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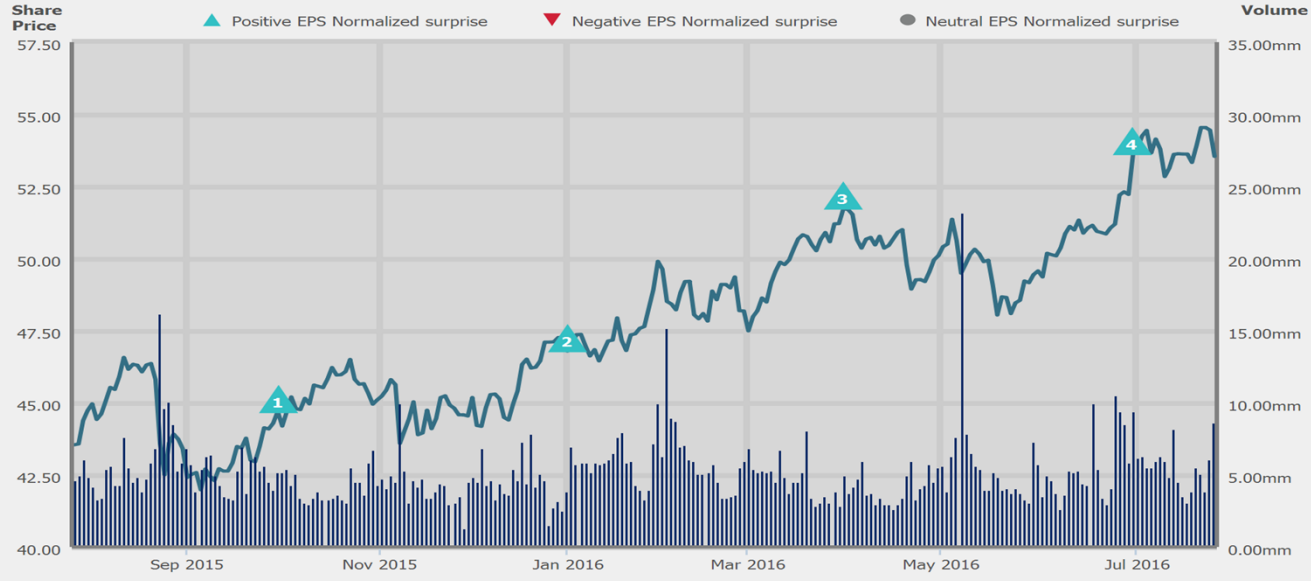
FQ2 2016 Earnings Call Transcripts

Wednesday, July 27, 2016 5:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2016-			-FQ3 2016-	-FY 2016-	-FY 2017-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.70	0.74	▲5.71	1.11	2.87	3.04
Revenue (mm)	4453.23	4453.00	▼(0.01 %)	5857.76	18899.52	21176.25

Currency: USD
Consensus as of Jul-27-2016 11:02 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2015	1.15	1.17	1 1.74 %
FQ4 2015	0.43	0.44	2 2.33 %
FQ1 2016	0.53	0.58	3 9.43 %
FQ2 2016	0.70	0.74	4 5.71 %

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Call Participants

EXECUTIVES

Aaron Abramovitz

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Thomas A. Fanning
Chairman, President & CEO

ANALYSTS

Agnieszka Anna Storozynski
Macquarie Research

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Anthony Christopher Crowdell
Jefferies LLC, Research Division

Dan Jenkins
The State of Wisconsin Investment Board

Gregory Harmon Gordon
Evercore ISI Institutional Equities, Research Division

James Darrell von Riesemann
Mizuho Securities USA LLC, Research Division

Jonathan P. Arnold
Deutsche Bank AG, Research Division

Julien Patrick Dumoulin-Smith
UBS Investment Bank, Research Division

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Paul Patterson
Glenrock Associates LLC

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

Shahriar Pourreza
Guggenheim Securities, LLC, Research Division

Steven Isaac Fleishman
Wolfe Research, LLC

Unknown Analyst

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Presentation

Operator

Good afternoon. My name is Savannah, and I will be your conference operator today. At this time, I would like to welcome everyone to the Southern Company Second Quarter 2016 Earnings Call. Southern Company's second quarter earning slides were posted today. You can -- they can be accessed at www.investor.southerncompany.com/webcast. [Operator Instructions] As a reminder, this conference is being recorded, Wednesday, July 27, 2016.

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, Savannah. Welcome to Southern Company's Second 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 measure are included in the financial information and slides we released this morning and are available 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. As always, we appreciate your interest in Southern Company.

This is an extraordinary time for Southern Company. In addition to our better-than-expected financial results for the quarter, we've had several major accomplishments over the past several months. I'd like to first discuss our business development activities, which are enhancing our low-risk, attractive-return business model.

As you know, we completed our merger with AGL Resources on July 1, and subsequently renamed them Southern Company Gas. This acquisition was our first major step in a broader strategy to further expand our business in a meaningful way across the energy value chain. We purchased a gas infrastructure company with high growth projections at a great price and in the process, retained a top-notch natural gas management team. The regulatory approval process was constructive and uneventful. We were able to close the transaction faster and at a lower cost, including our debt and equity financing, than we originally expected. Southern Company Gas is a great addition to our company and should contribute positively towards fulfilling our shareholder value proposition for a very long time.

Shortly after closing the Southern Company Gas transaction, we announced a strategic venture with Kinder Morgan, in which we agreed to purchase a 50% equity interest in the Southern Natural Gas Pipeline System. Subject to Hart-Scott-Rodino review, we anticipate the transaction will be completed by the late third quarter or early fourth quarter of this year. This is precisely the type of natural gas infrastructure strategy we've discussed for almost 2 years, and we view this venture as an ideal complement to the newly expanded Southern Company. With natural gas being one of the United States' dominant energy solutions for the future, the industrial logic of this transaction is completely clear, and there's hopefully more to come. Kinder Morgan is a recognized leader in natural gas pipeline development. Our 2 companies have identified a variety of specific growth opportunities, which we expect to benefit both customers and investors. As those opportunities come to fruition, we will update you on their details.

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Earlier in the quarter, we completed the acquisition of PowerSecure, a company known for its proprietary distributed infrastructure expertise. PowerSecure has a national footprint and continues to grow rapidly and expand its high-profile customer roster. We are impressed with the way in which PowerSecure is deploying its proprietary technology and innovative customer-focused solutions to strengthen an already stellar reputation. This business is a way to play offense in the energy efficiency/distributed infrastructure sector, extending our customer-focused business model beyond the meter.

Lastly, I'd like to highlight Southern Power's most recent successes. In our first quarter earnings call, we shared our belief that the potential pipeline for renewable projects was larger than originally anticipated. Since then, Southern Power has continued to find value-accretive renewable projects that benefit 2016 and beyond. Already this year, Southern Power has announced 278 megawatts of new solar projects and 43 megawatts of new wind projects. And we anticipate more to come.

Art will highlight 2016 CapEx expectations in just a few minutes, but I want to reinforce 2 points we've made before. First, in the years ahead, we expect to pivot to a greater focus on wind projects, with the reemergence of gas projects within the next few years. Second, much of the additional growth capital this year will be invested to bring us growth in 2017 and beyond.

Let's turn now to an update on our major construction projects. First, the Kemper IGCC. Almost 2 weeks ago, we achieved our most significant milestone to date, with the first lignite feed and the production of syngas on gasifier B. This was a major accomplishment. This first production of syngas involved the operation of the front end of the plant, which includes many first-of-a-kind components related to TRIG gasification technology. This milestone is significant as it validates the TRIG technology at a commercial scale. We've also proven the back end of the plant, the combined-cycle units currently operating reliably on natural gas. Significant testing activities are in progress and are scheduled to continue over the coming days, leading to the initial production of electricity using syngas in combustion turbine B expected towards the end of next week. Accomplishing this next milestone will likely present challenges as the plant's 14 operational systems must be integrated for the first time.

