let me take you through dumb math, and then we'll talk about how we attributed it here. Dumb math, the number is going to be somewhere between $4 billion and maybe over $5 billion of cash. The $4 billion of cash that we talked about is really through 2020 and doesn't really assume that Southern Power executes its growth plan, which we think they will. So the number could be higher maybe over a longer time frame. When we look at -- so that's kind of a source of cash. When we look at the uses of cash over time, we got into an argument here internally about how to attribute the benefits of that cash. So let's go through it, and let's just use the $4 billion number, although the number could be higher. We had always assumed in our former financial plan, assuming we buy AGL, a $3 billion equity issuance over the time frame. We're going to do $4 billion in cash. If you just use a 40% equity ratio, 40% times $4 billion, so as the cash retires and makes a capital requirement, the equity portion of that would be $1.6 billion. If the total amount of equity was $3 billion and you don't have to issue $1.6 billion now, that leaves you $1.4 billion to issue. When you look at the uses of cash, we could go through a variety of ways to attribute these shares, but since the biggest issue of cash is a near-term use, and that is to acquire AGL, so we decided to allocate the new equity essentially to that project. And so if you think about it, $200 million issued in '15, plus another $1.2 billion, represents the balance of $3 billion; less $1.6 billion equals $1.4 billion. So that's really the simple math. Look, Dan, we could have allocated the equity to Southern Power. We could have taken a pro rata approach. This is just the way we decided to do it to keep the plans in place through '16.

Daniel L. Eggers
Crédit Suisse AG, Research Division

Okay. And I guess, one last question, just that cash, or the reduction in the rate base growth because of bonus depreciation, there was enough room in the 4% to 5% earnings growth band that, that reduced rate-based deployment is not going to work you guys down in the growth rate you originally have provided in the fall?

Thomas A. Fanning
Chairman, President & CEO

Well, there's a give and a take there, right? The -- essentially, the take is, yes, sure, it reduces growth, but the other side is there's the benefit of excess cash and therefore less shares, as I've just outlined with you, $1.6 billion less equity raised over the same time frame. And remember a part of this appropriations bill was not just bonus depreciation, it was ITC and PTC. So you'll see a sustained Southern Power growth plan through this period, and we think we're within that range. We're able to maintain it.

Operator

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

Steven Isaac Fleishman
Wolfe Research, LLC

Just wanted to kind of clarify something here. So the -- when you announced the AGL deal, I think you said it was 4% to 5% growth off of your stand-alone 2015 base. Is that correct?

Thomas A. Fanning
Chairman, President & CEO

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That's right.

Steven Isaac Fleishman
Wolfe Research, LLC

Now your -- and the midpoint of that was $2.82. Now you're saying 4% to 5% growth off of your '16 guidance, which is also still a midpoint of $2.82. So if I go out and look at the future, like I looked out to '18, if you just take the 4% to 5%, defined that way, what was going to be $3.22 by '18 will essentially be $3.08. So what -- could you just be specific on what is the $0.14 difference between what you had said before and what you're saying now?

Thomas A. Fanning
Chairman, President & CEO

It's simply the shares associated with the preliminary issuance to support AGL, plus the estimated impact of bonus depreciation. Look, P/E times EPS is a shorthand for value. When you think about the intrinsic value of Southern, we got bumped from the passage of this bill, an additional $4 billion to $5 billion and perhaps more of cash. So when you look at the delta, the number is $0.04 here. That's how you get to $2.82, and we grow off of that 4% to 5%. It is inescapable. In fact, I would argue that the adjustment, from a book standpoint, is in earnings per share, but the value adjustment is probably in the P/E ratio. If you do a DCF on Southern, we just increase $4 billion to $5 billion just on cash from where we were before. So take $2.88 at 5%, $2.76 at 4%; and that will be our growth trajectory going forward.

Steven Isaac Fleishman
Wolfe Research, LLC

Okay. And then just in terms of...

Thomas A. Fanning
Chairman, President & CEO

And Steve, bud, one more thing real quick. Recall also we talked about -- of course, this is all subject to the Board approval. All of our credit metrics are improved now. We've got lots more cash, so all of our credit metrics are better. And when you look at the dividend thing, if you want to do a Gordon model approach evaluation, we're better off than we were. In other words, we said, given the earnings profiles and the growth rates and everything else, according to the Board approval, we'll pay an additional $0.07 in 2016 and then we would grow that to $0.08, okay? We're on the same trajectory, assuming the Board approves. And our cash flow metrics covering that dividend are somewhere between 20% better to historical performance, around 10% better to what we thought it was when we announced the AGL deal. In other words, our ability to pay the dividend because of this cash is enhanced relative to where we were, consistent with the value proposition.

Steven Isaac Fleishman
Wolfe Research, LLC

Okay, should I read that as this just supports better the higher dividend growth that you talked about on the deal? Or are you suggesting that there might be a chance to grow it even faster than you said?

Thomas A. Fanning
Chairman, President & CEO

Let's say at a minimum it supports the growth that we said before. We'll always evaluate it year-to-year based on the Board. But my point to you is we are significantly better from a cash flow coverage of dividend standpoint than we were before this thing. And so we're able -- affording the Board approves, we're able to maintain what we said before and we're even better off from a credit standpoint.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

And that includes assumption of an increase.

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Thomas A. Fanning
Chairman, President & CEO

And that included going from $0.07 to $0.08 in the increase. I wanted to add.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes.

Steven Isaac Fleishman
Wolfe Research, LLC

Yes, okay. I get that. Okay, okay. One other question, just on the Georgia review. Do you view this -- I mean the commentary about the commissioner seemed to be constructive, so do you view this as an opportunity to kind of go back to kind of getting a bit of a pre-prudence decision? Because I know that was initially the law and then it kind of -- you settled that away, and so there's an opportunity to do that. Or is this -- do you view this as kind of a risk? Or how should we interpret this review?

Thomas A. Fanning
Chairman, President & CEO

Steve, we think this is bullish. This is all associated with the settlement of the litigation. And recall, if you dial the numbers back, around VCM 8, we decided not to pursue these courses because we were in front of litigation and we didn't want to do all that. So the Commission felt, and you've seen a lot of public discourse about this, that the settlement was good for everybody. The Commission is taking the lead in evaluating now is this the right time to pursue prudence. And so we're following their lead. We'll prepare these exhibits in the next 60 days, and we'll pursue this process as outlined by the Commission, but overall we think this is very constructive.

Steven Isaac Fleishman
Wolfe Research, LLC

Okay. I'm sorry, I just want to go back one more time. So the difference in the future earnings that we discussed, that is really all due, longer term, to the bonus depreciation not having as much rate base because of that? Obviously, that's offset by financing, but net-net, it's -- that is the reason for the difference?

Thomas A. Fanning
Chairman, President & CEO

That's right. And we're going to maintain the -- if you go through your Gordon model stuff, we're going to maintain the trajectory of the dividend, so payout ratio is up, but cash flow coverage of dividend is significantly higher. And as our growth rate goes from 4% to 5%, payout ratio comes down pretty quickly in the years ahead. So all we're doing is maintaining, with better credit posture, what we said before.

