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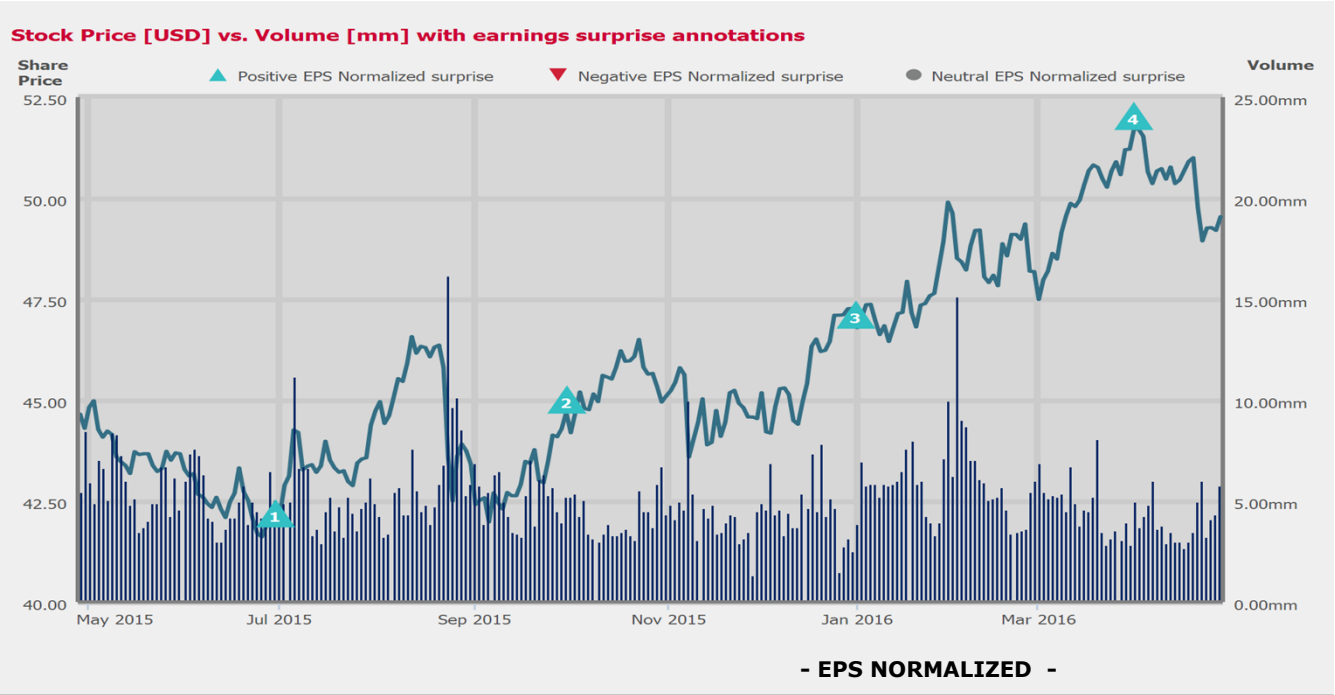
FQ1 2016 Earnings Call Transcripts

Wednesday, April 27, 2016 5:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2016-			-FQ2 2016-	-FY 2016-	-FY 2017-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.53	0.58	▲9.43	0.69	2.85	2.97
Revenue (mm)	4256.32	3965.00	▼(6.84 %)	4533.34	18605.43	19580.99

Currency: USD
Consensus as of Apr-26-2016 9:44 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2015	0.70	0.71	1 1.43 %
FQ3 2015	1.15	1.17	2 1.74 %
FQ4 2015	0.43	0.44	3 2.33 %
FQ1 2016	0.53	0.58	4 9.43 %

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Call Participants

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Former Executive VP & Chief Risk Officer

Thomas A. Fanning
Chairman, President & CEO

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Presentation

Operator

Good afternoon. My name is Benjamin, and I will be your conference operator today. At this time, I would like to welcome everyone to Southern Company's First Quarter 2016 Earnings Call. [Operator Instructions]

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

Aaron Abramovitz

Thank you, Benjamin. Welcome to Southern Company's First Quarter 2016 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 during today's call may be viewed on our Investor Relations website at investor.southerncompany.com.

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

Thomas A. Fanning
Chairman, President & CEO

Good afternoon, and thank you for joining us. We appreciate your interest in Southern Company. We had another good quarter to begin 2016, a great start to the year, and we are making excellent progress on many fronts. Art will provide an overview of our financial results in just a minute. But first, I'd like to provide you with a brief update on our regulatory calendar in Georgia and updates on the Vogtle and Kemper Project.

As many of you are aware, 2016 is a busy year for regulatory filings in Georgia, an IRP filing, 2 VCM filings, a merger approval application, a potential rate increase and the Vogtle contractors settlement filing, which has been expanded by the Georgia Public Service Commission to review all costs of the project incurred to date.