We have previously disclosed that both Units A and B of the facility are expected to be fully integrated and in-service by the end of September. We're closely monitoring these next critical steps in the start of schedule and we expect to learn a lot. We'll reflect any necessary schedule adjustments in our second quarter 10-Q.

Let's move on to an update on the construction setup of Plant Vogtle Units 3 and 4. Construction on Units 3 and 4 remains on track, and productivity continues to improve as Westinghouse has effectively leveraged their construction expertise of its subcontractor, Fluor. The contractor has reaffirmed its confidence in the schedule, and several new work fronts have been established, with many critical areas implementing 24-hour coverage of craft labor to maintain the productivity momentum. The nuclear island containment building, with all 6 major modules now installed, remains the critical path for Unit 3 construction. We expect the remainder of the year to include a number of major milestones for Unit 3, including the setting of ring 2 on the containment vessel, placement of the reactor vessel and initial energization.

Meanwhile, Unit 4 is progressing especially well, with the lessons learned from Unit 3, and have resulted in measurable productivity improvements.

Early on, we highlighted the NRC's ITAAC process, which stands for inspection, test, analysis and acceptance criteria, as an area of key focus for the project. We began submitting ITAAC closure notices to the NRC in 2015, and the pace will more than triple in 2016. Thus far, this process is right on track, and all indications are that the NRC has done everything necessary to prepare to support this effort going forward.

On the regulatory front, we expect the vote on VCM 14 in August, and the filing of VCM 15 shortly thereafter. The prudence process is ongoing with Georgia Power and the PSC staff expected to report to the Georgia Public Service Commission by mid-October.

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

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Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Thanks, Tom. As you can see from the materials released this morning, we had solid results for the second quarter of 2016, earning $0.68 per share, compared to $0.69 per share in the second quarter of 2015. For the 6 months ended June 30, 2016, we earned $1.21 a share compared with $1.25 a share for the same period in 2015. Excluding certain adjustments listed in the earnings materials, earnings for the second quarter of 2016 and the 6-month period ended June 30, 2016, were $0.77 and $1.35 per share, respectively. This compares with $0.71 per share and $1.28 per share for the same periods in 2015. Major earnings drivers for the second quarter of 2016 included retail revenue effects at Southern Company's traditional operating companies and lower nonfuel operating and maintenance costs, offset by lower usage across all customer classes, higher depreciation in amortization expense and higher interest expense.

Southern Power also contributed positively year-over-year as a result of anticipated benefits from renewables projects expected to be in service in 2016 and increased revenues from renewable projects previously placed in service in 2015, and in the first half of 2016.

Moving now to an economic and sales review of the second quarter. U.S. economy continues to expand at a moderate pace. The service sectors are generally doing well, driven by strong consumer spending and a relatively robust labor market. Real GDP rose 1.1% in the first quarter of this year, and the Federal Reserve Bank of Atlanta's current forecast for real GDP growth in 2016 is 2.4%. Overall, market fundamentals are positive and job gains remain fairly robust.

Total weather-adjusted retail sales are down 1.4% in the second quarter of 2016 versus the second quarter of 2015, and down 0.5% year-to-date. A combination of shifting economics and the replacement of old equipment with more energy-efficient devices and appliances appears to be negatively impacting usage in our residential and commercial customer classes, outweighing positive economic trends. The manufacturing sector remains challenged by global headwinds, including the strength of the U.S. dollar and volatility and commodity prices, which have hit energy-related industries especially hard. Also, worldwide event risk appears to be inhibiting major commitments of capital by many industrial customers.

Weather-adjusted residential sales declined 0.2% in the second quarter of 2016 but are up 0.6% year-to-date. Residential sales growth continues to be driven by strong customer growth exceeding both expectations and actual growth in recent years. Conversely, residential use per customer is constrained by a higher influx of multifamily construction as well as the replacement of old equipment with newer and more energy-efficient devices and appliances.

Weather-adjusted commercial sales declined 1.9% in the second quarter of 2016 after 5 consecutive quarters of positive growth, and are down 0.6% year-to-date. Year-to-date, we've added 3,300 new commercial customers versus 2,300 at this same juncture in 2015. These healthy customer growth trends are running counter to decreased energy demand related to e-commerce growth and lighting retrofit -- retrofits utilizing LED technologies.

Industrial sales declined 1.9% in the second quarter of this year and are down 1.5% year-to-date. Sales continue to be negatively influenced by stagnant global demand; weaker, albeit, recovering energy prices; and a strong dollar. We are encouraged, however, by a variety of positive indicators. Manufacturing employment in the Southeast continues to outpace the rest of the nation, with manufacturing employment up 1.4% year-over-year. The ISM manufacturing index has risen in 5 of the past 6 months, jumping to 53.2 in June, the highest since February of 2015.

Our stone, clay and glass and lumber segments continue to outperform compared to 2015 on a year-to-date basis as these segments continue to benefit from the housing recovery in our region. Economic development activity remains fairly robust, with a 166% increase in new jobs announced year-to-date and healthy capital spending across our region. The pipeline of active projects is on pace with 2015. However, despite an increase in the number of prospective jobs, potential investment seems to be slowing. Political and economic uncertainty, both domestic and abroad, along with the continued strength of the dollar, appear to be hindering business investment decisions in both the industrial and commercial sectors. As we stated before, we remain encouraged that the geographic region we serve continues to attract businesses

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that are seeking well-established transportation networks, lower cost of living, a capable workforce, an attractive climate and low-cost energy. We believe all of these factors continue to merit cautious optimism.

Before turning the call back to Tom, I want to briefly cover a few final items. First, our earnings estimate for the third quarter. We estimate that Southern Company will earn $1.16 per share in the third quarter of 2016, excluding any impact from Southern Company Gas and the related acquisition debt costs as well as our investment in SONAT and the related financing cost.

Earlier, Tom addressed the continued success that Southern Power has had in developing its project pipeline in 2016. Because of that success, we are updating our forecast for Southern Power capital expenditures for 2016, including $500 million of placeholders for additional projects. Of the capital investments identified thus far in 2016, $2.5 billion is for solar projects and, consistent with our pivot toward wind, $1.4 billion is for wind projects. In total, we are increasing our 2016 Southern Power capital expenditures to $4.5 billion, an increase of about $2.1 billion. Most of this increase supports projects that will contribute to income in 2017 and beyond, and have the effect of strengthening and lengthening our growth rate. The 2016 capital investments update also includes expected capital expenditures of $800 million for Southern Company Gas in the second half of the year and approximately $1.5 billion for our investment in SONAT.

Finally, I want to provide an update on our financing plan. In the second quarter of 2016, Southern Company successfully completed a $900 million equity offering and $8.5 billion debt offering at the parent company, the largest ever for a utility, and issued EUR 1.1 million of bonds of euro-denominated green bonds at Southern Power.

Our updated financing plan for the remainder of 2016 now reflects incremental financing activity, largely to support our increased level of investments at Southern Power as well as our investment in SONAT. It is also designed to be supportive of both our long-term growth and credit quality objectives.

Our equity needs for the remainder of 2016 total approximately $2 billion. While a portion of this equity will be funded through our existing plans, our projected needs exceed the typical capacity of these plans. Southern Company is committed to maintaining a high degree of financial integrity, and our financing plans are intended to support our current credit profile.

At this point, I'll turn the call back to Tom for his closing remarks.

Thomas A. Fanning
Chairman, President & CEO

Thank you, Art. We are extremely proud of our recent successes, and we're excited about how Southern Company continues to grow for the future. In recognition of this evolution, we recently unveiled a new brand and logo to better represent our focus on building the future of energy.