Operator

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

Anthony Christopher Crowdell
Jefferies LLC, Research Division

Just 2 real softball questions. I guess one is on Kemper. You had some like, I don't know if you call it hotspots, or you had to, I guess, cure the refractory. I mean, is there a period where you get to where you're comfortable with now the gasifier, and I don't want to say "out of the woods," but maybe the high costs or whatever of trying to get this thing online is past you?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes.

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Thomas A. Fanning
Chairman, President & CEO

Yes. And let's be very clear. What we're doing with the refractory is not high tech. It really involved finding some hotspots, looking at that, making -- not only fixing what was there but making an improvement to both gasifiers. So we're taking the opportunity to, once we get this thing up and running, it will run in a safe, reliable manner for years to come. So we took the opportunity to make improvements. These are not high tech, nor are they reasonably expensive. However, they are time intensive. Taking these steps right now we think will benefit us long term. Unfortunately, they do add about 2 months to schedule. So that's what we've done. The startup process, otherwise, as we were so excited I guess the last time we spoke, the fluidization test and the more technical tests have gone beautifully. So we're very kind of energized by the steady rate of progress on startup. Didn't like the delay, but we think that will serve us right in the long run.

Anthony Christopher Crowdell
Jefferies LLC, Research Division

And just lastly, if I move to Southern Power. It seemed like, I don't want to say perfect storm, but you have the maybe YieldCos or other companies that were investing in a lot of the projects that Southern Power was also investing in. I mean, is there a lot more potential, you guys have a lot of cash, great cost of capital, that Southern Power really just takes tremendous advantage of this downturn in the market and sees a lot more projects open to them?

Thomas A. Fanning
Chairman, President & CEO

We're very excited about the opportunity for Southern Power in the next few years. We've demonstrated our ability to execute like champions. We've developed terrific relationships with the people in the field. Anthony, I think the first comment I want to make is recall that $2 billion outperformance in capital deployment from '15 through '17, we think is sustained from '16 into '18. Now I think -- I feel very confident we're going to be able to execute there. There are some wild cards out there. It'll be fun to see when gas starts reemerging, okay? And so that could even accelerate beyond what we're showing right now, but right now I think we've got a good plan. We continue to execute in a very disciplined way, and we'll see what goes. I have very kind of positive views about our ability to execute for Southern Power in the years ahead. And one other thing, we just moved Buzz Miller over there. He's a very talented guy and, I think, we'll do great.

Operator

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

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

I just want to make sure I understand, you've got in your guidance the shares to fund the acquisition but no revenues from the acquisition?

Thomas A. Fanning
Chairman, President & CEO

That's why basically they're excluded from kind of ongoing EPS, exactly right.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

So when are you assuming the deal closes? Or are you just assuming it doesn't close in this year?

Thomas A. Fanning
Chairman, President & CEO

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Well, no. Remember the earnings profile of AGL is such that it's front-end loaded. All their earnings are in the first half of the year. They don't really earn very much in the second half of the year, and so what I've been telling everybody is you shouldn't expect any contribution in '16 out of AGL. And on a stand-alone basis, as we suggested in the script, if you remove these kind of one-off items, we were in the high end of the 3% to 4% range. Now when you bring AGL on, beginning in '17 and beyond, we change our growth rate to 4% to 5%. And we feel very comfortable about that.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

And that includes AGL, obviously.

Thomas A. Fanning
Chairman, President & CEO

Yes, and that includes everything now.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Right. '16 doesn't include anything for AGL.

Thomas A. Fanning
Chairman, President & CEO

So remember AGL, plus the fewer shares, plus the growth rate of Southern Power gets us back to the 4% to 5% that we told you we would do before. And we think, even with a higher payout ratio, as the book EPS would suggest, the cash flow coverages allow us to pay that with even greater safety. We're in a better position on the dividend than we were before when we announced AGL.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

With some bonus D.

Thomas A. Fanning
Chairman, President & CEO

Yes.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

And then just back to your comments on Southern Power. Should we look for you to kind of -- what's the right scale in your tax appetite for doing more renewables?

Thomas A. Fanning
Chairman, President & CEO

So I'll let Art kind of fill you in on that. We find ourselves, because of this excess cash and tax benefit, in a carryforward position. We've adjusted, we are adjusting our IRR requirements. We have this very disciplined process we go through, particularly for the solar deals. And I'll let Art go through that. Unchanged probably is our wind deals.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

I think you just wrapped it up. It's just like he said, Paul. We're going to not be able to monetize some of the investment tax credits quite as quickly as we had expected for solar. However, it's a little bit different for wind because production tax credits are spread over a 10-year period. So we'll still look at incremental solar. We'll look at incremental wind. And we'll still apply the very disciplined processes Tom talked about to our approach to every project.

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Thomas A. Fanning
Chairman, President & CEO

And we talked to you before, in October, about we had a great backlog already in '16, winning all those projects, bid underneath our curves even as they are adjusted.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

And then Tom, I kind of heard you in the background this morning on TV, but you didn't have my undivided attention. I had a couple things going on. Can you just -- and I've been looking for a replay of it, but can you just kind of review your comments you had about kind of a new age because of e-commerce or electronic on data?

Thomas A. Fanning
Chairman, President & CEO

Yes, yes. It's fascinating stuff. We really do have a great team of economists here, and we're just seeing this now in a broader sense. Here's the issue: We had talked historically about leading and lagging indicators. And in fact, I would argue our stuff is as good as anybody's in predicting the direction of the market. And what we had been seeing historically is that industrial sales are the leading indicator. Even better than that is economic development, but let's just stay with industrial sales. They create jobs. They grow personal incomes that are above normal for the Southeast. As we create jobs, people move in. They get those jobs. They get the higher incomes. They start consuming more. That's residential. And then as more people move in, the commercial sector comes in. They do dry cleaners and grocery stores and hospitals and schools. Now there is an emerging segment in the commercial class. So the commercial class is the lagging indicator, and it matured really well during '15. And so you say, is that a bearish signal? There is an emerging, important segment in commercial sales that really relate to the electrification of the economy. As the whole economy becomes more digital in its composition, we're seeing, especially in the Southeast, the advent of data farms, of server farms, of IT professionals. And these jobs are 2 to 3x higher than typically what would you see in a normal commercial job, like a restaurant or a school. These are really high-paying jobs, and they don't have the kind of correlation to industrial activity that you see typically from commercial to industrial. And just as a supporting statistic, Georgia was just named the seventh fastest-growing state in the United States for technology employment. This is a sustainable growth rate and doesn't have that correlation, so even if industrial starts to take off and all that again, these guys are going to sustain. And we're very excited about that. The buying power, the economic quality of this segment is really good.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

And then your 1% forecast for industrial sales growth, that's just based on economic development activity you expect to start taking root?

Thomas A. Fanning
Chairman, President & CEO

Yes, plus I think even the people that had been damaged a bit by the downturn and the malaise in international economies and cheap oil and the strong dollar and all that, even there, we're seeing these people adjust to this new market reality. Let me give you a fun statistic there. Nationally, we're seeing United States exporting down around 7%. In the Southeast, it was down only 2%, and that really picked up at the end of the year. The Savannah port had a record year in terms of its activity. So I think what we're seeing is some of these industries that had been hurt pretty bad, and maybe they're coming off a low base, chemicals, primary metals, et cetera, now adjusting to this new reality.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. I'd agree with that.