To summarize, first, Georgia Power filed its triannual Integrated Resource Plan, or IRP, in January. The PSC is expected to vote on the company's plan this July. Second, the PSC unanimously approved Georgia Power's 13th Vogtle Construction Monitoring Report in February. And later that same month, Georgia Power filed a 14th VCM report to be voted on in August. Third, Southern Company and AGL Resources received unanimous regulatory approval of our companies proposed merger from the Georgia PSC earlier this month, with all intervening parties in support of the settlement agreement. Fourth, Georgia Power has agreed to extend its current rate plan until 2019 and to keep base rates flat for the next 3 years. Fifth and finally, as you may recall in January, Georgia Power filed an application with the Georgia PSC for review of the $350 million settlement with its Vogtle 3 and 4 EPC contractors. The commission voted to move forward with an expanded process, which will examine the full project costs and schedule. Consistent with that February order, Georgia Power filed a supplemental information report, which provides compelling support that all project costs incurred to date for Vogtle Units 3 and 4 have been prudent and that the current cost and schedule forecast is reasonable. The filing includes reports from several subject matter experts which support that conclusion. Over the next 6 months, Commission staff and Georgia Power will review this information, which may result in an agreement this fall for the Commission to consider.

Let's move to an update on the construction status of Plant Vogtle Units 3 and 4. The Vogtle 3 and 4 nuclear expansion project continues to progress, with multiple milestones achieved in the first quarter. The

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transition to Westinghouse and its affiliate as the single contractor is complete. Fluor is fully engaged in providing on-site leadership to the construction effort. We've seen increased productivity at the worksite, including 24-hour coverage in critical path areas of the project. Expected near-term milestones include the placement of the final large construction module in the Unit 3 nuclear island, CA-02 and the 400-ton stainless steel CA-03 module. For Unit 4, we anticipate setting the CA-05 module and getting the 5-story, 1,100-ton CA-20 module ready for hook later this summer.

Now let's turn to an update on the Kemper County project. We're making good progress on modifications and improvements to the refractory lining of both gasifiers and addressing issues identified during the initial fluidization and refractory cure-out on gasifier A. We are also in the process of remediating issues with the lignite feed and drying systems as we approach testing of the gasifiers using lignite. In March, we completed the refractory cure-out of gasifier B, reaching full operating temperatures while successfully operating the gasifier in pre-lignite feed mode. Over the next couple of months, utilizing gasifier B, we expect to achieve first SIM gas production and, later this summer, initial power production using SIM gas. We continue to estimate an in-service date for the entire facility in the third quarter of this year. Reflected in the financial results we released today, we have recorded additional dollars to account for the projected schedule cost through September largely to accommodate the revised schedule for gasifier A.

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

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Thanks, Tom. As you can see from the materials we released this morning, we had solid results for the first quarter of 2016, reporting earnings of $485 million or $0.53 per share compared with earnings of $508 million or $0.56 per share in the first quarter of last year. First quarter results for 2016 include after-tax charges of $33 million related to increased cost estimates for the construction of Mississippi Power's Kemper County project. First quarter results for 2015 included after-tax charges of $6 million for the Kemper Project.

Earnings for the first quarter of 2016 also include after-tax charges of $14 million related to the proposed acquisition of AGL Resources and PowerSecure International. Excluding these items, Southern Company earned $532 million or $0.58 per share during the first quarter of '16 compared to $514 million or $0.56 per share in the first quarter of 2015. The major earnings drivers year-over-year for the first quarter of '16 included retail revenue effects across all our regulated operating companies and lower nonfuel operating and maintenance costs, offset by mild weather and higher depreciation expense. Southern Power also contributed positively year-over-year as a result of anticipated benefits from renewables projects expected to be in service in '16 and increased revenues from renewable projects placed in service in 2015.

Moving now to an economic and sales review for the first quarter. Economic growth in the first quarter of '16 was modest, and our retail sales results are encouraging. Total weather-adjusted retail sales grew 0.4% in the first quarter, led by strong residential sales, which were up 1.4% for the quarter. Growth in our residential class continues to be driven by strong customer growth as a result of faster population growth compared with the rest of the nation. Regional market fundamentals are strong, and we expect our regional economy to outpace the national economy. The housing sector appears poised for a modest uptick, and the economy continues to add jobs at a decent pace. Residential construction spending continues to grow, driven by the integration of millennials into the workforce. Atlanta added the most new apartments in the nation in 2015, and even more units are expected to come online in 2016. Nationwide, Atlanta's multifamily forecast is second only to that of Brooklyn, New York.

Weather-adjusted commercial sales were up 0.8% for the first quarter. This marks 5 consecutive quarters of positive growth in commercial sales, and we expect to continue this momentum into the second quarter. Atlanta's office market vacancy rate was 16.2% at the end of 2015, the lowest rate since 2008. This marks a move from absorption in existing properties to accelerated new office construction.

