S&P Global
Market Intelligence

The Southern Company NYSE:SO

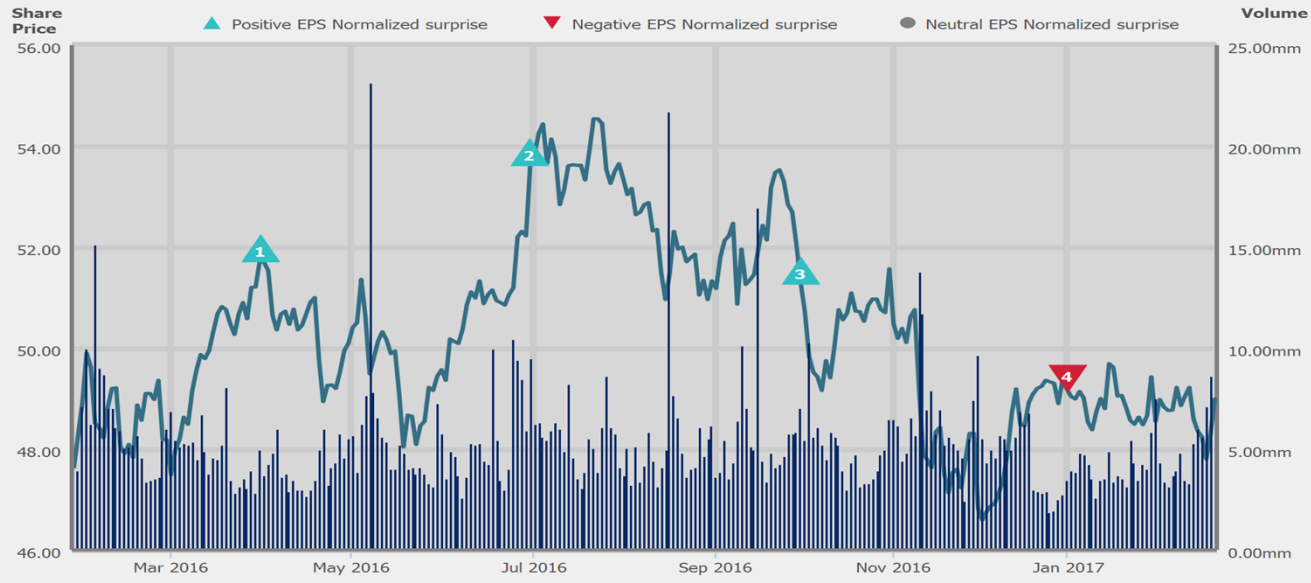
FQ4 2016 Earnings Call Transcripts

Wednesday, February 22, 2017 6:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2016-			-FQ1 2017-	-FY 2016-			-FY 2017-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	0.30	0.24	▼(20.00 %)	0.65	2.89	2.89	●0.00	2.99
Revenue (mm)	4420.08	5181.00	▲17.22	5147.64	19091.19	19896.00	▲4.22	21554.66

Currency: USD
Consensus as of Feb-07-2017 6:10 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2016	0.53	0.58	1 9.43 %
FQ2 2016	0.70	0.74	2 5.71 %
FQ3 2016	1.18	1.28	3 8.47 %
FQ4 2016	0.30	0.24	4 (20.00 %)

COPYRIGHT © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved

Table of Contents

Call Participants 3
Presentation 4
Question and Answer 9

COPYRIGHT © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved

Attachment to STF-238-7

Call Participants

EXECUTIVES

Aaron Abramovitz

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Thomas A. Fanning
Chairman, President & CEO

ANALYSTS

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Andrew Levi

Anthony Christopher Crowdell
Jefferies LLC, Research Division

Ashar Khan

Dan Jenkins
The State of Wisconsin Investment Board

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

Michael Weinstein
Crédit Suisse AG, Research Division

Paul Patterson
Glenrock Associates LLC

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

Praful Mehta
Citigroup Inc, Research Division

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

Presentation

Operator

Good afternoon. My name is Suzie, and I will be your conference operator today. At this time, I would like to welcome everyone to the Southern Company Fourth Quarter 2016 Earnings. [Operator Instructions] As a reminder, this conference is being recorded, Wednesday, February 22, 2017.