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Operator

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

Gregory Harmon Gordon
Evercore ISI Institutional Equities, Research Division

I don't think that it's possible to patent the dividend discount model. I think that was already done by someone else, but thanks. So on -- a little bit more on just the question of the visibility on the solar and wind stuff. I understand you said you're going to -- because you theoretically are going to be able to monetize ITCs now over a longer time frame, your IRRs are higher. Every other utility holding company is in the same boat, so if the marginal -- if your marginal competitor for an incremental solar project is just Con Ed or Dominion or Duke, then you're all in the same boat, and it doesn't really change the competitive landscape. But if your marginal competitor is someone who is -- has got a similar credit rating and is -- still has a tax appetite, doesn't that put you at a theoretical disadvantage going forward in order to achieve your targets?

Thomas A. Fanning
Chairman, President & CEO

Yes, sure, as you posited your question, yes, but in what we've already seen for the projects that we've already circled for '16. I think remember, in October, I gave you great confidence about our ability to execute '16 in a similar manner, I think we're going to be able to do that. We already know that those projects meet our hurdle rates, even with the adjustments. And don't forget about the importance of relationships; our ability to close; the fact that we've worked in joint development, if you will, for people to get power sales agreements that are suitable to our risk-return profiles. And so I think all this will work to our benefit. We don't see really any significant slowdown. I just wanted to let you know that we were looking at the time value of the cash, but it doesn't make a substantial difference, to be honest with you. I feel very bullish about our ability to execute growth program.

Gregory Harmon Gordon
Evercore ISI Institutional Equities, Research Division

Okay, great. And I know that Steve asked this question a million different ways. And I come up with a slightly less, lower number in '18 than he does, but semantics. The -- is it solely the impact of bonus depreciation, all things equal? Or are we also sort of seeing the compounding effect of slightly lower-than-expected sales growth in terms of sort of earned returns on -- across the business as well?

Thomas A. Fanning
Chairman, President & CEO

It's all bonus. Bonus, yes, bonus lowers your growth rate. Improving your growth rate is going to be less shares. Improving your growth rate is going to be the growth plan of Southern Power, and we're going to keep growing. Remember we talked about $4 billion. I mean I know we're conservative on all these things, but if Southern Power executes this growth program, it's going to be more than $4 billion. It could be, in fact, a little higher than $5 billion.

Gregory Harmon Gordon
Evercore ISI Institutional Equities, Research Division

Got you. Last question. Georgia, things look like they're going in a positive direction in terms of them reviewing the settlement then doing prudence. You also have a rate plan that you'll either get an accounting order for, again, this year or go through a normal rate case process as you usually do when you roll these things. Is that workload sort of theoretically, like, achievable by the Georgia Commission? It's just a lot of stuff for them to get done this year. Or should we expect some of the stuff to sort of roll into 2017 just by the sheer magnitude of what they're trying to accomplish with 3 major approvals pending here, the settlement, the prudence review and the rate case?

Thomas A. Fanning
Chairman, President & CEO

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Yes, man. I mean to add to that, I think we're doing the integrated resource plan. We have VCM 14 filed in February to be done at whatever it is, July, August. And then we have 15 in the middle of the year. So if you think about it, we've got a lot of activity. And I know, when they had the suggestion to go through this process, the staff raised some issues about workload. Look, we all get that. We have a history, since really 1995, of working very constructively with the staff and the Commission. And we'll find a way to balance the workload and achieve good results for everybody. So it's a great point. Let's let the Commission figure that out, and we'll work with them to get good results.

Operator

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

Julien Patrick Dumoulin-Smith
UBS Investment Bank, Research Division

It's Julien here.

Michael Weinstein
UBS Investment Bank, Research Division

Just for the record, I just want to say, we're both on the call, but I'll let Julien do the talking.

Julien Patrick Dumoulin-Smith
UBS Investment Bank, Research Division

Well, a quick question, if you will, just to elaborate on the last series of questions around the growth rate. Can you be specific around these ITC benefits recognized in '16, '17 and '18 as well? Sort of what are we seeing this year? And what are you thinking going forward? Dominion just laid it out the other day, they're seeing, obviously with the lower CapEx, a rolling-off, but what are we expecting? What are we baking in there? Is there an offset to the bonus depreciation potentially with more solar ITCs?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, the problem is the bonus depreciation pushes out, stands in front of the monetization of the ITCs, so the more solar you do, the more bonus you book kind of pushes out the equation a bit. But if you look at '16 and '17, it looks we'll be back into utilizing tax credits, I believe, sometime in 2018.

Julien Patrick Dumoulin-Smith
UBS Investment Bank, Research Division

And how much -- I'm just kind curious, how much is baked into the 2018 number then, just to be very clear about it? Or are you saying...

Thomas A. Fanning
Chairman, President & CEO

So if I had to -- I mean, I'm looking at some [indiscernible]. I mean, it looks like, yes, you're in there. You're kind of done in '17. You're into it, consuming it in '18, and you're done by 2020, 2021. It gathers itself up pretty quickly. It consumes it pretty quickly. We can give you a breakdown year-by-year, I guess, later but...

Julien Patrick Dumoulin-Smith
UBS Investment Bank, Research Division

And is there any incentive to delaying projects? Just to kind of thinking about it out loud, if you're not getting the tax benefits now, why not push them off if you can renegotiate the deals, get a little bit better of -- a little better uplift?

Thomas A. Fanning
Chairman, President & CEO

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You're talking about solar deals?

Julien Patrick Dumoulin-Smith
UBS Investment Bank, Research Division

Yes. There's talk out there in the industry. I mean, I suppose you guys could potentially be a leading indicator of it.

Thomas A. Fanning
Chairman, President & CEO

No. You know what, I mean, it's an interesting question. Here is something that we have talked about, but so far, we haven't seen much of it. Remember when we thought there was going to be a cliff from '16 to '17, and we all said, "Boy, there's a freight train running to get deals done in '16." And we kind of said, "Well, you know what, if we get this extension," which we did, "would all of the activity show up in '16, or would it start to spill over into '17?" We're seeing some of that, okay? But we still feel that for the projects that were circled by us back in '15 for '16, that they're still going to happen pretty much in '16. There could be some minor spillage, if you will, into '17. But here's what I think you're going to find more likely, and that is more projects now come to light. When you think about people starting to anticipate proactive responses to the Clean Power Plan, other states' activities with respect to renewable portfolio standards, look, I think there is a tremendous appetite to grow both solar and wind in the years ahead. So my sense is, with the added ITC and PTC extensions, the market is going to well exceed, I'm just going to guess, what we all think is out there. And the price for those projects will reflect the fact that the general participants in the United States are going to have bonus depreciation sitting on top of them. In other words, I think this will all resolve itself and we will see additional growth. That would be my guess.

Julien Patrick Dumoulin-Smith
UBS Investment Bank, Research Division

Got it. Can I just go back, real quickly clarify we're getting some questions here, when we're talking about the ITCs, I was specifically inquiring around the earnings impact, not necessarily the cash. Is there any solar ITC earnings impact reflected in the '16 guidance and '17? Or are you also delaying the earnings recognition?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

No. For book purposes, you will still recognize the benefit of ITC. It's the recognition for cash that will be delayed until you've got room to take them.