Industrial sales were down 1% in the first quarter. Our regional manufacturing sector continues to adapt to weak demand, and U.S. dollar remains a challenge for export-oriented businesses. I think it's

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significant to note that some of our largest industrial segments experienced maintenance outages during the first quarter. We expect them to return to operation soon, supporting our positive outlook for stronger industrial sales for the remainder of the year. We are also encouraged by certain economic indicators that suggest an improving industrial production outlook.

The ISM Manufacturing Index increased to 51.8% in March, signaling a prospective expansion in industrial production for the first time in 6 months. New orders and production improved for a second consecutive month, with new orders posting the largest monthly gain since 2009. Manufacturing employment in the U.S. declined in March, but our service territory has experienced a strong rebound, with manufacturing employment up 1.8% year-over-year. All 4 of our states posted manufacturing job gains. 4 of our 10 largest industrial segments saw increases in sales year-over-year, paper and transportation, along with lumber, stone, clay and glass, led the way, largely attributed to a continued recovery in the housing sector.

Our economic development pipeline continues to be strong. There has been a 69% increase in year-to-date jobs announced compared to the same period in 2015. We have also seen a 19% increase in the year-to-date capital investment announced compared to that same period in 2015. The geographic region we serve continues to attract businesses that are seeking well-established transportation networks, lower cost of living, a capable workforce, attractive climate and low-cost energy.

Before turning the call back over to Tom, I will briefly cover 3 final items. First, our earnings estimate for the second quarter. We estimate that Southern Company will earn $0.70 per share in the second quarter of 2016.

Secondly, I'd like to highlight our dividend announcement last week. Our Board of Directors approved a $0.07 increase in our common dividend to an annualized rate of $2.24. This is our 15th consecutive annual increase and marks 68 years, dating back to 1948, that Southern Company has paid a dividend to its shareholders that was equal to or greater than that of the previous year. But the decision to increase the dividend isn't about the past, it's all about the future. It's the strength of our underlying franchise, together with our continued focus on remaining an industry leader through innovation that underpinned the board's decision to support our objective of providing superior risk-adjusted total shareholder return to investors over the long run. I would like to note that with the 5-year extension of bonus depreciation, our expected cash coverage of dividends is approximately 10% higher than before the extension and 20% higher than our recent historical average.

Finally, I want to provide an update on our financing plan. The year is off to a great start. We completed a $1.2 billion syndicated term loan for Mississippi Power in the first quarter. This term loan provides much-needed liquidity to Mississippi Power. Also in the first quarter, Georgia Power became the first retail-regulated utility in the U.S. to issue green bonds. In doing so, they follow Southern Power, which became the first investment-grade power producer in the U.S. to issue green bonds, last November. Demand for both of these green bond offerings exceeded our expectations.

As we look ahead, executing our holding company financing plan is a key priority. This plan includes issuing approximately $8 billion of debt and a minimum of $1.2 billion of -- in equity in 2016. Our internal plans, which were deployed last fall, have generated approximately $270 million so far this year. We will look to supplement those plans with additional common equity, and we are taking steps to preserve several options for achieving this. We expect to issue the debt and most, if not all, of the equity in advance of closing the AGL Resources transaction. While these issuances are intended to accommodate all of our holding company needs for 2016, our financing needs could increase to the extent that incremental investment opportunities present themselves, including Southern Power growth projects. Southern Company is committed to maintaining a high degree of financial integrity, and our financing plans are intended to support our current credit rating.

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

Thomas A. Fanning
Chairman, President & CEO

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Thanks, Art. Following a successful and eventful 2015, Southern Company has entered 2016 with strong momentum. Our franchise business continues to perform at a high level, solidifying our position as an industry leader in all phases of the business. We are seeing continued progress on major capital projects, and our customer-focused business model continues to serve us well.

Our pending merger with AGL Resources is progressing through the approval process. The proposed merger has been approved by AGL Resources stockholders and the Federal Trade Commission. And we're making good progress with relevant state approvals, and we continue to expect the transaction to close in the second half of this year.

We are also excited about our pending acquisition of PowerSecure International. Subject to the PowerSecure shareholder vote on May 5, we expect to close in the second quarter. PowerSecure is a premier provider of distributed infrastructure, offering primarily commercial and industrial customers innovative solutions to meet their individual reliability, energy efficiency, or green, objectives. Our business model has traditionally focused on making, moving and selling energy predominantly in front of the customer meter. PowerSecure accelerates our opportunity to extend our make, move and sell business model to the other side of the utility meter, as innovative new technologies emerge and customers' needs evolve.

In conclusion, we believe Southern Company is well positioned for continued success in 2016 and for years to come. Bolstered by the strength of our 26,000 employees and their commitment to provide clean, safe, reliable and affordable energy to customers in the communities we serve, we are enthusiastic about the future.
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 Greg Gordon with Evercore ISI Team.