Meanwhile, as we execute on our strategy and expand opportunities for future growth, we continue to maintain a concerted focus on preserving the company's risk profile. As Art mentioned just a moment ago, our long-term objective with each incremental investment opportunity is to strengthen and lengthen our growth profile, which is supportive of our goal to provide superior, long-term, risk-adjusted returns to our investors.

We plan to host an Analyst Day on October 31, in New York City, in lieu of our third quarter earnings call. This will be an opportunity to share our stories, provide further insights into our growth drivers, provide outlooks and supporting details inclusive of our new subsidiaries and, importantly, provide access to a broader cross section of the Southern Company management team, which, I believe, is the best and deepest bench in the industry. Our Investor Relations team will provide more details on this event before the end of August.
Operator, we are now ready to take questions.

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Question and Answer

Operator

[Operator Instructions] And our first question comes from the line of Shahriar Pourreza with Guggenheim Partners.

Shahriar Pourreza
Guggenheim Securities, LLC, Research Division

So just 2 quick questions around Kemper. So congrats on producing the syngas a few weeks ago, but we're, I think, 2 to 3 weeks into when you did the press release, still producing sort of the syngas at that level? Or have you seen any sort of pickups there since then?

Thomas A. Fanning
Chairman, President & CEO

Normal startup is what I would call that. So we went to about 30% capacity, if you will, on producing syngas. And as typical in any startup, what you do is you get a certain level of activity, you evaluate the systems and how it's working, you back it off, you make adjustments, you bring it back up, you back it off. For example, just this morning, Art, I think we heard that they're back producing syngas with some other recent changes. So I would argue that what they're doing right now is exactly what they should be doing, trying to ramp up productivity. We want to get to a level to produce electricity somewhere in the 60% to 70% capacity level. So that's what they're doing, is ramping up the production of syngas and making adjustments along the way.

Shahriar Pourreza
Guggenheim Securities, LLC, Research Division

Got it. That's helpful color. And then, just remind me at what point do you plan to file a rate case around Kemper? So do you -- I guess at what point will the plant run and produce syngas before you file for rates? Is it 60 days? 90 days? At what point?

Thomas A. Fanning
Chairman, President & CEO

That's kind of a question of Art. So I think we want to demonstrate the same performance. I think everybody wants that. We want that, the Mississippi Public Service Commission wants that. We haven't decided what that time frame is. But we'll probably update that maybe in October and maybe beyond, but haven't decided it yet, but we want to sustain performance.

Operator

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

Gregory Harmon Gordon
Evercore ISI Institutional Equities, Research Division

Can you translate the capital spending at Southern Power from dollars into megawatts of capacity being constructed in both wind and solar and expected in-service dates?

Thomas A. Fanning
Chairman, President & CEO

So interesting, that's an interesting question.

Gregory Harmon Gordon
Evercore ISI Institutional Equities, Research Division

If you can't do it on the fly here, you can get back to us. But that would be hugely helpful.

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Thomas A. Fanning
Chairman, President & CEO

Yes, man. What we might do, Greg, there. Again, that might be October powder. We have, every board meeting, and sometimes in between board meetings, as the kind of landscape changes, we update the finance committee of our board on what we call our backlog. These are the projects that are coming close to fruition, and then we kind of look down the road a little bit. So we always want to have some transparency from a governance standpoint on how we are allocating capital. We have clear ideas as to which projects are most likely to provide that benefit, but we don't have a sense as to announcing in any public way right now how many megawatts that would be, where they would be, et cetera. Suffice to say, you know how conservative we are, when we move our CapEx, and we've talked a lot about that CapEx, from $2.4 billion to $4.5 billion, we're seeing a very rich target environment.

Gregory Harmon Gordon
Evercore ISI Institutional Equities, Research Division

Well I would presume that the $2.5 billion committed to solar are projects that are contracted, where you've got a deal. And the $1.4 billion for wind is the same, and at the placeholder CapEx is some sort of risk-adjusted number for stuff that's in the pipeline, but not yet firmly contracted or committed. Is that fair?

Thomas A. Fanning
Chairman, President & CEO

Yes. And it's our best judgment. And you should know that, given our best judgment risk-adjusted, all that stuff, the actual feeling is that the numbers are actually bigger. This is our haircut to get what we think is a reasonable placeholder. When we put a placeholder in there, we think we're going to be able to execute on it. Every one of these projects has a term structure. In other words, long-term bilateral contracts, creditworthy counter parties. We're sticking to our investment thesis, so we don't like merchant exposure, et cetera.

Gregory Harmon Gordon
Evercore ISI Institutional Equities, Research Division

Yes, and that's why I'm asking. So it would be helpful for, I'm pretty sure for everyone on the call, to be able to at least have a sense of where the megawatts are being deployed and make our own assessment as to what the term structures look like in order to get a sense of what that predictable earning stream is that you're building.

Thomas A. Fanning
Chairman, President & CEO

Yes. I mean, just to be clear, as we have said, most of our solar has already been announced, and most of our wind has not yet been announced. But we'll get you the best stuff we can.

Gregory Harmon Gordon
Evercore ISI Institutional Equities, Research Division

And where are we in the process of -- and forgive me if you've given an update on this, going through the previous review with the Georgia PSC that they had indicated they wanted to do this year on Vogtle?

Thomas A. Fanning
Chairman, President & CEO

Yes, as with any ongoing regulatory engagement, our best judgment is to just say very little and let the engagement work. We have made our filings in terms of information supporting, what we believe is a very strong face for prudence. We've had the opportunity to let other people make filings. We are engaged with the staff. We expect to rejoin whatever we conclude with the staff in October with the full Public Service Commission. That's our current target. Other than that, I don't want to say too much about it.

Gregory Harmon Gordon

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Evercore ISI Institutional Equities, Research Division

So October is the next milestone -- so next milestone in October?

Thomas A. Fanning
Chairman, President & CEO

Yes, I'd say so.

Operator

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

James Darrell von Riesemann
Mizuho Securities USA LLC, Research Division

I have 2 questions for you. The first one is on this financing. Do you need Hart-Scott-Rodino before you can issue the equity?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

No. No, we don't. But that's certainly a consideration in the timing of when we issue the equity.

James Darrell von Riesemann
Mizuho Securities USA LLC, Research Division

Can you just talk -- just as a follow-up to that, can you talk about how you might want to mix it between internal plans and external plans, this $2 billion equity that you're referring in the slides?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, Jim. Really, I don't want to get into any of those details. We'll do it in the manner that we've done in the past. And some will certainly be inside, as we said in our script, and some will be certainly an individual issuance of some type, possibly. If you look at run rate, we've actually raised internally about $0.5 billion through our internal plans year-to-date. So whether that matches itself from the second half, that would be kind of close to our expectation.

Thomas A. Fanning
Chairman, President & CEO

So run rate, whatever needed less run rate equals public issuance, and it depends on what the run rate is and everything else.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Of some type.

Thomas A. Fanning
Chairman, President & CEO

Of some type. That's right.

James Darrell von Riesemann
Mizuho Securities USA LLC, Research Division

And with the $2 billion of issuance, does the guidance that you had on the slides, would that remain intact, would that hold for the year?

Thomas A. Fanning
Chairman, President & CEO

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Yes.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, absolutely.

James Darrell von Riesemann
Mizuho Securities USA LLC, Research Division

And then the second question, pivoting away from that, and the last one is, can you talk a little bit about this Westinghouse CB&I lawsuit? And what it might mean either directly or indirectly for you?

Thomas A. Fanning
Chairman, President & CEO

Yes. So we know some about it. I will say that, that's a better question for Westinghouse and CBI. I'd rather not comment too much on whatever we believe the merits to be. We have evaluated whatever outcomes may happen as to its exposure to us and we don't think it's very much.

James Darrell von Riesemann
Mizuho Securities USA LLC, Research Division

What does very much mean?