Thomas A. Fanning
Chairman, President & CEO

So the cash benefit gets delayed a bit. And you're in the kind of, I don't know, if I did an average of that, it's kind of an average of, I don't know, 2.5, with a 4-year total kind of thing. That's kind of the time value magnitudes you're talking about. It doesn't...

Julien Patrick Dumoulin-Smith
UBS Investment Bank, Research Division

But just to be clear, well, how much in, like, EPS are we talking about in '16 guidance?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

In total for Southern Power?

Julien Patrick Dumoulin-Smith
UBS Investment Bank, Research Division

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Yes -- or for the ITC. Just as I'm thinking about like that being something of a quasi onetime that you want to think about for...

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

I'm going to say it's about $150 million.

Julien Patrick Dumoulin-Smith
UBS Investment Bank, Research Division

Of ITC benefit in '16?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, right.

Julien Patrick Dumoulin-Smith
UBS Investment Bank, Research Division

All right. Great. And in '17 and '18, I suppose it's proportionately lower based on the CapEx you're projecting. Is that probably a fair statement?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

That's correct. It depends on the mix, remember, the mix of wind and solar. So we've just given you a number. We've not defined it in any way between what's solar, what's wind and what's gas.

Operator

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

Stephen Calder Byrd
Morgan Stanley, Research Division

Most of my questions have been addressed. I just wanted to touch on new nuclear and check in on the Sanmen project in China. What's your sense in terms of the progress at Sanmen?

Thomas A. Fanning
Chairman, President & CEO

It's good. There were the -- I guess, their big holdups, related to the reactor cooling pump, resolving those technical issues, those have been resolved. I think they're moving forward. I forget which ones are which, but one's going to go in service this year. And I think Sanmen this year, and early next year will be Haiyang. They're going well. With respect to new nuclear, certainly, as the Clean Power Plan starts to mature and state's responses, we've said it before, there's really a big 3, maybe a big 4, in responding to that. I think new nuclear makes a lot of sense, big scale baseload, no carbon emissions. Clearly, renewables will be a big player, will be for us, have been for us. And then when you see kind of intermittent resources like wind and solar come to play, you're going to need 2 types of gas come in. One piece of gas, which will be the ability for a generation to follow the intermittency will be CTs. So we think you'll start to see CTs in a big way. And then it looks tough for coal, certainly new coal. So if you want to look at baseload looking gas, that looks like CCs. So those are going to be the trends that I think you'll see going forward. Right now, Georgia has filed its integrated resource plan, but that really is not particularly responsive to the Clean Power Plan. It is way too far early to get a kind of cogent response by the state. So you should view the IRP in Georgia as being pre-Clean Power Plan in its composition.

Stephen Calder Byrd
Morgan Stanley, Research Division

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Understood. So that could add -- as you think about the Clean Power Plan, that can add additional opportunities but probably a bit later on, just given the time frame of that regulation?

Thomas A. Fanning
Chairman, President & CEO

Yes. And then that's right, but you're going to get in this conundrum of whenever you decide, whenever it's accepted by EPA and everything else, if gas is going to be a big deal, that you've got 4 years to start building combined cycles and you got to have a response in place by 2022, for example, you got to start right away. And that's why, I guess, Art made the comment that you're going to start seeing potential changes in the CapEx budgets if CCs start to show up in the back end of this 3-year budget we've laid out for you. We don't have that [indiscernible].

Stephen Calder Byrd
Morgan Stanley, Research Division

That makes a lot of sense. Just got one last question, just on Toshiba and Westinghouse. We're very pleased, obviously, with the settlement and treatment of the risk position. There's a little bit of press reports about the position of Toshiba and potentially looking at their investment in Westinghouse, but that looks more like a financial task rather than anything operational. I assume it's the case that the people that you want in terms of the team involved from Westinghouse, et cetera, they're there. If Toshiba were to take a write-off of Westinghouse, that's not necessarily really that translates into anything different in terms of team composition or commitment to the business or anything of that sort?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

No, not at all, Steve.

Thomas A. Fanning
Chairman, President & CEO

In fact, we would argue that look, we're in such a better spot than we were. Think about the relative positions of the partners. We have a single point of contact now. They're not having to fight with each other. In fact, we're already seeing improvements on the site. We're going to 24-hour coverage, which we didn't have before. We're seeing an acceleration in the subcontractors for things like panels, Newport News, Oregon Iron Works, a much more focused workforce on site. No, this thing has been terrific. And with respect to any, and I'll get Art to comment on this, with respect to any credit issues at Toshiba, with respect to their ability to undertake their financial obligations under the contract, they provided us LCs to meet their obligations.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

When they were downgraded to low investment grade, the terms of the contract required them to commit to letters of credit, which we received about a month ago.

Thomas A. Fanning
Chairman, President & CEO

And they are written by strong banks that we're completely happy with.

Operator

Our next question comes from the line of Shar Pourreza with Guggenheim Partners.

Shahriar Pourreza
Guggenheim Securities, LLC, Research Division

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Just looking at Slide 10, the dip in CapEx that you're showing for Southern Power, I'm still trying to just figure out, is this the pull forward of demand under the old tax regime? Or is that sort of Southern Power shifting out their CapEx profile, given the higher hurdle rates or the less tax appetite?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

You're talking in '17, Shar?

Shahriar Pourreza
Guggenheim Securities, LLC, Research Division

That's right. Yes, in '17, exactly.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, I think it's a bit of the lack of supply at this point is that's going to have to adjust to the new market reality that you now have extended the ITCs beyond down to 2021, that you don't have as many projects that were in the mill, so to speak.

Thomas A. Fanning
Chairman, President & CEO

Yes. And you know what, I mean, that -- I think Art is right on the money there. I wouldn't be surprised that, that number -- the market for that number grows. And I feel good about our ability to execute within that growing market. Look at what we've done, and that's why we wanted to make a point in the script about kind of the last 3-year forecast we gave you was $3 billion and we did $5 billion, for heaven's sake. Right now, we're saying it's going to be $5 billion for the next 3 years, and we're going to do $2.4 billion in '16. That says, well, there's only $2.6 billion in the last 3 -- in the last 2 years. I wouldn't be surprised if that number grows. When you see the availability of these tax credits, when you think about people getting ready for the Clean Power Plan, the market's going to grow. That's what we're showing right now. That's what we're going to stick with in our plan, but I think there's room to grow.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

If you look at the RPS standards, the expansions, that will certainly drive some of the growth naturally anyway.

Thomas A. Fanning
Chairman, President & CEO

Absolutely.

Shahriar Pourreza
Guggenheim Securities, LLC, Research Division

And then just sticking with the growth, large-scale acquisitions on the renewable side, I have to imagine there's willing sellers. And maybe you could just touch on, if you can, the recent media reports that Southern Power was potentially looking at SunEdison's portfolio.

Thomas A. Fanning
Chairman, President & CEO

Wow, I haven't seen that, and I'm not going to comment on it. We are active. We have terrific relationships, have had terrific relationships with major developers. First Solar has been one.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Recurrent.

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Thomas A. Fanning
Chairman, President & CEO

Recurrent's another. And so we work lockstep with those guys, and that's why we're so confident about kind of our forward supply. Certainly, there are projects that are in existence, and if we're a logical buyer, we will participate really hard. I'll give you examples where we've done that. In Georgia, after the solicitation process that went through, a lot of developers went and did deals there. We became a very attractive participant because we could execute with a great deal of financial resources and just work it really well. That's going to be in existence. But with respect to any particular name, we would never comment on that. There's going to be stuff available though.