Gregory Harmon Gordon
Evercore ISI Institutional Equities, Research Division

So the financing plan with the $1.2 billion of equity, $930 million remaining this year, should we presume that's the totality of the equity that you envision needing to fund the AGL deal? Because when I look at the '17, '18 projected financings, you have no equity in there.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

That's the plan, Greg. I did say in the script that should there be additional opportunities, either from Southern Power or other accretive investments, that we would finance those plans or those -- any of those additional investments with the balance, with an eye towards maintaining our credit support.

Thomas A. Fanning
Chairman, President & CEO

Yes, and Greg, the other thing that Art alluded to a wee bit, but I think we talked about it on prior calls that we had, I forget, for Southern Power, I guess, we have $1 billion of CapEx in '17. We're seeing probably a more -- a larger opportunity set to increase that number in '17. So as Art said, to the extent we do see further investment opportunities, we will be supportive of our credit ratings in that.

Gregory Harmon Gordon
Evercore ISI Institutional Equities, Research Division

Okay. Because you have Southern Power at $1.2 billion this year, and then you have that dropping to $500 million in '17, '18 on Slide 9. You're saying that you could theoretically be double that?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, it's hard to say what multiple it would be. We'll just have, as Tom said, opportunities for success.

Thomas A. Fanning
Chairman, President & CEO

Yes. Greg, I'll go to the CapEx. And CapEx, I think, we're showing that we were $2.4 billion this year in CapEx for Southern Power and $1 billion next year and $1.5 billion in '18. I'll bet you we'll be bigger than that in '17 and '18. That'll just be my guess right now.

Gregory Harmon Gordon
Evercore ISI Institutional Equities, Research Division

Got you. And are -- is this mostly in utility scale solar? Or is it a mix of solar, wind and other sort of generation?

Thomas A. Fanning
Chairman, President & CEO

Yes. It's going to be more of a tilt towards wind, if you were going to make a projection on that. But we'll have solar in there for sure. As you remember, we had a lot of success in '15, way beyond what we thought. Some of those are CapEx numbers that will show up in '16. Some -- and remember now that we've had the extension on the tax preference item. Some of that could push over into '17. But you'll still see solar. You will see more wind than we've traditionally done in the past would be my guess.

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Gregory Harmon Gordon
Evercore ISI Institutional Equities, Research Division

Got you, got you. I was looking at the wrong slide, I should have been on Slide 16, sorry. So the -- and you guys talked about sort of a $300 million earnings contribution from -- on the last earnings call, the -- from...

Thomas A. Fanning
Chairman, President & CEO

Southern Power.

Gregory Harmon Gordon
Evercore ISI Institutional Equities, Research Division

From Southern Power this year. And you sort of weren't certain whether that was a sustainable level of spending, but you seem much more confident now than you were on that last call relative to this -- am I implying too much there in terms of the sustainability of the earnings contribution with Southern Power given this CapEx outlook?

Thomas A. Fanning
Chairman, President & CEO

Yes. So remember, it's hard to track. Because you'll spend money and then net income will show in the current year. I wouldn't go overboard on CapEx contribution in 1 -- I mean, net income contribution in 1 year equaling net income in the next year. What I will say is, I am reasonably confident that we're going to spend more CapEx. And therefore, you should see net income contributions be a little bit better. And recall -- than what we had in our kind of base case. And what you recall is, to the extent there's more of a tilt towards wind, those are kind of 10-year production tax credits as opposed to the single shot you get from solar. So the net income profile following that CapEx investment will look a little different. Overall, we're seeing a very bullish market for Southern Power.

Gregory Harmon Gordon
Evercore ISI Institutional Equities, Research Division

Awesome. One more question then I'll cede the phone. Can you talk about the earnings ramifications of the deal, the AGL settlement in Georgia for Georgia Power?

Thomas A. Fanning
Chairman, President & CEO

We expect Georgia Power to perform consistently with the past. It’s going to be a lot of hard work, but Art’s got some data. But I think, look, we see Georgia probably among all of the states in the Southeast is having a dynamite kind of relative economic performance. And I think Georgia has traditionally shown that they've been able to hit their targets in all levels of performance: operations, customer satisfaction, safety, including earnings. And I think Paul Bowers that runs that business and his team have shown their ability to hit their targets very well. We think it is manageable.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. Greg, I think it's important to note that the Vogtle NCCR tariff remain in place, so that will -- that's not part of the rate extension plan. With the economy being very strong in Georgia, with no major capital addition, such as new environmental needing recovery, they think that the rate plan extension is manageable during that time frame.

Operator

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

Julien Patrick Dumoulin-Smith

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UBS Investment Bank, Research Division

So perhaps to follow up on Greg's last question, just to hit you with this quickly. Why a little bit more wind in the mix rather than solar? Just to pick on that before going on another thing.