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, Suzie. Welcome to Southern Company's Fourth 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 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. We have a long list of outstanding accomplishments for 2016, and we are well positioned for continued success in 2017 and beyond. We shared many of our 2016 successes at our Analyst Day, but I would like to recap just a few.

Our longest-standing strength is the operation of premier state-regulated utilities. The addition of Southern Company Gas broadens our opportunity to leverage our customer-focused business model, which has long supported constructive regulatory relationships, world-class customer satisfaction and regular, predictable and sustainable returns on investment. As evidenced by the efficient merger approval processes that were completed in the first half of 2016, all of these newly added LDCs have constructive regulatory frameworks and well-established regulatory relationships. Recall that one of the key rationales for our acquisition of Southern Company Gas was to create a platform for future growth in gas infrastructure. On the heels of completing the AGL Resources merger, we acquired 50% of Southern Natural Gas, which serves the vast majority of our state-regulated utilities in the Southeast and is arguably the crown jewel of the interstate natural gas pipelines in the southeastern United States. Not only does our ownership provide for stable long-term earnings and cash flows, it is also expected to provide growth opportunities in the future.

At Southern Power, we invested nearly $5 billion in 2016 and began a shift towards wind. At the very end of the year, Southern Power signed an agreement with RES to jointly develop 3,000 megawatts of wind projects with in-service dates of 2018 through 2020. Southern Power will cooriginate the PPAs for this pipeline of projects and will procure turbines through 2 supply agreements with Vestas and Siemens. Our initial turbine purchases in 2016 provide a safe harbor for 100% of the 2016 production tax credit value for the full development pipeline. We plan to invest approximately $1.5 billion per year to grow Southern Power over the next 5 years, and the pipeline of projects under our joint development agreement accounts for most of the expected investment in 2018 through 2020 time frame.

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

The addition of PowerSecure early last year provides Southern Company with another important option for the future. PowerSecure is well aligned with our customer-focused business model, providing customers with the energy infrastructure solutions they increasingly demand. With the slowing of electricity usage, we've positioned Southern Company to serve a nationwide base of customers on both sides of the meter. This strategy includes opportunities under the alliance we announced with Bloom in late 2016. Much like Southern Power and our interstate natural gas pipeline investment, PowerSecure is positioned to build and own distributed energy infrastructure under long-term contracts in a manner that should provide for regular, predictable and sustainable results.

At Vogtle 3 and 4, we continue to make progress on construction. In addition, in December, as another example of the constructive regulatory environment that are key to our overall success, the Georgia PSC approved the prudence agreement we announced in October. As a reminder, the Georgia PSC approved our 2015 litigation settlement with Westinghouse. In addition, the PSC either deemed or presumed prudent cost aggregating $5.68 billion while providing contingencies for both cost and schedule. The schedule contingencies provided in the prudence agreement consolidate the project time line to allow for completion of both units 3 and 4 by December 31, 2020. This PSC action provided more certainty concerning the prudence and collection of project costs for both the company and investors.

At Southern Power, we've already announced the acquisition of the Bethel Wind Energy Center. This 276-megawatt facility is now in service and places Southern Power's ownership and renewable generation resources north of 3,200 megawatts.

In addition to wind projects, natural gas generation under long-term contract remains a priority for Southern Power. As you recall, we acquired the Mankato combined cycle facility last year. The Bethel Wind project and the expansion of Mankato represent approximately $600 million of Southern Power's $1.5 billion growth capital for 2017.