Operator

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

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Just wanted to clarify a couple of points you'd made earlier, just to make sure I'm getting them right. So first off, on bonus depreciation, is it fair to assume that the $0.04 hit that you assume in '16, is that a good annual number to think about for '17, '18 as well?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

No. It will go up as we move out in time, Ali. The facts are that we were actually a cash taxpayer in '15 and would've -- before the extension of bonus, would probably have been one in '16. So it is a smaller effect in '16, but it will grow over time.

Thomas A. Fanning
Chairman, President & CEO

But just remember, consistent with the guidance we've given you, we're going to overcome a continuing burden by less shares, growth plan, addition of AGL.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Yes. No, I get that. And then secondly, so given this ITC and PTC extension, and Tom, you alluded to the fact that previously you were looking at a bit of a cliff in '17. So off that 2015 earnings base for Southern Power, how should we be looking at the next 3 years? Relatively flat, or growing, given that you think they'll extend it? I mean, what -- how should we think about that change now from your perspective?

Thomas A. Fanning
Chairman, President & CEO

These guys hate me talking about this, but -- no, I'm actually talking about Southern Power, not you. We have continued to beat Southern Power's goals every year. Gosh, when I think about, I want to go back to 2014, we estimated around $1.50 billion or so, and we got $1.70 billion or so. When we estimated '15, we estimated $1.80 billion, and we're going to get $2.15 billion. Now here's what's interesting. I'm going to give you a number in '16 that's going to knock your socks off, I think. But remember, we added to the CapEx, so our CapEx went from, I forget what we estimated, $1.2 billion to $2.4 billion, round numbers, in '15. And then we said we're going to execute similarly in '16. So imagine the CapEx that we've been expending on projects. And while we jumped up to $2.15 billion, the effect of this acceleration of CapEx, at the end of '15, we were spending CapEx but didn't have projects in service. Once we go into service in '16, you're going to see a great big jump. And that jump could be as high as the high 200s to $300 million in net income. So it's going to be a big bump. Now consistent with the CapEx that we're showing you here, that number is not sustained. And in fact, the -- I mean, the less CapEx and the idea of the cliff and all that, would show that our net income will come down in Southern Power to some level in '17. Not prepared to talk about what that level is. But I want you to know, don't expect $300 million to stay the

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same every year thereafter. I will just say, '16, we expect a great year in net income contribution from Southern Power. And just remember, in '17, '18 going forward, AGL pops in, and we estimated way back when I think about $0.10 a year on the average. So that's what really picks up for Southern in '17, '18 and beyond.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

And also, can you remind us, Art, again, of the '15 O&M number expense that you posted, what kind of growth rate should we be looking at annually going forward?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Okay. Ali, going forward, we're going to stick with our 3% to 3.5% number. But understand that there's no such thing as a normal year in non-fuel O&M. Looking back to '14, I mean, it's -- for the operating companies alone, year-over-year, it's only up 1.2%. If you look at total Southern, it was up 2.3%. So lots of things influence those numbers. But as a planning guide, I think 3% to 3.5% is a good number.

Thomas A. Fanning
Chairman, President & CEO

And you guys know, for years, really, back -- I mean, going back when I was in the CFO ranks, we developed this dynamic budgeting process where, actually, we approve a lower level of budget and then above that, we develop some flexibility that essentially creates optionality in our spending plan to match for different economic conditions and different weather, such that, that's why we always hit our numbers. We're able to adjust spending and when we have warm weather during the summer, we're able do more outages and more work. And what underpins all that, the result is we have the best reliability for the wires and our generating system in the industry. So it works exceedingly well. But Art is right. I mean, I guess, you should use a 3.5% looking number, but just be cautious. We'll match that with revenue over time.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. And there's other exogenous factors that -- we'll bring Kemper online, that will certainly make a difference in non-fuel O&M. And as we bring other environmental pieces of equipment on, that will impact O&M as well. So -- but I'm really talking about base kind of stuff.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Yes, understood. And last question. Tom, now with all these moving parts and these extensions and bonus, et cetera, if you look at your company on a stand-alone basis and pre-the AGL acquisition announcement and the financing that goes with that obviously, if none of that had happened, what kind of growth rate were you looking at for Southern sort of on a stand-alone basis?

Thomas A. Fanning
Chairman, President & CEO

Okay. Absent AGL, absent bonus and all that?

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Well, the bonus obviously -- sorry, go ahead.

Thomas A. Fanning
Chairman, President & CEO

Okay, if -- I'll answer it. Absent AGL, absent bonus and all the new tax law we just got, it would have been 3% to 4%. And we would have been back to the litany of me kind of posing to you all the rhetorical

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question that we, in fact, say that is we would become way excess cash flow. That's what we talked about before, and we said there's kind of 3 things you can do with it. One is buy back your own stock. One is buy somebody else's stock. And in the middle, buy assets. And what we had been seeing, which you've seen us do in that strategy, was to buy up a bunch of assets, particularly at Southern Power. We saw an opportunity with AGL not only to buy somebody else's stock at a premium that is enormously accretive, especially given where they were trading relative to their peers. So our premium wasn't nearly as high as what you see in the media, and especially relative to other deals. And it accretes to our growth rate. And so this thing has been a home run ever since we've announced it, and I think our stock has performed accordingly. But it would've been 3% to 4%, but we would have been dealing with what do we do with the excess cash.

Operator

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

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Hate to be the one to do this, but mine have all been asked and answered. I think I can hand it off to the next guy.

Operator

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

Paul Patterson
Glenrock Associates LLC

I just wanted to ask you a couple of quick ones. What's the GDP forecast for 2016?

Thomas A. Fanning
Chairman, President & CEO

It's a little over 2%.

Paul Patterson
Glenrock Associates LLC

A little over 2%?

Thomas A. Fanning
Chairman, President & CEO

Yes.

Paul Patterson
Glenrock Associates LLC

Okay. Now when I look back at what you guys had for this time last year, you guys had about 3% and you expected 1.3%. So when we're looking at this, are we -- have you guys changed your GDP growth rate? And also, by the way, I hate to do this, but is a leap year in this as well, this new...

Thomas A. Fanning
Chairman, President & CEO

You know, that does matter.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. Paul, this is Art. I think, certainly, GDP is a factor that we put into our forecast, and it does have an influence. But -- and one other thing, and Tom's already kind of mentioned it, is our bottom-up approach, is we talk to all of our large industrial customers and we get a lot of information from them about what

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their plans are, what their expansions, what new models they might be bringing online, whatever, and we factor that in as well. So it's not just a top-down, GDP-driven number. So it's not going to always match up.

Thomas A. Fanning
Chairman, President & CEO

And let me just give you a story about that. So when we went from '14 to '15, we had gas prices, on the average, be kind of in the 4s to now in the 2s. Okay? So there were some people on the margin with cogeneration facilities. So as prices and gas went down, they turned on their co-gen and stopped buying from us. That also impacted industrial sales in a big way. You're not going to see that same delta this year because you're at a super-low gas price. I don't know how much further lower they can go, but we're not going to see that delta. And so what you're remaining with is an industrial growth rate that we think is achievable. It is absolutely a bottoms-up, boots-on-the-ground kind of analysis. We do check it with our kind of big megatrend-looking stats, but we're pretty confident with what we've got.