Thomas A. Fanning
Chairman, President & CEO

Just opportunity set is bigger. I think with the extension of PTCs, we're seeing a lot of interest there. I think you also see certain state kind of policy-level encouragements. You're seeing companies getting ahead of the Clean Power Plan. We're just in a good market for it. And remember, as we have shown in our solar business so far, the fact that we can strike good strategic relationships with developers, you recall, the one that we've done most of within solar is First Solar...

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

And Recurrent.

Thomas A. Fanning
Chairman, President & CEO

And Recurrent has been a great partnership. We're starting to strike those same relationships in the wind business. And so we kind of have a favored position to be able to strike large-scale deal. We're seeing that develop.

Julien Patrick Dumoulin-Smith
UBS Investment Bank, Research Division

Got it. Excellent. Then turning over to the Vogtle side of things just quickly. You talked about, I supposed, a potential for a deal -- agreement this fall. Could you elaborate on what you need to see to get there? Just what are kind of the key mileposts, more importantly, perhaps some of the sticking points or moving pieces?

Thomas A. Fanning
Chairman, President & CEO

No. This process is set up. And most discussions of this nature are best held in a quiet form. Let the company and the staff evaluate all the evidence in front of them and come up with what we believe will be a constructive result. That will then get presented to the Commission. The Commission will undertake whatever is necessary to approve it.

Julien Patrick Dumoulin-Smith
UBS Investment Bank, Research Division

Got it. And then just turning to the PowerSecure deal, congratulations moving in the new direction. Just curious, how do you think about that in the context of the earnings of Southern Power? And where do you want to scale that business? I mean, how should we think about that, call it, tomorrow after you close, but then years down the line as part of the growth trajectory?

Thomas A. Fanning
Chairman, President & CEO

It certainly contributes to our growth trajectory, but it's a really small deal. Despite its small size, we think it is important for us to learn. See, I don't really view this as a new business. What I've been saying pretty consistently is that this notion of evolving, the make, move and sell then pass electricity through a meter into where -- because of technology enabling, because of customer requirements, think data centers or other customers in the industrial or commercial space which have enormous reliability requirements, which is necessary in this kind of new kind of a digital community we find ourselves in. Look, I think this is just a natural evolution, particularly in areas where they are challenged with reliability or price or service for customers to want us to provide them solutions. So this is -- we may do some business in our territory,

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we'd be glad to do it. We'll probably do it under the brand of the operating company, and we have done some of this already. But I think the ability to grow this business, to learn in markets other than our own, will be positive for us all. It will add to our earnings trajectory. I don't think it'll be enormous because of the small size of this thing initially. But I think it certainly enhances our ability to compete in the future, and we're very excited about it.

Operator

Our next question comes from the line of Jim von Riesemann with Mizuho.

James Darrell von Riesemann
Mizuho Securities USA LLC, Research Division

Could you just talk a little bit about how you're thinking is evolving with the equity needs? I know the $1.2 billion, how much of that is broken down between internal plans versus the external, I mean, could you refresh my memory? At valuations at these levels, why don't you just go out and issue the rest of the equity right now?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Jim, and I think we've said this pretty consistently since the announcement of AGL last August was that we'll consider all of our options as we move through. We began with internal programs, but we always have the option in front of us to raise the equity in different ways.

James Darrell von Riesemann
Mizuho Securities USA LLC, Research Division

Okay, okay. And switching over to dividend, congratulations on that. But when is it time to actually start bumping up the growth rate instead of just the absolute dollar amount of the dividend?

Thomas A. Fanning
Chairman, President & CEO

Yes. We've talked about that, I want to say, when we announced the AGL deal. Given our belief in the growth contribution from AGL, recall, we increased our corporate expectation, our long-term growth rate from 3% to 4% to 4% to 5%. And what we said back then was, of course, this is the purview of the board and it is ultimately their decision, but we saw a pathway to increase the rate of growth from $0.07 in a year to $0.08 in a year. And recall, as Art mentioned in his comments, even since then, because of bonus depreciation and everything else, we are substantially better from a cash flow coverage standpoint than we were. So the financial integrity underlying that decision even to increase the rate of growth of our dividend has improved since we spoke to you by 10% over kind of recent historical averages by 20%. So if anything, our ability to do that as measured purely by financial integrity is even higher than what we've suggested. So I think we'll keep it right there for now and look forward to the rest of the year.

James Darrell von Riesemann
Mizuho Securities USA LLC, Research Division

Okay. And then one last thing on Vogtle. I know we're getting a little out of our skis here, but when do you think it's time to decide whether or not you take bonus depreciation on those 2 new units?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

We are. That's in the plan.