Thomas A. Fanning
Chairman, President & CEO

Very little. Not much at all. I mean, so the theoretical -- if Jim and I were to try and go there, I mean the suit, what would be a theoretical outcome would be some credit pressure somewhere or somebody's inability to do whatever. We just don't think it has much of impact to us at all. And if anything, it's probably a potential upside to Wes' cash flow as opposed to a downside, but ask them that.

Operator

Our next question comes from the line of Jonathan Arnold with Deutsche Bank.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

A quick question on -- I think in a prior call, I don't remember if it was Q4 or Q1, you gave a number of the amount of PTC or -- sorry, ITC that you were expecting to realize in 2016, the $150 million. So I'm just curious, is that still on base? And how should we sort of think about that run rate on this higher spend as we look forward?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, Jonathan. I think we gave you $150 million earlier. I'd probably say in the $170 million range would be a better estimate.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

And should we -- I mean, as you're saying you're now pivoting more towards wind, should we anticipate that, that's a number that fades as you move beyond 2016?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

That's correct.

Jonathan P. Arnold

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Deutsche Bank AG, Research Division

Okay. And then, can I also ask around the Southern Power CapEx, you described 2016 as expected to be a high watermark. I mean, I thought it was an interesting choice of language. Is this a number of -- how far is the tide going to go out? Or is it -- is this a number we kind of stay quite close to as you look at your project pipeline beyond this?

Thomas A. Fanning
Chairman, President & CEO

Yes, man. They're staying quite close to $4.5 billion in the year, which is pretty notable for Southern Power. Remember, I think one of the dynamics I think we saw, remember, where we thought all this tax law was going to expire. And so there was this great rush by so many developers to get a lot of projects done. Well, as it turns out, a lot of those projects, in order to hit the deadlines, remained. So we don't see that dynamic occurring into '17, '18 and all that. And remember, here's the other thing -- going back to things we've said in the past, all remain true. We talked to you about this divot. Remember that famous phrase? And a lot of you picked up on the divot. We filled in the divot and we did that with Southern Company Gas. We're doing that with SONAT. We're doing that to some extent with PowerSecure. We're doing that with Southern Power's profile. We'll update you completely on this lengthening and strengthening in October. But that's what's going on, that's this dynamic.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

But that was actually going to be my other semantic question, the lengthen and strengthen. Should we take strengthen to mean solidify the current target or increase?

Thomas A. Fanning
Chairman, President & CEO

Yes. We want to cover that in October. If I had to pick at words, strengthen, I think, would mean broaden our sources of growth, improving predictability, cash flow. Lengthen says that with the nature of the investments we're making, we have much greater visibility into the future as to the viability of that performance. With respect to improving, we are going to deal with that in October.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

Okay. And just finally, it looks as though roughly $1 billion of the new equity is supporting the incremental spend at Southern Power. So firstly, is that how I should think about it? And should we be assuming that you're targeting returns north of utility returns? Or is this kind of seen as a complementary, a similar business, these days?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well I think you're about right in terms of the equity allocations. And the returns continue to be something that we have to evaluate and stay disciplined on, especially with a delay in some of the recognition of the tax benefit. So those returns, we hope, will continue in the same range that we have earned over the past 5 to 7 years.

Thomas A. Fanning
Chairman, President & CEO

On an investment-weighted basis, our contract coverage through the end of the decade or so is about 90%. The other thing that you should know is, we performed recently a comprehensive, kind of, ex-post review of everything we've done to date. And it has been performing absolutely consistently with what we've done today at returns that exceed utility of returns on a risk-adjusted basis.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

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Absolutely.

Thomas A. Fanning
Chairman, President & CEO

It's been really good for us.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

So do they exceed the utility of returns on a not risk-adjusted basis?

Thomas A. Fanning
Chairman, President & CEO

Yes. So let me say it back to you. I would say the risks are similar, and therefore, the returns must be higher.

Operator

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

Steven Isaac Fleishman
Wolfe Research, LLC

So just not to test the semantics more, but in the past, when you've talked about the -- it was really the AGL deal -- the AGL deal that you talked about moving from kind of a 3% to 4% or 4% to 5% type growth.

Thomas A. Fanning
Chairman, President & CEO

Exactly.

Steven Isaac Fleishman
Wolfe Research, LLC

And so is this again saying, "Hey, maybe we can get more to the higher end of that, or change that range?" Or...

Thomas A. Fanning
Chairman, President & CEO

Steve, no, no. It's very clear to us, here's what we want to do though. Normally, our practice is to kind of do our annual guidance in January, February, and then we update our long-term growth rate, and we've been very consistent and predictable and transparent about what we believe our long-term growth rate to be. And you're right, we were -- we went from, whatever it was, the 3.4%, the 3% to 4% and then 4% to 5% with AGL. Now we're adding some other assets, increasing our investment in Southern Power. And obviously, that all has an impact. We'll evaluate that impact for you with much more transparency in October.

Steven Isaac Fleishman
Wolfe Research, LLC

Okay. Is it fair to say, because one of the other potential drivers is this kind of incremental growth off of the joint venture on SONAT. Is that something we should have more visibility on by late October then?

Thomas A. Fanning
Chairman, President & CEO

So I had some magic words there in the script, but basically, as I hate front-running stuff like that. And when we get those things done, we have some very specific ideas between us and Kinder Morgan about

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what we want to do. As we accomplish those things, we will let you know. I don't like to front run deals before they happen. That's always been our practice, is to announce them when they happen.

Steven Isaac Fleishman
Wolfe Research, LLC

Okay. And then just one technical question, and I guess this might be more for Art. But in your kind of quarterly stuff, you used to have, you're now saying kind of $0.13 of other revenue impacts, though it always used to be retail revenue impacts. So I'm just curious, kind of, is there other stuff in there than -- I always used to view that as just rate relief. Is there other things in there now?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

You're talking about other revenue effects?

Steven Isaac Fleishman
Wolfe Research, LLC

Yes.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, other revenue effects really is just rate changes across our service territory.

Thomas A. Fanning
Chairman, President & CEO

So it is just retail.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes.

Steven Isaac Fleishman
Wolfe Research, LLC

Okay, okay. And then, just any more color on the sales? Like it sounds like the sales weakness just seems to be more conservation and maybe a little bit more of an impact than you thought on...

Thomas A. Fanning
Chairman, President & CEO

So yes, Steve. I don't know, we'll double team it, but it is almost exactly what the Fed is talking about. Our data is matching them almost exactly, very interesting. I just had the meeting last week with them, last week, last Thursday. And if this -- what we're seeing in the Southeast, the plus side, is more expansion, more in-migration than we have seen in the past, more than our budget and more job creation. And so that side of the ledger looks pretty good. When you look at usage, it looks a little worse. The net effect is kind of flat. The usage accounts could really, at the residential level, it could really speak to 2 things going on, and the Fed has been wrestling with this one as well. Savings rates are up. So people aren't necessarily taking improvements in their household income statements as a result of lower gasoline prices, for example, and going out and spending it. Maybe that's not so surprising coming out of a recession. The other one is, greater penetration of energy efficiency. Outweighing that is people kind of diving into more of the digital economy, more devices, more whatever. Anyway, the net effect of all that right now is flat. Commercial, same deal. We are up on customers, Art went through the numbers. We think that is energy efficiency. And that could be LEDs, it could be more efficient HVAC or whatever. And you want to know what that goes to, Steve? Our response to that is really PowerSecure. That is, we think, technology is enabling, and customers are asking for this notion of making, moving and selling on their own premise. In fact, they're obviating in many respects the importance of the meter. And so

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our response to that has been, number one, we want to do what's good for our customers and work for energy efficiency and every one of our companies has projects and programs and all that. But we want to start getting share there, and that's what PowerSecure is all about. And if you look at some very successful segments that may apply, it would be in the military and some areas related to that. Industrial is a different kettle of fish. And it pretty -- boy, if you look at the business, Roundtable, if you look at our own surveys with our own important customers, we just got through with your -- I forget what you call it, the sounding board or something.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, the Roundtable.