At Southern Company Gas, yesterday's approval of Atlantic Gas Light's GRAM rate, that's G-R-A-M rate, structure by the Georgia PSC is yet another example of a constructive regulatory framework for our premier state-regulated utilities. This forward-looking mechanism will provide timely recovery of important infrastructure and growth investments in Georgia over the long term.

In addition, Southern Natural Gas recently filed a proposal with FERC for expansion of the natural gas lateral that serves Plant McDonough-Atkinson in Georgia, with an estimated investment of $240 million. Our 50% share of this investment, $120 million, is part of the $300 million placeholder CapEx we included for pipelines in our Analyst Day materials.

In 2016, by expanding our premier state-regulated utility portfolio, continuing to invest in energy infrastructure projects under long-term contract and financing our 2016 growth on very favorable terms, we were able to extend our EPS outlook to 5 years with an EPS growth rate of approximately 5%. Our EPS outlook is resilient to a variety of different outcome and supports our regular, predictable and sustainable objectives. And subject to board approval, that should enable us to follow through on the dividend policy we outlined at our Analyst Day in October.

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

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Thanks, Tom, and good afternoon, everyone. As you can see from the materials released this morning, the adjusted results for the fourth quarter met our estimates, and we exceeded our guidance on an adjusted basis for the full year of 2016.

For the fourth quarter of 2016, we had reported earnings of $197 million or $0.20 per share compared with $271 million or $0.30 per share in the fourth quarter of 2015. The full year 2016 reported earnings were $2.45 billion or $2.57 per share, compared with $2.37 billion or $2.60 per share in 2015.

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

On an adjusted basis, for the fourth quarter of 2016, consistent with our estimate provided at our Analyst Day, Southern Company earned $235 million or $0.24 a share during the fourth quarter of '16 compared with earnings of $403 million or $0.44 per share during the fourth quarter of 2015.

For the full year of 2016, on an adjusted basis, Southern Company earned $2.73 billion or $2.89 a share compared with earnings of $2.63 billion or $2.89 a share for the same period in 2015. A reconciliation of our as reported and as adjusted results is included in the materials we released this morning.

Our adjusted annual result of $2.89 per share was just above the top of the 2016 guidance range we established a year ago. The major earnings drivers when compared to our $2.89 per share adjusted results for 2015 were retail revenue effects with our regulated electric utilities, weather and continued growth at Southern Power. These positive drivers were offset by the issuance of additional shares, higher non-fuel O&M expense, higher depreciation and lower weather-adjusted retail electric usage. A more comprehensive list of drivers is included in the materials we released this morning.

We continue to see retail electricity customers using less. This trend is true for all classes, especially commercial. Industrial sales are lower due to persistent strength in the dollar, weaker demand for domestic manufactured products and lower oil prices, hitting 3 of our largest industrial segments in 2016: chemicals, paper and primary metals. However, the outlook is somewhat brighter in 2017 with prospects of potential infrastructure spending, lower tax rates and higher levels of confidence, as reflected by the ISM Manufacturing Index, which rose to 56 in January, a 2-year high. Residential sales are flat, influenced by increased levels of efficiency and a continued trend from single-family homes to multifamily housing. Commercial sales trends are reflective of similar moves to more efficient lighting and HVAC systems as well as an increase in e-commerce, putting pressure on the growth of bricks-and-mortar retail stores. Our expectation for retail electric sales growth over the next several years, as we outlined at our Analyst Day, are between 0 and 1%. In the near term, we expect 2017 electric sales growth to be toward the lower end of that range.

Somewhat offsetting declining retail electric sales is strong customer growth, especially in Georgia and Florida. As we look across our state-regulated footprint, which now covers 9 states, we are seeing employment and population growth consistent with national trends, with slightly stronger growth in Georgia, where we serve both gas and electric markets. Southern Company Gas has experienced strong customer growth in its gas distribution territories, especially in Georgia, Florida and Tennessee. This reflects an increase in migration to these states and strong employment growth.