Operator

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

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

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First question, going into the quarter, you guys have budgeted $0.53 for Q1. You ended up at $0.58. Where would you say things that came out better than your original expectations?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. Ali, it's pretty simple, you break it down. Most -- about half of it came out of the operating companies, and half of it came out of Southern Power. We announced a couple of new projects on Southern Power that weren't in the plan at least in terms of the first quarter. And then with the Opcos, there are a lot of moving parts there. We had, obviously, a headwind on weather. It was $0.02 below normal from an expected perspective, but we offset that with non-fuel O&M and some other moving parts that gave us the other piece of the $0.05 of outperformance.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Okay. And on that non-fuel O&M, Art, you've been fairly consistent talking about that growing, call it, 3% or so on an annual basis, but it was actually down in the first quarter. So how should we be thinking about that from a full year perspective?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, I think on a full year, you're going to see the whole measure of it. In the first quarter of last year, we had a lot of outages going on versus not so many this year, so that's a big driver. But as you do your plan, I think we're still in that range of 3% to 3.5% growth. But remember that there's never such a thing as a normal year for non-fuel O&M.

Thomas A. Fanning
Chairman, President & CEO

Well, and just remember, our -- I mean, ever since, I guess -- well, certainly since I've been CFO here, so that spans quite a bit of time, and even before that a little bit, we've always had this ability to have a flexible budgeting system here that takes out the volatility of weather. So we've been able -- I think we're 1 of 2 companies in history, anyway, though no promise for the future, where we have always hit our earnings. Now again, I can't promise that, or the lawyers would throw me in jail, but we have been able to demonstrate our ability to manage our spending and at the same time, show industry-leading reliability and customer service kind of statistic. The other challenge, Ali, which is kind of interesting is, as we now have committed to hold Georgia Power's rates flat through 2019, there is likely to be some impact on O&M. But remember, it's not going to be done just with O&M, it's the economic growth. And we believe this all to be manageable.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Okay. And then as you point out on a weather normalized basis, first quarter was up 0.4%. You guys have been budgeting 1.1% for the year. Is that still a good target for the year?

Thomas A. Fanning
Chairman, President & CEO

Yes. Call it 1%, and we beat our PhDs in economy here, they're really good guys here. We have a great staff, beat them up unmercifully, getting ready for the call. They absolutely believe that from a bottoms-up analysis, when we look at some of our major customers, particularly in the chemical sector and then some other large sectors, with the outages that were undertaken, as those outages now go away, we'll see industrial production and sales return to where we thought they would be.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

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Okay. And last question, Tom, can you remind me, the year guidance you have out there, $276 million to $288 million, does that assumes that AGL would close some time this year and contribute? And if not, does that give you some extra cushion within this year if you close AGL before year-end?

Thomas A. Fanning
Chairman, President & CEO

Yes. We have evaluated that without AGL. And remember, we said that AGL is kind of an interesting animal for this year. They get most of their earnings in the first half of the year. We're going to close probably in the second half of the year. So their earnings to Southern won't be much at all. When we gave you that guidance, that was ex AGL. So you'll see AGL start to contribute in '17 and beyond.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

I see. So coming in perhaps even earlier than expected wouldn't really move the needle for the bottom line this year?

Thomas A. Fanning
Chairman, President & CEO

No. I would focus on Southern standalone for this year, and then we'll certainly give you new numbers for next year. And we've already kind of indicated what the contribution on the margin will be from AGL, '17, '18, '19.

Operator

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

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

It seems as though you're getting a bigger opportunity set around Southern Power with the renewables, and you've kind of talked about this in the past. But what's the right size from a percentage standpoint of earnings for Southern Power to be?

Thomas A. Fanning
Chairman, President & CEO

Yes. So if I remember this right, they are currently around 6%, somewhere around there. We think, very easily, we could take Southern Power to about a 10% number. And recall, 10% would include AGL. So the net income contribution could really grow pretty high if you're just talking about an appetite kind of number.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

Okay. So you've got some runway there.

Thomas A. Fanning
Chairman, President & CEO

A lot of runway.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

And you said you think Southern Power will do about $300 million of net income this year?

Thomas A. Fanning
Chairman, President & CEO

Yes.

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Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

And then just. . .

Thomas A. Fanning
Chairman, President & CEO

And the other thing, hey, excuse me, Paul, just real quick. Everybody should just remember that this isn't a merchant business, this isn't something that lives and dies in the so-called organized markets. We do long-term bilateral contracts, creditworthy counterparties, no fuel risk, no transmission risk. This is a credit quality kind of profile similar to our own.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

And then just what's happening in the A trains and B trains? What's the current state? Just review that.

Thomas A. Fanning
Chairman, President & CEO

Yes, yes, yes. So we're actually reasonably happy with our progress. The refractory repair on A actually has taken longer. And there's been a few more things we found with refractory, they're called -- I forget what they call them, rat holes or something like that. But we've gone in and evaluated. So it's really -- and this is not a high-tech kind of operation, it's just in a fairly close space, hour-intensive thing. And really, the schedule of A is really what has pushed out kind of from August to September. The schedule of B has been delayed some weeks. But we still believe that we will have SIM gas and, ultimately, electricity this summer. We're very happy with the way that's going.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

So B has been brought up to temperature and any hotspots have been addressed?