Paul Patterson
Glenrock Associates LLC

Okay. And then with respect to Julien's question on the solar ITCs, I wasn't really completely clear about what the 2017 impact was. It sounded like it was, if I got it right, $150 million that you guys saw in 2016 for the ITCs. And then, I just -- I apologize. I just didn't really catch what the -- what you guys expected to have happen with that in 2017?

Thomas A. Fanning
Chairman, President & CEO

Yes. It really depends on whether we're going to do solar deals, wind deals or natural gas. So it's hard to say what it's going to be then because it depends on what we commit to do and what we spend CapEx on, what clears into service.

Paul Patterson
Glenrock Associates LLC

Okay. But directionally, do you think it might go down? Is that what...

Thomas A. Fanning
Chairman, President & CEO

Oh, sure. Oh, yes, absolutely. Because what you're going to do probably is -- I don't know. Well, I'll say under the current plan that we forecast here, who knows what's going to show up in the market, and we'll adjust accordingly as we see it show up. But one of the things you can pivot to do is do more wind, for example. That would make it go down.

Paul Patterson
Glenrock Associates LLC

Right. And that would suggest that, that would be a -- that could be a little bit of a -- but that could be a little bit of a drag. Is that what we should think in terms of, at least, in the near-term year-over-year?

Thomas A. Fanning
Chairman, President & CEO

No. Listen, we feel comfortable about hitting our numbers that we're showing you guys. Look, I mean, we're giving you our best guess and we're giving you a conservative case. My sense is there's going to be a bigger market. And certainly, I will challenge Southern Power to participate fully in that bigger market than what they're committing to right now. Remember, we went through the discussion earlier on the call about going from a big CapEx number in '16 to a lower CapEx number in '17. That really is just a reflection of where we are. We'll push them to do more.

Paul Patterson

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Glenrock Associates LLC

Okay. And then just with Kemper and the negotiations on the CO2 contracts, how is that going? And how should we think about the impact of low oil prices and the economics of Kemper on an operational basis, given what we've seen with the big dramatic drop in oil and gas?

Thomas A. Fanning
Chairman, President & CEO

Interestingly, I asked that question yesterday in terms of appetite for CO2. People still have an appetite for CO2. For the EOR business, there's a tremendous demand. And in fact, we've been approached -- forget Kemper. We've been approached about getting in the business of producing CO2 from other places. You may remember way back when, we did one of our early pilots on carbon capture and sequestration out at Plant Barry and we were sequestering the CO2 in the Citronelle fields there. We think there's tremendous demand for CO2 in the EOR business even at these prices, and I was a little surprised at that. In terms of the relative costs of energy, we've kind of covered that in other calls. And I just remembered my baselines here, so I'm going to just quote what I've quoted before that at $100 a barrel, the value of CO2 plus a host of other assumptions, got us to about a $1.25 per million BTU equivalent. At $50 a barrel, it was somewhere around $2 to $2.25 equivalent. And so we'll see what happens now.

Paul Patterson
Glenrock Associates LLC

Is that linear? Or I mean, as you know, we've had a drop from there. There was just sort of a surprise [indiscernible].

Thomas A. Fanning
Chairman, President & CEO

Of course, yes, we get that. But listen, you know what, and that -- I get this question all the time about how can you justify building nuclear when gas prices are low. One of the things we do know is that we don't know what's going to happen with gas prices, and they tend to be much more volatile than other fuel stocks. One of the advantages of Kemper relative to even other natural gas plants is that we've essentially fixed out our costs of supply. We have mine-mouth lignite. We know what that costs. That's not going to vary. And so we're going to be able to produce, assuming a reliability profile, at a very constant level. And we recall also what has changed over time. Look at the performance of Kemper in the past year just purely by running natural gas through the combined cycle units. We've supplied 1/3 of the energy consumed by Mississippi Power customers out of the Kemper site. So we're going to be able to provide reliability assurances in the regulatory process that we think is going to be very attractive.

Paul Patterson
Glenrock Associates LLC

Okay. And then just -- there is this -- there have been some reports about large coal inventory in light of the low gas prices and what have you. And I was just wondering if there's any issue or any comment that you guys have in terms of the level of coal inventory and if anything has to change contractually or anything else you might see in terms of coal gas dynamics in the Southeast because of the inventories you're seeing?

Thomas A. Fanning
Chairman, President & CEO

Paul, thanks for asking that. I won a monetary bet with Art Beattie on that. We prepare the most arcane data. And in preparation for this one, I think I just beat him.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

I told him you won't ask this, Paul.

Thomas A. Fanning

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Chairman, President & CEO

But in fact, inventory is up a little bit, but not bad. And we're going to be able to manage it down. Here is kind of the fun stuff. We have been able to manage down the contracts over time. And so from a supply standpoint, we've really shifted the course to PRB away from Central App. Illinois has also increased. Alabama remains a certain set of supply. So we've been able to shift our supply. But the other thing that we've been able to do is work on transportation. We've been able to work constructively with the railroads, and here's my arcane data. When we talk about train sets and 2014, at our peak, we had 95 train sets moving coal around the United States. In '15, that number's gone down to 75. And for '16, we have 45 active. So we've been able to take down the number of assets that are moving coal around the United States. That will serve to balance out our fuel loads in an economic manner for the benefit of our customers throughout this year and then going forward.

Operator

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

Steven Isaac Fleishman
Wolfe Research, LLC

Just a question on thinking about kind of Vogtle with the bonus depreciation, does the $4 billion or $5 billion of cash include getting bonus kind of on Vogtle, at least, one of the units when it comes in?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes.

Steven Isaac Fleishman
Wolfe Research, LLC

Okay. Just one of them or both of them?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Both.

Steven Isaac Fleishman
Wolfe Research, LLC

Okay. And does the 4% to 5% growth rate include like the rate base impact of Vogtle from bonus depreciation too, so it's kind of everything together?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

I would imagine that it does. I can't imagine it not being impacted.

Steven Isaac Fleishman
Wolfe Research, LLC

Okay. So you're including the full impact of bonus depreciation, cash and rate base for Vogtle?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

That's correct. And we -- we mentioned that in our script, actually. It was going to pick up both Kemper and Vogtle. So within those time frames, that's true.

Operator

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

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Ashar Khan

Tom, I'm a little bit -- a lot of numbers, but I don't know if you can kind of like simplify, or I heard something wrong. And this, I'm trying to understand the merger. So you said, if I heard in the commentary, that the merger is going to add $0.10 in '17 and '18, if I heard it correctly?

Thomas A. Fanning
Chairman, President & CEO

Round numbers, that's right. Through the period, it's $0.10 accretive per year. And the numbers are $0.09 and $0.10 and $0.11, but whatever.

Ashar Khan

Okay. But then I also heard that you said that you're using $1.4 billion of equity from the bonus depreciation windfall in terms of investing that into this new investment, which is AGL, so you don't have to utilize it. And to me, $1.4 billion of equity is equivalent to, on current -- today's stock price, is equivalent to about $0.10 a share. And then you are saying that's also hitting us by $0.06 in 2016. So to me, that implies that the transaction is diluted by $0.05. So what am I missing? The numbers don't add up. There's $0.06 plus $0.10 on equity avoidance plus 10, I'm just not getting it.