In our gas and electric markets, our economic development pipeline remains robust, as most of our states are well positioned to create jobs over the next several years, and we expect to support continued customer growth and infrastructure investment.

Before I turn the call back over to Tom, I'd like to cover a few final items. First, our earnings estimate for the first quarter. We estimate that Southern Company will earn $0.57 per share in the first quarter of 2017. We are also reiterating our adjusted EPS guidance from our Analyst Day of $2.90 to $3.02 per share for the full year 2017 and an EPS growth rate of approximately 5% for the next 5 years.

Secondly, I'd like to touch on potential tax reform legislation. No doubt we will all be keeping a close eye on this issue, but we also know predicting the outcome is impossible. There are 2 very public proposals garnering attention, one from the Trump administration and one from House Republicans. Both proposals focus on 3 primary elements: reducing the corporate tax rate, expensing of capital expenditures and eliminating the interest deduction. Each of these elements impacts customers and shareholders in different ways, and it is far too early to know exactly how these proposals might be implemented or exactly what, if any, transition rules will be established. Having acknowledged that uncertainty, let me share some potential impacts of the major tax reform proposals under a few different scenarios.

We estimate that the administration's proposal would be slightly accretive to EPS through 2021. When considering the 3 major elements of the Republican -- House Republican proposal, the impacts could range from slightly accretive to approximately 5% dilutive through 2021, depending on the underlying assumptions. In all of our House Republican plan scenarios, we have assumed a 20% tax rate. However, there are a wide range of assumptions related to capital and interest deductibility. Our worst-case scenario

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

assumes no interest is deductible and there are no incremental investments to offset potential rate base reductions relating to deducting 100% of capital. Our best case assumes interest on existing debt is grandfathered and that incremental capital projects offset reductions in rate base.

We are engaged with policymakers regarding tax reform on several fronts. Our priorities are preserving both the interest deduction and current tax treatment on CapEx as well as ensuring fair and comprehensive transition rules.

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

Thomas A. Fanning
Chairman, President & CEO

Thanks, Art. Before we open the call up for questions, I'd like to briefly address our 2 major generation projects. Progress at Vogtle 3 and 4 construction site continues, and the actions of our contractor are indicative of a focused commitment to improve productivity in critical path areas of construction and to complete projects in a timely manner. We are closely monitoring the status of Toshiba and Westinghouse. Our fixed price contract continues to protect customers and shareholders alike. Westinghouse has provided us with an updated schedule that reflects commercial operations dates of December 2019 for Unit 3 and September 2020 for Unit 4. The company is currently reviewing this schedule in an effort to confirm that these projected dates align with our expectation.

The prudence settlement approved by the Georgia PSC in December provides flexibility to accommodate these scheduled changes. You will recall that the PSC order prescribes the completion of both units by year-end 2020. And we are seeing improvements in productivity and believe this momentum will be sustained given the recent announcements by Toshiba and WEC.

At the Kemper Project, we achieved integrated operations of both gasifier trains and combustion turbines in late January. Following a short outage in early February to make modifications and improvements to clean the gas cleanup system, the plant returned to integrated operations of both trains, including the capture of CO2 and the production of sulfuric acid and ammonia, all of acceptable quality under the related offtake agreements.

On Monday, however, Mississippi Power determined that an outage to remove ash deposits from gasifier B's ash removal system was necessary. Gasifier B has been producing syngas 60% of the time since November of last year. During the outage, gasifier A and combustion turbine A are expected to remain in operation, producing electricity from syngas as well as producing chemical byproducts. As a result of this latest outage work, we are currently expected to reach sustained operation and place the full IGCC facility into service by middle of March. Mississippi Power expects to file for an accounting order from the Mississippi PSC that will allow deferral of depreciation and operations and maintenance expenses of approximately $25 million per month pretax for the assets placed in service until rates are in place. Our 2017 EPS guidance assumes receipt of this accounting order.