Thomas A. Fanning
Chairman, President & CEO

Yes.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

And then on your prepared remarks, you said something about the SIM gas, some issues that you found. What's happening there?

Thomas A. Fanning
Chairman, President & CEO

I'm not aware of that. I don't think we've -- we haven't made SIM gas yet. The other stuff that you may be remembering, let me kind of -- I'm trying to remember what you're referring to. Lignite dryers has been one, but that's been something we've talked about for some time. And again, you got to remember, the lignite is essentially 40% moisture. So as we move the lignite from the field into the plant, it goes through a process where we essentially remove the moisture. In fact, one of the cool environmental aspects of this plant is that it actually produces water. We capture the evaporation and use it in the plant. One of the feeders for the lignite dryer had blades, if you can imagine, like an old–timey -- I would use these metaphors. There's like an old-timey nonpower lawnmower, where you would push behind it, and it would actually feed the lignite into the plant. What we've done is expanded the distance of the blades of that feeder that would allow us not to experience clumping and some other thing. So it's just stuff like that. We continue to work through it in a rather pedantic manner, and that's really what startup is all about. You operate certain areas of the plant, and we make improvements where we see capable.

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Operator

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

Mark Barnett
Morningstar Inc., Research Division

I know you can't talk to specifically about any figures, and you kind of touched on the subject of managing around a settlement at Georgia Power a little bit already. But I am curious, given the size of the annual investment that you're making there and, again, some of the investments that you're making for growth outside of the nuclear recovery and kind of the other ongoing cost recovery mechanisms, what are your principal levers on the O&M front on the capital front for managing under that?

Thomas A. Fanning
Chairman, President & CEO

So outside of capital, you're asking what levers would we pull to manage O&M essentially?

Mark Barnett
Morningstar Inc., Research Division

Well, O&M, yes, and outside the capital that you've kind of get the more concurrent recovery on.

Thomas A. Fanning
Chairman, President & CEO

Okay. Just outside of clause?

Mark Barnett
Morningstar Inc., Research Division

Right.

Thomas A. Fanning
Chairman, President & CEO

Okay. Well, so, obviously, I think one of the things anybody would look at in terms of looking at O&M first, as you have seen demonstrated with us in the past, we put an enormous priority on giving for our customers the best reliability in the United States, and we've demonstrated that for years. So one of the areas that we look at is attacking, from an O&M standpoint, nonreliability-related areas. So that would go to overhead, any sort of thing in terms of corporate governance or those kinds of things. We think we have some capability to effectively manage reducing overhead inside our financial plan. And that's both at the parent and at the operating company.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Mark, I think you also need to think about it from a capital perspective. Bonus depreciation will certainly give a little headroom to that opportunity. But as you look forward to 2019, that should be concurrent with the time when Unit 3 of Vogtle comes online. So it all fits pretty nicely into a plan as we move out in time.

Mark Barnett
Morningstar Inc., Research Division

And could you remind me, with the settlement with Georgia, is there anything in there that you'd have to go back and reexamine if you had like a timing delay from another approval? Or is it pretty much Georgia is kind of set and tied up at this point?

Thomas A. Fanning
Chairman, President & CEO

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If you look at the regulatory calendar and those 5 items I enumerated earlier, I think we're pretty well committed to the 3-year deferral. And I think that given everything we've talked about, we can perform, as we have in the past, within that construct. I think we're in good shape in terms of evaluating everything else. The -- I think AGL is behind us in Georgia. I think we're in good shape.

Operator

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

Paul Patterson
Glenrock Associates LLC

The sales on Slide 7, do those -- were those adjusted for leap year or not?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

No.

Paul Patterson
Glenrock Associates LLC

Okay. And then with respect to the changes and everything that's going on at Kemper, how do you guys -- I mean, do you guys still feel comfortable about the 2012 CPCN and operationally being able to bring the plant on? I mean, is there anything -- I mean, there are obviously delays and what have you. But in terms of what you've seen so far, I know there's testing to be completed and what have you, but so far do you see anything that gives you any pause in terms of being able to have the plant operationally that you guys had planned on?

Thomas A. Fanning
Chairman, President & CEO

Yes, no. And I think one of the things that I think is distinguished by our operation at Mississippi and Kemper County plant, Ratcliffe, sometimes painfully, is that getting it done right the first time is really important. We're not going to rush and try and slam this thing in. And what we will do is essentially demonstrate a reasonable history of reliable commercial operation and then file the rate case. We think that's the right way to go. And we continue to do everything along the way. So this hasn't just been, oh, something broke and let's fix it and -- we are making improvements along the way. For example, one of the things that we've demonstrated beautifully during 2015 is our ability to run that plant on natural gas. It provided, I don't know, 40% of the energy to the citizens of Mississippi Power -- or the customers of Mississippi Power. And did so in an extremely economic way. So as you think about the ability for that plant to provide not only electricity from SIM gas, but in a dual fuel sort of way to provide a really high level of reliability by supplementing any outages or whatever with natural gas-fired electricity, it's exceedingly attractive and, in my opinion, more than meets the obligations we were setting forth when this plant was originally ordered.