Thomas A. Fanning
Chairman, President & CEO

Roundtable. And if you look at the broad data, it appears that starting sometime in the second quarter, maybe beginning in the first, industrial companies started really pulling back on capital deployment. When I was on Bloomberg this morning, they talked about in many broad measures, how durable goods just fell off the table. It looks as if that is kind of event-related, whether it is more worries about economic malaise in Europe, Brexit, terrorism, lack of transparency out of China, whether it looks like the dollar versus other worldwide currencies, whether it's uncertainty about our own political process, it looks as if capital commitment by big industrials has really fallen off. I'll give you a quick data point. A number of our economic development projects is about the same. The number of jobs is about the same, within 5%. But the number of forward-looking capital commitments of our economic development backlog is down about 50%. At least it is for now. We don't think those are cancellations, we think those are deferrals. One other point on industrial. We have seen many of our major customers now start to consider consolidation. That may inure to our benefit. If they consolidate away from higher price places in the United States to the Southeast, we'll see. The other place we've seen that is in extended outages and perhaps more comprehensive outages. They were going to take the outages anyway. They're going to take them longer and do more during this period of uncertainty. That's what we think is behind the industrial numbers.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Steve, let me add a comment on the commercial side. I think I mentioned in the script that we had 4 or 5 quarters of growth on the commercial end, and this was the first drop we've seen in that in quite a while. We had a very strong second quarter in '15 in commercial sales. So you're comparing year-over-year to a very strong growth rate a year ago. So we're looking into that. When we look at the number of commercial customers we have, and there's almost 600,000 of them, it's hard to get a beat on exactly what every customer might be doing. But there are segments of offices and data centers where we're seeing drops in load, and we're not quite sure whether that's -- they're raising temperatures in their server rooms or whether they're actually moving data centers out of our territory to other facilities. So we're doing -- we're still doing research on that in order to get a better beat on what's going on.

Operator

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

Anthony Christopher Crowdell
Jefferies LLC, Research Division

Just most of my questions have been answered. Just on O&M, you guys have had 2 great quarters in a row of lower O&M cost, I think, helped out this quarter by $0.04. What can we think about second half of the year, and any drivers in that on O&M cost?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

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Yes, Anthony, we always manage our O&M and especially this year, it's more normal than, say, last, where we've spent less in O&M in the first half of this year compared to last year. We actually spent, as a percent of the total for the year, a whole lot more. But last year was a bit of an aberration in that regard. So you'll see a return of some of that spending getting close to what we think our total for the year will be. A 3% to 3.5% increase is kind of what I've guided to, I believe, in our O&M. But again, that's going to fluctuate based on our top line base rate revenue growth. So we always manage the business around those parameters.

Thomas A. Fanning
Chairman, President & CEO

And the other thing that we've talked about in past calls, recall that Georgia Power has agreed with the Commission to defer their rate case this year. So their next, what is tri-annual rate case, will be around 2019. Recall, our language around that was we believe that our ability to run the business and the levels of expense and everything else was manageable. So we're executing on that right now. So that's the other thing you should think about. I know particularly there are some business units in the system that may see some changes in staffing or some other things. We'll have to accept those severance costs as part of our ongoing business. So we're working through all that. We still believe it's very manageable.

Anthony Christopher Crowdell
Jefferies LLC, Research Division

Okay. And just if -- I know a bunch of guys are trying to take a shot on this on Southern Power. You talked about the high watermark this year, 2016, pivot towards wind. When you think of long term, what do you think the long-term CapEx level is at Southern Power?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, we're going to talk more robustly about that, Anthony, at the Analyst Day in October. We're not prepared really to address anything in '17 and beyond. What we guide in our '16 plan really is what you ought to go on for now.

Thomas A. Fanning
Chairman, President & CEO

So what was that, $1 billion in '17 and $1.5 billion or so in '18?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. That's roughly it. Yes.

Thomas A. Fanning
Chairman, President & CEO

So use that until we update you.

Operator

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

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

First question. So given, Tom, where electric sales have come through, through the first half, you're down, are you still sticking to your positive 1.1% for the year? Or what should be the new number we should think about?

Thomas A. Fanning
Chairman, President & CEO

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Yes, we were beating up our PhDs on that. I think we're not going to be 1% this year. I wouldn't be surprised if you're below 0.5%. It wouldn't surprise me to be 0.3%, just given everything that we've seen so far. The industrial isn't just going to -- the industrial is the thing that's slowing us down there, and it isn't just going to turn around very quickly. If you held a gun to my head, I would say 0.3%, but it will be less than 0.5%, is what I'm guessing.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Got it. Got it. And the second question, can you update us on where we stand on the SEC investigation into Kemper and when we expect resolution there?

Thomas A. Fanning
Chairman, President & CEO

No. We just don't get updates on that. That's -- we've made our statement on that, and I think it stands on its own. We have disclosed in our financials that we don't believe that's material.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Okay. Okay. And then when you look at this quarter itself, you had started earlier in the year -- I mean, at the end of the first quarter talking about budgeting around $0.70. And you come out at $0.77, when you exclude all the stuff. Where do you think things came in better than expected?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

In terms of areas of spending?

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

No, in terms of your earnings ending up at $0.77 versus your original guidance of $0.70, that extra $0.07 that you picked up.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, I think it's mostly in the O&M sector. And we picked up a little bit of weather in the second quarter, not a lot, but that was kind of offset by lower sales growth. So I'm still going to say Southern Power and weather.

Thomas A. Fanning
Chairman, President & CEO

Southern Power, yes, and Southern Power is going to be a bit better than what we thought, yes.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Okay. And last question. On Southern Power, Tom, in the past, given the CapEx spend and given the bunch you've made as you were seeing things really come together in '16, I think directionally, you had been telling us '16 may be -- the next couple of years probably won't be able to sustain the current net income that '16 will generate in Southern Power. Given the updated CapEx, et cetera, does that change? Or is that still directionally the way we should think about this?

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Thomas A. Fanning
Chairman, President & CEO

Well, it certainly changes. We've suggested to you that a big hunk of this net CapEx increase is dedicated to 2017 and beyond. And so we also have talked about the divot and how we think we filled in the divot. Our current long-term growth rate, as we sit here on this call, is 4% to 5%. And what we've also said several times is we'll give you a complete update, complete transparency, a complete whatever, in October.

Operator

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

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

Where are we on the Kemper A Train? And are there any issues there to keep an eye on?

Thomas A. Fanning
Chairman, President & CEO

Listen, there's always issues. Having lived through Kemper, there's always issues, the unknown unknowns and everything else. But I'll say this, we've been -- you always learn more in getting one unit ahead of the other and applying those learnings to the next unit. Haven't we seen that on Vogtle. Vogtle 3 has been going fine. Vogtle 4 is going a little better than expected because of what we've learned on 3, especially if you look at a balanced plan and a variety of other things. Recall, B jumped ahead of A, and we made the adjustment in the schedule really because of the prolonged refractory work on A. Remember, that was the first one out of the chute on the fluidization trials. We learned that, adjusted on B, and bam, B just has jumped ahead and been doing great. So I guess the last point I just want to make on that, really, Paul, to your question goes to, when we talk about delivering electricity out of B and then ultimately delivering electricity out of A, that really isn't good enough to declare COD. We've got to make sure that the whole system works well in an integrated fashion. And that's when we'll call COD. And we think we'll learn a lot here in the next couple of weeks.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

I was kind of curious as to why you're presenting 3Q guidance without AGL in there.