Thomas A. Fanning
Chairman, President & CEO

Yes. I would go back to the math I tried to before, the kind of caveman stuff. We were always -- when you think about -- and it really get into an argument of attribution of shares, okay? That -- and we argued about whether to put it all on Southern Power and say that we are financing all of AGL with cash coming from bonus and all this other stuff or whether to do a mix or whether just to say, look, the nearest-term use of cash is AGL, and so, therefore, keeping the $1.4 billion remaining, which we did $200 million in '15, $1.2 billion is our plan in '16, we have just chosen to associate that with AGL. We could have done a variety of things. When you consider the total amount of CapEx, including the acquisition amount less the benefit of cash, we could have attributed that on a pro rata basis. The economic impact of AGL remains the same. It's -- once we get a full year of earnings, remember, and maybe this will be helpful just to recall, when we did the announcement, their EPS growth rate on a stand-alone basis was between 6% and 9%. And their base case assumed essentially 7.5%. And we thought there were opportunities to improve that a wee bit. When you add AGL into Southern, it increases our overall growth 1% from 3% to 4% to 4% to 5%. That represents about $0.10 a year. We're going to sustain that into the future. How you want to count the shares is almost a term of art. But the truth is, the fact that we're going to get at least $4 billion, potentially over $5 billion, allows us to offset a significant amount of shares that otherwise we would have issued. The firm is better off $4 billion to $5 billion in total.

Ashar Khan

Okay. Okay. I'll go back and do -- but I don't know, the math didn't work out. Second question, Tom, on the more macro thing, I guess, you are not the only one of the companies that reported earlier, all 3 of them showed a huge drop in industrial sales in the fourth quarter.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Oh, yes.

Ashar Khan

Is this -- and I think -- so what you mentioned in your macro piece and I guess mentioned by Dudley last night is that the strong dollar is hurting the industrial and manufacturing side. How long do you think that this remains there? Is this just last quarter? Or is it -- are we going to see weak numbers year-over-year comparisons for the first half of the year? Or could you just give us from your macro perspective?

Thomas A. Fanning

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Chairman, President & CEO

Yes. And in fact, if you want to go back and look at the clip, look at the clip that CNBC has of when I was on Squawk Box with Dennis Lockhart in December. But let me give you just kind of the dumb overview again. When you look at quarter-by-quarter performance, we tracked very closely the top 10 I used to call them SIC codes. I understand they're called something else now, but Standard Industrial Classification segments. That represents 80% to 85% of our sales in the industrial sector. So '14, all 10 of those segments showed year-over-year growth. So it was a terrific forward-looking story. And then we projected, I guess, a 1.3% increase in industrial sales. Then all of a sudden, with the worldwide economies, China, all that other stuff that we're talking about, dollar, exporting going down, we started seeing those segments start to show year-over-year weakness. In the first quarter, 2 of them turned negative. In the second quarter, I want to say 3 of them turned negative. In the third quarter, 6 of them turned negative. In the fourth quarter, it turns out 7 of them turned negative. And then even now, my momentum analysis would have showed that even if you were still positive, this is the momentum comment, you were less positive. Everything started showing that it was slowing down in the industrial sector. Now what Art said is true, and here's what's interesting. When these guys -- when we were preparing for this call, first started coming up with the sales forecast, and they were showing a renewed growth in industrial, we had a lot of give-and-take and pushback in why do you really believe that. It goes to a variety of factors. I think this notion that the industrial class is adjusting to the high dollar and low commodity prices in this new market reality is one factor. Second factor, remember I mentioned before that with gas prices falling, we saw a bunch of co-gens turn on. That tended to depress industrial sales. That delta won't show in '16 anymore. So as people adjust to the new reality, like for example, primary metals, we saw that go way down. We think now some of primary metals is going to grow with the -- associated with automobiles, with transportation. We're going to see that renew. We have reason to believe from our bottoms-up analysis. I'll tell you another thing, and Mike Jackson of AutoNation commented on this in some of his commentary. Other foreign operations are being relocated. And I'd say a story for that Art is in Alabama with Mercedes-Benz. So some of our bottoms-up stories are giving us the reason to believe that in the Southeast, now this is probably not true across the United States, in the Southeast, we're going to see a renewal of industrial sales off of '15. So look for it to occur in transportation, look forward to occur in housing and maybe some of the other sectors.

Ashar Khan

But would you agree that might show up more in the second half of the year rather than the first half?

Thomas A. Fanning
Chairman, President & CEO

Yes. I would -- that would be my guess also.

Operator

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

Mark Barnett
Morningstar Inc., Research Division

I just wanted to clarify one thing. It's been a long one. I just wanted to clarify one thing about the proceedings that were requested by the PSC. Am I correct in understanding that if there's no kind of dispute with the staff findings over the next 6 months, there won't be a public disclosure of those discussions? Or...

Thomas A. Fanning
Chairman, President & CEO

No. Let me just clarify that, and let me make -- get the time frames right, too. We have 60 days in which to make filings with the Commission, with the staff. Then a 6-month clock starts, okay? After we make the filing, there's a 30-day clock that will allow interested parties to file their own information. Then we have an evaluation of all of this information with the staff, and we try to reach a settlement as to its conclusion.

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Okay? Once we reach that conclusion, if we reach a settlement, there will be a period of time in which interested parties can finally evaluate it. And it would be ultimately adjudicated in a normal course, as we do with almost any rate case or any other proceeding that we have. So there will be, ultimately, a hearing resulting after assuming we have a settlement agreement. Rest assured of that.

Operator

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

Vedula Murti

A couple of things. In terms of Southern Power, it seems like, obviously, with the higher CapEx and everything like that, it's very production tax credit, investment tax credit driven. How much of this stuff stands alone by itself? I'm just wondering, like if -- I mean, how much of this is just all tax derivative as opposed to underlying economics without the federal tax policies?

Thomas A. Fanning
Chairman, President & CEO

Oh, now that's an interesting question. I mean, look, I've been on record a lot in how even the EIA would say that tax preference items accorded renewables are way in excess of anything associated with coal, oil, gas and even, gee, even compared to nuclear, it was estimated to be 35x what's available there. What's fascinating is, I think these are mature industries. And certainly, with the way the Clean Power Plan is structured, even without tax benefits, there would be a great demand to do wind and solar just because of their carbon profile. Recall also that I think the United States, in general, is going to be really well served if we pursue the full portfolio that -- I'm always fond of saying we're the only one really doing all of it, new nuclear, 21st century coal, natural gas, renewables energy efficiency. Look, Vedula, behind your question is the notion that these things have, in my opinion, excess economic returns relative to a tax policy that didn't favor one technology or another. But I think given where EPA is going, especially with the price of carbon that's implied in what they say, even without these tax preference items being so tilted toward renewables, there would still be renewables growth.

Vedula Murti

And do you think that, when you take a look at your own portfolio and your own projects, how those fit within that construct that you just described?

Thomas A. Fanning
Chairman, President & CEO

Well, to the extent we sign up one, they're under current tax laws. So certainly, if you did have those tax benefits, they would have a different profile. Certainly, the market would reduce. But for what we have, I mean, it fits under the commercial terms in which we entered into. I'm not -- it's hard for me to imagine -- you're -- certainly, you're not suggesting would we have still done have we -- had we not had the tax benefits. I mean, that is the law. I don't know...