Paul Patterson
Glenrock Associates LLC

Okay. The rat holes and the corrosion, was there -- I mean, we've heard about this with other similar operations, is there any issue there that's changed at all?

Thomas A. Fanning
Chairman, President & CEO

I mean, we fixed it. But -- so remember, there were some gas from these nozzles. If you can imagine, the riser -- remember this thing, I would view it as a letter D, it's what it looks like. And the riser is essentially where the lignite comes in and then gets blown up into the air in a kind of beautiful helix design. So you have both fuel stock moving into the riser as well as a very intricate set of air-fired nozzles. What we found in the original fluidization test, even though the fluidization test went beautifully, the nozzles worked

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well, the material circulated amazingly, and remember, I was there the day it happened. We found that because there was a lack of seals among and between the refractory and these nozzles, some of the material got behind the refractory and the hard face and caused what we call these rat holes. But these are really small, really small kind of tunnels, if you will, that were filled up with material. As we had -- and the way you fix it is you tear the refractory back off and put it back on. It's not a high-tech operation. What has taken a lot of time is it's a confined space and has just been time-intensive. And the more we've looked around the refractory, we found more of these rat holes. We had to tear more of it off and put more back on. We have not seen, to any sense, that degree of rat-holing with B. And recall, I think B finished its fluidization test like in 1 day. So we learned a lot going from A to B.

Operator

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

Dan Jenkins
The State of Wisconsin Investment Board

So just a couple here on the earnings for the quarter. You had that $0.08 positive from the revenue -- retail revenue impact. I was wondering if you could break that down a little bit in terms of jurisdiction. Or were there specific rate actions? And will they like lap coming up? Or how should we think about that going forward?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

If you look at Mississippi, start there, we got a couple of cents from the Kemper in-service assets. Alabama had some C&T adjustments that I think were related to environmental assets. That's around $0.03. And then Georgia had a number of adjustments that, in total, was between $0.02 and $0.03.

Dan Jenkins
The State of Wisconsin Investment Board

Okay. And then on the $0.04 from the non-fuel O&M, I know in the past you've adjusted your discretionary maintenance when -- to kind of match when sales are impacted by weather. Is that kind of what's going on here? Or is that there's something else involved?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

On a year-over-year basis, there's lots of moving parts there. But as I mentioned earlier, there was lower other production expenses. There were more outages in the first quarter of '15 than the first quarter of '16. There were other expense reductions in, say, our distribution area. And then administrative in general, generally relate to reductions in pension expense and some other costs in that particular category.

Dan Jenkins
The State of Wisconsin Investment Board

Okay. And then I had a question on the decline in your fuel costs and revenue. I realize that doesn't have any impact on the bottom line, but just kind of thinking about that. Is that driven more by volume or price or mix? Or...

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

It's actually, loads were down quarter-over-quarter from a year ago, but gas prices are down 31% year-over-year as well. So it's a bit of both.

Dan Jenkins
The State of Wisconsin Investment Board

How about coal? Any impact from coal pricing or transportation or not so much?

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Arthur P. Beattie
Former Executive VP & Chief Risk Officer

I would say it's negligible as most of the load is being driven by gas at this point, at least in the first quarter.

Dan Jenkins
The State of Wisconsin Investment Board

Okay. And then just a couple of questions on Vogtle. I know last year -- or last quarter, on your near term, you had for Unit 3 setting the containment vessel ring 2, and I was just wondering what the status of that was? Is that upcoming or where we are?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. I think when you think about Unit 3, the next big things would be CA-03 and CA-02, which are the kind of the 2 big remaining modules into the nuclear island for Unit 3. And then I believe the other ring will be added beyond that time frame. It's my understanding of the schedule.

Dan Jenkins
The State of Wisconsin Investment Board

And then just on your slide, this time you know you have for Unit 4 setting the CA-05, but I've assumed that has to -- that can't occur until the CA-01 is completed. Correct?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

No. Don't get any idea that these are in order of insertion. 05 goes in well before CA-01.

Operator

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

Thomas A. Fanning
Chairman, President & CEO

Yes. Thank you so much for your time here this afternoon. We'll wrap this up inside an hour. How about that, that's historic for a Southern Company earnings call. Delighted to do it. Off to a great start. Earnings are good. Our operations are good. And a lot of work in progress that we look to have some significant announcements on coming up our next earnings call in July. So we look forward to seeing you then. Take care.

Operator
Thank you, sir. Ladies and gentlemen, this does conclude the Southern Company First Quarter 2016 Earnings Call. You may now disconnect.

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