Thomas A. Fanning
Chairman, President & CEO

That's because that's -- we've stayed that way. We gave guidance this year without AGL because it wasn't sure we would close AGL. So we wanted to be very pure about giving you the estimate, what we have going forward. AGL has significant periodicity as we do in their earnings trains. You get mostly earnings in the first half of the year, and only about 1/3 of their earnings come in the second half. So when we talk about -- remember, when we announced the deal, it was all about the how much they were going to accrete to our value proposition and everything else. Look, the information value of the second half of Southern Gas, now yes, Southern Company Gas, is not particularly interesting. What is interesting to me is what the full year in '17 will look like, how we're going to assumingly get through FTC and a variety of regulatory approvals, get SONAT, integrated into that. And then I think we'll have a very kind of -- very interesting fun stuff to talk about in October. I just think for consistency purposes, that's why we're not particularly concerned with the second half of the year in Southern Gas.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

Got it. It makes sense. And then as you move deeper and deeper into gas, what have the 4 states you're in opined on rate-basing gas reserves? I guess 3 states...

Thomas A. Fanning

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Chairman, President & CEO

Remember, yes, right, we had Florida and then they kind of reversed themselves a little bit. It's funny, Paul, we've talked about that. Gosh, I can remember when I was CFO, we talked about that.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

That was a long time ago.

Thomas A. Fanning
Chairman, President & CEO

That was a long time ago. It's one of these things. It's interesting. So right now, I guess, year-to-date, we're 50% of our energy produced from natural gas, and I don't know, 28%, 27% from coal. With all the loads we're having now, those numbers are going to converge a bit. It may be that by the end of the year, just given the demand, and coal was starting to run a little bit more, we could see gas drop down into the very high 40s and coal pick up just a bit. But what remains is that we are one of the nation's most important consumers of natural gas, whether it's through our pipes or whether it's being consumed in our electric generation facilities. One of the great advantages and one of the synergies of the deal really goes to the excellent capability of the folks at AGL -- formerly AGL Resources. And so we're looking to see what are the different things we can do to keep prices as low to our customers as they possibly can be, and we're working through all those synergies now. An idea we've had forever has been this rate-basing of gas. It never has risen high enough on the priority list of our Commissions to really make a big push on it. If it becomes attractive, we certainly talk about it. If it becomes attractive enough, we'll certainly pursue it.

Operator

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

Julien Patrick Dumoulin-Smith
UBS Investment Bank, Research Division

All right. So first, cutting back to the Vogtle schedule. Obviously, some of the updates from the PSC side of the equation here are suggesting some risk of delay. What's your expectation for these providing the next update on schedule, soup to nuts, if you will?

Thomas A. Fanning
Chairman, President & CEO

Well, I think that the most important evidence is that the contracts have a firm schedule. And you all -- well, you all -- we all were aware of some of the challenges that CBI was having, the hangover on litigation, the cash issues that CBI had. There was a whole kind of storyline around the challenges that the contractor group was facing. Cutting out the litigation and the overhang that produced with the settlement, at the same time Westinghouse buying away this piece of the business from CBI, gives clarity to who's in charge, and then replacing CBI with Fluor has all inured to everyone's benefit. One of the things now that we have been able to do with Fluor on-site, with Westinghouse firmly in charge, is move to this full 24-hour coverage. One of the things we're doing is adding more craft labor to the site to be able to hit the productivity curves that we need to do. We expect to prove those things in the next quarter and months ahead. That is going to be the key to hitting our schedule. The other thing is we have put in place, in the new contract with Westinghouse, incentive for meeting the fuel load as well as payment milestones for cash payments to Westinghouse and then ultimately, to Fluor from us anyway. So really, to Westinghouse, that's all we care about. So there's a whole range of commercial incentives in place for that to happen. We think we're making terrific progress. We're very happy. And the other thing I want you to hear is there's Unit 3, Unit 4 is actually progressing even better. So that one is particularly important to us with respect to the production tax credits on the back end.

Julien Patrick Dumoulin-Smith
UBS Investment Bank, Research Division

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Actually, since you mentioned PTC, how comfortable are you that you could get an extension of the PTCs if the schedule update comes out perhaps putting that at risk?

Thomas A. Fanning
Chairman, President & CEO

So number one, we don't believe that's going to happen because what we believe is what currently is in existence, and we keep getting affirmed by the contractors and we have a very rigorous oversight. So we reaffirm the current schedule in place. And we're seeing productivity performance that shows that Unit 4 is actually improving, certainly relative to Unit 3. There is always ongoing conversations on Capitol Hill about taxes and policy and everything else. I don't think we're at that point yet, certainly in needing that. The administration in place so far and Congress have both been incredibly supportive of this notion of promoting the renaissance of nuclear to America. So, so far, it's Southern and then it's summer. We hear other projects coming to the doorstep, and I think, as a national priority, Congress and the administration and even the new administration, I think, will be supportive in making sure that happens as well as it can. One last point, I know I'd go on, but I can't make this point enough. For all the schedule changes and all the costs associated with the schedule changes, the benefits to customers have overwhelmed those costs. And when that thing was originally ordered by the Commission, it was going to be a 12% price increase. Now we think because the benefits have overwhelmed the costs even with the schedule changes, we think that the price impact will not be 12%, it will be between 6% and 6.5%. Price increases have actually come down over this time frame.

Julien Patrick Dumoulin-Smith
UBS Investment Bank, Research Division

That's great. Coming back to perhaps where you started the call, if you will, on the Kemper side, can you elaborate a little bit more about what those criteria or specifics in terms of mix or duration of operations to kind of get you to that critical milestone where you feel comfortable filing? I mean, is there something specific? Or is it a broader term here in gas -- on gas?

Thomas A. Fanning
Chairman, President & CEO

It's a broader conversation. Look, there are -- a tax law that's kind of pretty clear. It deals with synchronization and a variety of technical measures. I think we want to be able to demonstrate -- this is something that I said earlier, I just want to reinforce it, we've been almost pedantic in how we've gone through the startup process and the test packages. And generally speaking, when we have tried to turn something on, it has worked well, okay? There's always stuff we've got to fix and there's always improvements we can make. We've tried to make those along the way. But I think our processes have been proving themselves to be very valuable. So we want to get to a point to demonstrate to the Commission. On a sustained basis, there is no clear criteria between us and the Commission as to what that is just yet. So we will develop that over time, and we're in conversation with the Commission and the staff as to what that might be. At the end of the day, getting this done right is what's most important. I think we're demonstrating that.

Julien Patrick Dumoulin-Smith
UBS Investment Bank, Research Division

Got it. And last question, summarizing things a little bit, you have obviously talked about success and cost cuts, but Georgia Power, with the stay-out for the next few years, are you feeling comfortable you can continue to earn your ROE at that jurisdiction? And then I suppose, more broadly, given the normalized sales growth trends, or at least the sales growth trends in '16, how do you assume about normalized, and how does that mesh versus the added CapEx and growth opportunities we've talked about in terms of the long-term growth rate? Maybe a little bit of a preview to the Analyst Day, so I apologize, but I'd be curious.

Thomas A. Fanning
Chairman, President & CEO

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You guys are relentless. I'm telling you, you're relentless. No, no, no. I appreciate the question. I appreciate the interest. We are completely convicted we can do what we need to do to demonstrate our long-term growth rates and hit our tactical ROEs in every one of our subs. It's always a challenge. It's always hard work. But we are able to demonstrate that we can do that, and at the same time, let me remind you that we have the highest levels of reliability, the highest levels of customer satisfaction in the United States. So we are able to make it an and proposition. We will never sacrifice service to customers over reliability in order to achieve returns. We do both.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

And Julien, just to be clear on the Georgia rate issues, that excludes the NCCR rate, which is the Vogtle rate. So it's not an entire stay-out for all rates at Georgia Power.

Operator

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

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Two easy questions for you. One, I just want to make sure I follow this on Southern Power. The $1.4 billion, $1.5 billion of CapEx for wind, those are for projects that you haven't yet announced but you plan on announcing in the next 4 to 5 months in the back end of this year?