Vedula Murti

I understand it's the law, but I'm just wondering how much of this is only because of the tax law that allows those to happen versus just the practical economics.

Thomas A. Fanning
Chairman, President & CEO

Who knows. Yes. I don't know.

Vedula Murti

Also, if we just think about back on the history of Southern Power, over time, as I recall, there have been monetizations in just like recycling capital, whatever. So if we think about your capital program over the

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next few years here, what type of monetizations or pruning or whatever you want to call it, do you think, either is built in or is possible?

Thomas A. Fanning
Chairman, President & CEO

Yes. Vedula, we don't have anything built in. Okay? But as we have demonstrated in the past and like I'm fond of saying, we're an EVA shop. If there's a better owner for our assets, in other words, they have a different discount rate, they have a different whatever, assets should sit in the hands of the best owner on a risk-return basis. We're always open for business for good ideas about how to deploy assets or bring them back in. So we'll see.

Vedula Murti

I mean, I'm curious, if you look back in your history here, if you've never had -- if you generally work on nothing built in, what do you end up usually realizing typically as opposed to a 0 baseline?

Thomas A. Fanning
Chairman, President & CEO

Yes. I'm a little reluctant to kind of do that because those kind of deals are very opportunistic. We get approached all the time by people. We're always interested in doing what's best for our stockholders in this case. And in some cases, these impact directly our customers. We just have to balance all that. I'd be reluctant to kind of give a statistic like that.

Vedula Murti

Okay. And one last thing. You may have addressed some of this in your opening script, and I missed the -- I only got in on the Q&A. But I'm just wondering, can you maybe update us in terms of your current thoughts about the -- how within the retail and the commercial sectors, how efficiency and technology is dampening sales and everything like that, and how you're trying to work either through rate structures and regulatory mechanisms in order to offset that dampening? So I would assume that it's both in your interest and everyone's interest to try to do that as much as you can as long as it doesn't impair your ability to earn your authorized insurance.

Thomas A. Fanning
Chairman, President & CEO

What we're seeing right now is we -- even despite energy efficiency and everything else, we have a growing economy and a growing sales picture. Obviously, we're always interested in the best rate design that we can possibly have. We're certainly open to any good ideas there. And I know as our companies consider their kind of ongoing discussions with regulators that we will think about good ideas. But overall, we still feel good about our growth profile.

Vedula Murti

So then I guess, my last follow-up on that, does that mean that because of the growth profile that you feel -- you see economically that trying to move more to, not a decoupled model, but getting more -- moving more in terms of having base rates being covered but through a fixed charge and becoming less volumetric, is that something that you're willing to, because you like the growth profile, that you're willing to hold off on? Or is that something that, over time, you feel like you're probably going to move to anyway or not?

Thomas A. Fanning
Chairman, President & CEO

Yes. By the way, we're getting into a history lesson now. The industry has grown up basically on volumetric pricing. Okay? We have a whole lot of fixed assets. It stands to reason if you more wanted to closely get a fair picture with customers that you would price fixed assets in a fixed way and volumetric-based measures in a volumetric way. Certainly, I would say the pendulum is swinging more to kind of

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the fixed-asset approach, SIC, Nevada, et cetera. Certainly, room to go there. We're willing to listen to any good ideas going forward. And just remember that any pricing scheme -- remember, we're still in a growing area in the Southeast, and I think there's a megatrend we ought to keep in mind, the economy is getting more electrified as a result of the digital nature of the economy. And I think we'll still see growth going forward for some time to come.

Operator

Our last question comes from the line of Dan Jenkins with The State of Wisconsin Investment Board.

Dan Jenkins
The State of Wisconsin Investment Board

I just wanted to get a little more transparency maybe into your residential sales growth expectations. It's up quite a bit from '15 to '16. I was wondering if you could give us maybe some granularity into customer growth you're expecting? And it looks like maybe some usage growth, is that being driven by, like maybe more single-family homes as opposed to apartments? Or what's kind of the thinking there?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. Dan, this is Art. Again, customer growth, we looked at last year, it was about just under 1%. We're looking for something kind of that or maybe a little more in 2016. Again, that goes back to our comment about in-migration into the region. Home values around the country have risen back to a level where people are more willing to transfer, sell their homes and move than they were, say, in the last 3 or 4 years. We've seen a number of new corporate headquarters moving into the Southeast as well. Those are having a positive effect. We're still seeing a, I guess, a higher level of multifamily, although that is beginning to peak at some point. So you're going to see it balance out a little bit, and I think that's part of our expectations. But you're still going to see a continuing use, weather-normal use erosion as you still have a new eras of appliances coming in that are more efficient. That's just going to be a natural subtraction from customer growth that we see.

Thomas A. Fanning
Chairman, President & CEO

But the big slugs in the past were HVAC and now we kind of see it lighting kind of being a big deal with LEDs and all of that other stuff.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. But HVAC is the biggest issue in the Southeast.

Dan Jenkins
The State of Wisconsin Investment Board

Okay. And then on Vogtle, just the major modules and the critical path items coming up, I was wondering if you could just update kind of the timing, like what's -- what are the next things for both Unit 3 and Unit 4?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. We got a slide on the deck on that, Dan. But Unit 3, it's probably CA-03, CA-02. I think those are the last big modules that go inside containment. They are near completion and are scheduled for insertion, I guess, within the next few months. Unit 4, they're talking of completing the cooling tower installation. It's about 50% complete. So that will be done in the near future. And then you'll add another ring onto Unit 4 along with the major modules on Unit 4, that's CA-20, CA-01, all the big modules that will be repeated on Unit 4.

Dan Jenkins

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The State of Wisconsin Investment Board

So just to make sure I'm clear, so you're saying for Unit 3, CO -- CA-03 and 02 is probably our first half type things?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Oh, yes. Those are the remaining ones to go in Unit 3 containment. Outside containment, you've got the turbine building tabletop is being completed. And later this year, you'll actually probably install the turbines.

Dan Jenkins
The State of Wisconsin Investment Board

Okay. And then so for Unit 4, are the -- CA-20 and CA-01, are those first half or second half type?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

I don't have that with me, Dan, but we can get it to you.

Operator

Mr. Fanning, I'll turn the call back over to you for any closing remarks.

Thomas A. Fanning
Chairman, President & CEO

Thank you very much. And boy, I don't know whether this is a combination of a Berkshire Hathaway annual meeting or an F session, but it was an all-timer in terms of length. I appreciate your patience, and we appreciate your interest in our company. I really feel like Southern had a great '15. We're turning the edge. Value is a function of risk and return. Not only did we exceed our targets that we set out for you, but also we have been cleaning up, continue to clean up significant risk hurdles. When you think about settling the litigation at Vogtle, when you think about getting significant rates in place at Kemper, when you think about successful technical startup activities, I think the company is on a terrific upswing. When you think about adding AGL into the mix for the future, I think the future is quite bright indeed. So thank you again, everybody, and I look forward to chatting with you soon. Take care.

Operator
Thank you, sir. Ladies and gentlemen, this does conclude the Southern Company Fourth Quarter 2015 Earnings Call. You may now disconnect.

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