Thomas A. Fanning
Chairman, President & CEO

Yes, we just announced, what was it, 45 megawatts. Other than that, it's all new stuff and will likely have a '17 and beyond impact.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Got it. But it's CapEx you would spend this year for projects that would come online early next year?

Thomas A. Fanning
Chairman, President & CEO

Yes. That's right.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Okay. The other thing, I'm coming back really to Georgia and Alabama, I mean, your 2 biggest regulated subs. I'm just trying to think about the next couple of years in terms of what could present upside to rate-base growth over the next 3 or 4 years at both of those large subsidiaries? Or should we continue to think of them as, outside of Vogtle, kind of flattening to even declining CapEx levels and therefore maybe higher free cash flow coming out of those 2 big businesses of yours?

Thomas A. Fanning
Chairman, President & CEO

I would jump into kind of 3 segments. Art could jump in too. I would go to -- I wouldn't be surprised if the Clean Power Plan resolves itself. And so you're going to start seeing kind of what happens in terms of generation, both from ramping down and ramping up new forms of generation, ramping down old stuff and ramping up new stuff. That's kind of thing one. Thing two would go to environmental. I would go to ash ponds. I wouldn't be surprised. We've done a lot of public discourse about accelerating our activity on ash ponds and all that stuff. The third would really go to kind of resiliency and hardening and making sure that we provide the very best reliability, the very best kind of customer service and serving growth. We continue to think we'll see growth.

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Arthur P. Beattie
Former Executive VP & Chief Risk Officer

And the other thing to add here is Georgia's economy is probably the most healthy of all of our states, so you're going to see more growth there.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Got it. Anything on the transmission side?

Thomas A. Fanning
Chairman, President & CEO

I would have put that under the resiliency thing.

Operator

Our next question comes from the line of Angie Storozynski with Macquarie Capital.

Agnieszka Anna Storozynski
Macquarie Research

So I just wanted to talk again about Kemper. So explain to me what happens once Kemper actually hits the COD and then you take some time to actually file a rate case. What's happening to earnings in Mississippi? I mean, how much of the AFUDC goes away? And what happens while you're either waiting for the rate case to be filed or actually waiting for the right sort of case?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, Angie, good question. The -- as we've said, I think, in the script, that we're going to let it operate for a while in order to prove the technology. We would more than likely defer the cost, operating cost and other cost, except for the equity return of -- through an accounting order that will allow for a recovery of those costs in the future or over time.

Agnieszka Anna Storozynski
Macquarie Research

So there is no impact on earnings from the moment that the plant starts operations, so when the final rate order comes in?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. Well, you get -- AFUDC will go away because it's in-service, but you can...

Agnieszka Anna Storozynski
Macquarie Research

And how much is it in '16?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

I don't have a number. About $10 million a month?

Agnieszka Anna Storozynski
Macquarie Research

$10 million. Is that...

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

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So that's a net income number, as I'm being told. So it's going to be, what, $14 million on a pretax basis.

Thomas A. Fanning
Chairman, President & CEO

That's part of our plan. That's all in our plan, Angie.

Operator

We'll move on to the next question, and that's from the line of Paul Patterson from Glenrock Association.

Paul Patterson
Glenrock Associates LLC

I wanted to just sort of, I guess, follow up here on Kemper. So the question that sort of comes up here is I guess you're going to have COD, you're going to be in-service, and I was reading the 8-K and I just -- and I heard you guys. You guys are pretty confident that you think you're going to be able to pull the -- that, that it's going to be happening by September 30. Do I understand that correctly?

Thomas A. Fanning
Chairman, President & CEO

That's our current estimate. What we've tried to be very clear about, and there's some new language in this 8-K that really reflects -- remember how -- in effect, I'm going to go back to stuff we said. Boy, when we originally started this thing, we were talking all about risks. And beyond construction risks, we talked about how a combined cycle unit has 3 pieces that need to be integrated, that this unit was going to -- this plant was going to have about 14, 13 or 14. And one of the challenges we always said was integrating the different systems in this plant. Goodness, that so far we think we've integrated or at least demonstrated maybe 8 of those 14 systems. What's left, and we're going to learn a lot, like I said, in these next 2 weeks, is our ability to integrate successfully the remaining systems in order to produce electricity from syngas out of the combined cycle. And Paul, I just want to say, that is really important information. And I don't think this is in the realm of it won't work, we believe it absolutely will work, but it's a matter of fine-tuning this engine. And...

Paul Patterson
Glenrock Associates LLC

Right. No, I understand. It's a complicated piece of it. I think I understand. I just want to make sure I wasn't -- I read the 8-K too and I just want to be a little careful. Okay. And then in terms of the capacity factor, I mean, when you guys are -- when this thing is -- let's assume that it does come in by September 30. Should we have some expectation of what the capacity factor would be? I remember, when using the chart, it sounded like it was 60% to 70%. I just wanted to clarify that a little bit. What should we be sort of expecting in terms of the performance of the plant when you use the "COD rate" -- the "COD date", excuse me?

Thomas A. Fanning
Chairman, President & CEO

Yes. So one of the things as the topic of conversation with the Commission is really what will be the operating performance of the plant through its first 10 years or something like that. And in order to demonstrate the early sustainability, we want to ramp up the production of syngas to about a 60% to 70% capability. Now how likely we are to get 60% to 70% average for the first year of operation, that's a whole different number. And I think one of the things that it just let us handle, maybe we can give you a better answer in October, but there's an understanding between us and the Commission as to what is the ramp-up of performance. If you go back to many of the supercritical units in America, when you look at introducing new nuclear plants, there are always opportunities to improve performance and reliability and capacity factor over time. You don't hit full speed right away. We'll share with you some of that, but I wouldn't expect 70% out of the gate. We need 70% to demonstrate, but then we'll take it down and fix and bring it back. So the effective number will likely be a little bit less than that, certainly in the first year.

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Paul Patterson
Glenrock Associates LLC

Okay. And so I guess back to sort of Angie's question, which was sort of like, I mean, you're going to -- once you have this sort of in-service date and then there's going to be this ramp-up period, you mentioned that was in your numbers, that you guys are expecting the absence of AFUDC, et cetera, what sort of -- what is the sort of -- what is in your -- what is embedded in your numbers with respect to the absence of AFUDC in 2016 or 2017?

Thomas A. Fanning
Chairman, President & CEO

It's, I think, it's the $10 million we just talked about. That's been in our numbers...

Paul Patterson
Glenrock Associates LLC

For how many months?

Thomas A. Fanning
Chairman, President & CEO

I'm sorry?

Paul Patterson
Glenrock Associates LLC

Perhaps, it's $10 million a month. But for how many months? I apologize for being a little bit unclear on that.

Thomas A. Fanning
Chairman, President & CEO

No, no, no.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

I think in our '16 plan, which again outlines the 4% to 5% growth, it's -- we would file a case sometime mid- to spring, mid-'17, and then you're going to get either rates in late '17 or close to the end of '17.

Thomas A. Fanning
Chairman, President & CEO

But the working assumption would be nothing for '17 until we get a rate. Hey, and let me try something else out that is important. Along the way, we keep having these dribs and drabs of extra expenses along the way. One of the things that our guys have developed, some of that is extra O&M, some of it is unexpected capital, some of it has been improvements. And one of the improvements that we have made is the capability to deliver a dual fuel investment here. So we fully expect this thing to be used and useful on synfuel. Okay? But in order to demonstrate the economics to customers, when we're not running on synfuel, we can run on natural gas. And if you believe natural gas prices are going to be cheap for some prolonged period, I'm just willing to bet we can deliver the economics in Mississippi's customers that they thought they were going to get when this thing was ordered. So this dual fuel capability, when we're not running on syngas, is going to be particularly important in the regulatory approval process.

Paul Patterson
Glenrock Associates LLC

So the flexibility of being able to use both fuels, if I understand you correctly, you think is an asset to showing the value to the regulators and what-have-you?

Thomas A. Fanning

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Chairman, President & CEO

You bet. Yes, and we still have to demonstrate use and usefulness of synfuel. We get that completely, and we're fully confident we can do that. But the other thing that we can demonstrate is a highly reliable, when we're not running on synfuel, we'll run on natural gas, highly reliable generating asset. Remember, now that SEE has been running now for well over 1.5 years, almost 2 years, I guess it would be 2 years in August, and supply is about 1/3 of the energy for Mississippi Power's customers already, so we're going to be able to continue that and deliver synfuel. We think this thing is going to be a terrific asset for years to come.

Paul Patterson
Glenrock Associates LLC

Okay. Great. So just finally, has the syngas been burnt at the power plant at all so far?

Thomas A. Fanning
Chairman, President & CEO

Has the -- say it again?

Paul Patterson
Glenrock Associates LLC

The syngas that you produced, my understanding is you guys have produced syngas now, has it been used at the power plant yet?

Thomas A. Fanning
Chairman, President & CEO

Oh no, no, no. We're venting it. It's burned at a burner tip essentially. And I think we've got some of the pictures in the deck that shows the syngas being vented.

Paul Patterson
Glenrock Associates LLC

Okay. And then just really quickly, just to follow up on Steve's question, you guys were saying something about the personal -- I mean, I sort of followed what you were saying about sales growth, but you mentioned personal savings rates being higher than expected. And I'm just trying to get a sense as to what were you guys expecting, I mean, what are you expecting in terms of -- I don't know what the Fed's expectations are, what your expectations are in terms of personal savings rate.

Thomas A. Fanning
Chairman, President & CEO

Oh, they're higher than they've been historically. So if you looked at the graph of -- now I'm doing Fed speak. But if you looked at a graph of personal savings rates, they were kind of in the 4% to 5% range, something like that, leading into the recession. The recession drove the savings rates way down. And now coming out of the recession, the savings rates are returning to 4% to 5%, which is kind of where the Fed thought was going to -- as you add income, you subtract savings, you should get consumption. And what was happening was the savings rates were breaking through, and I think I got this right, 5%, going into 5% to 6%, to whatever. And so you were getting...

Paul Patterson
Glenrock Associates LLC

They were about 5% in the quarter, I think, the last couple of quarters.

Thomas A. Fanning
Chairman, President & CEO

There you go. So what you're getting is more income with less consumption, and that's adding break to the economy. That's why the Fed continues to be surprised with. Even though the economy appears to be

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getting better from a jobs and wage standpoint, they're not seeing the consumption and therefore, the follow-on economic driver. But we're seeing that in our stuff too.

Operator

Our next question comes from the line of Michael Weinstein [ph] with Crédit Suisse.

Unknown Analyst

With the Analyst Day being not only close to -- not only on Halloween, but also just a few days before the election, just wondering if you guys have had any kind of conversations at all with the 2 candidates, their teams. Any kind of indications about what kinds of energy policies might be coming out of both camps at this point?

Thomas A. Fanning
Chairman, President & CEO

I think both camps will be constructive. And yes, we have had contact with both camps.

Unknown Analyst

Any sense of what might happen to the Clean Power Plan or...

Thomas A. Fanning
Chairman, President & CEO

Well, I don't want to get into detail. In fact, let me kind of do it on another front. I'll be appearing with Ernie Moniz tomorrow at the Democratic Convention in the morning to talk about energy policy and innovation. Let me just say this, I know I'm an optimistic person. I've walked the halls of Congress. I try not to become bitter and cynical. But you know what? I think energy is one of the areas where we can show bipartisan support. I met recently with Maria Cantwell and Lisa Murkowski, 2 terrific senators from both different sides of the aisle. I think they've been able to advance some important legislation. We've always had great leadership out of the House. Fred Upton, Ed Whitfield. I think we'll continue to get good leadership there. I really believe energy policy is something that we can come together on and make improvements. Is it everything we want? No, probably not. But is it making good progress? Yes, I think it is. With respect to the administration in place, the Obama administration, certainly under the leadership of Secretary Moniz, who without blowing smoke at him, I really believe he's been the best energy secretary America has ever had. Very practical, very focused on providing, in all of the above, energy solution for America. We have this unassailable advantage to drive the economy relative to any other economy in the world, and I think we need to take advantage of it. Now we can get caught up in the politics of what each party's plans are and everything else. But I'll say this, I'm reasonably confident that either administration, whether it's Clinton or Trump, will be good for our industry.

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

Most of my questions have been asked and answered, but I have a few, just some nuances on what has already been discussed. Just on the growth that you're seeing, you mentioned, I think, that Georgia's clearly the strongest territory. I was wondering if you could give any color on what you're seeing in the other geographies there.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, sir, Dan, I'd say Georgia and Gulf Power, the Panhandle of Florida, are probably the strongest. Alabama and Mississippi are a little weaker. They're still growing, but they're not quite as -- growing quite as strong as Alabama and Georgia are -- or excuse me, as Florida and Georgia are.

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Dan Jenkins
The State of Wisconsin Investment Board

Okay. And then on your financing plan on Slide 12, I was just wondering if you could give some guidance as to where you expect the Southern Company Gas and the SONAT financing to come out of, would that -- would you like for the SONAT, would that come out of the parent, or would that come out of Southern Gas? Or would it be -- how -- what sort of entity should we expect to be the...

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, it will be issued at the parent. I'll tell you that much. But as you look at the graph, Southern Company Gas, that is truly their need or debt without SONAT. But it would include, if we put the SONAT investment, as I think without, inside Southern Gas, then that would -- you would add the additional 400 to that number.

Thomas A. Fanning
Chairman, President & CEO

Recall, Southern Company Gas already has an interstate pipeline.

Dan Jenkins
The State of Wisconsin Investment Board

Okay. And then just on going back to Vogtle, it looks like you made some nice progress this last quarter, but I was just curious, I know last quarter, you mentioned, for Unit 4, that you expected to set the CA-05, but you don't mention that this time. I was wondering, is that -- was that done? Or is that still to be done or...

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

That is a good question. I thought you would ask me about Ring 3 or Ring 2. That CA-05. Yes, I think it's done. From the information I have in front of me, just looked through it, CA-05 is in progress or set.

Dan Jenkins
The State of Wisconsin Investment Board

It's set. And then I was curious as to what's the status of the shield building. I know that's been a critical path and a hurdle recently. How -- what's the status of that?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, we've made great progress on the shield building.

Thomas A. Fanning
Chairman, President & CEO

Big fixes in, all the big...

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, but the shield building is what he's asking about. So it was on the critical path. I think we've made some pretty good progress along that line. And actually, it's going a little better than what we thought maybe a year ago. But great progress on that front.

Dan Jenkins
The State of Wisconsin Investment Board

So what do you expect kind of the critical path items then for the second half of '16 for both units?

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Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, I -- and I think we've outlined in the script that the critical path remains within the nuclear island, and that's where it will remain. That's where all the new work fronts are going to be opened up. That's where all the productivity improvement is focused on in order to meet our in-service dates.

Operator

Ladies and gentlemen, in the interest of time, that was our final question. Investor Relations team will be available to answer any further questions you may have. At this time, there are no further questions. Sir, are there any closing remarks?

Thomas A. Fanning
Chairman, President & CEO

Yes. Thanks, everybody, for participating. Awfully exciting times, transformative times at Southern, and I think there's a lot of excitement here among the team in executing now. We will tell you all the news that's fit to tell you in October. It will be a lot of fun, and I look forward to that.

Operator
Thank you, sir. Ladies and gentlemen, that does conclude the Southern Company Second Quarter 2016 Earnings Call. You may now disconnect your lines. Have a great day, everyone.

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