In the coming months, Mississippi Power expects to file for cost recovery with the Mississippi PSC. We plan to file both a traditional rate case and an alternative multiyear rate mitigation plan as provided for under Mississippi legislation passed in 2013. Our goal is to achieve an outcome that balances the interest of customers and investors alike -- an objective which often presents challenges. Our commitment to the financial integrity of Mississippi Power and Southern Company has not changed. As we have done to date, Southern Company expects to maintain a capital structure and credit metrics for Mississippi Power supportive of investment grade ratings.

Likewise, we plan to continue targeting a minimum 16% FFO-to-debt metric over the long term at the Southern Company level. Moreover, our overall objectives at the company remain constant. We continue to believe that focusing on the customer, operating premier state-regulated utilities and investing in energy infrastructure projects under long-term contracts will continue to support regular, predictable and sustainable long-term earnings and dividend growth for our investors. Our tremendous successes in 2016 provided the foundation for a resilient financial outlook, including approximately 5% growth in earnings per share.

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

Operator, we are now ready to take questions.

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

Question and Answer

Operator

[Operator Instructions] Our first question coming from the line of Jonathan Arnold with Deutsche Bank.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

I had a question on Kemper. And in the -- I guess in your last 8-K, you referenced the economic viability analysis that you were going to update, and I believe the case has -- that this has been negatively affected by costs and the lower gas price forecast. Can you give us any more specifics on what negatively affected means?

Thomas A. Fanning
Chairman, President & CEO

Yes, sure. So let me first give the context. I guess we've been filing these economic viability analyses since about 2009, somewhere around there, did it annually as a requirement through '14 and '15. I guess the commission staff asked us to file another, and we did. And then the idea was to update that whenever we saw a major change. We didn't see a major change in '15 so we didn't file one there. And then in '16, the predominant change that we saw really related to a lower long-term gas price forecast. That was kind of by far the major effect. And it resulted in reduction of gas price forecast of 25% to 30%. Now when you look at the outcome of the so-called 3 by 3 matrix -- so there's 9 boxes -- essentially what you're able to see is that throughout time, this project has been somewhere between 6 to 9 boxes that are green. That means that, as currently formulated, the plan is economic relative to variances in high, low and medium gas prices and some spread of what carbon cost or price may be. The latest, especially, result of the new gas price forecast reduced the number of green boxes to 3. If you had not had the reduction of long-term gas price forecast in this current addition, we would have been back to around 6 green boxes. So Jonathan, I guess my advice to people looking at that is kind of this. The real result is due to reduction in the long-term gas price forecast, that's the overwhelming change, the big change. Obviously, there are others. It is a point in time. When we had this plant certificated, we all thought the gas prices were going to be double digits, and there was some spreads hat were way higher than where we are now. And recall again, and it was interesting, I actually went back, and in conjunction with this last board meeting we just had, as we start to think about the whole regulatory situation and recovery -- and going back to 2008 when this plant was first filed for in Mississippi, it was really structured as a gas price hedge. In other words, we saw volatile and high gas prices, and nobody figured that gas prices would fall this low. But at the time, Mississippi was looking at being exposed to 70% gas generation and 30% coal, adding -- I mean adding Plant Ratcliffe, Kemper County to the mix, gave us kind of 1/3 exposure to gas prices, 1/3 Kemper and 1/3 coal prices. Interestingly, Mississippi's customers have been able to benefit from the drop in gas prices along the way because, as you know, our combined cycle gas turbine has been in service and has been having an operations profile much better than what you typically find in the United States. So all that's to say is it's an input. The big change is really related to gas prices. Obviously, operating costs did go up since '15 about $40 million a year. But it will just be part of the input that goes into the evaluation of recovery. I'm very happy to say that once we achieve in-service, we will be able to give the regulators and the customers of Mississippi essentially what was certificated back in 2010.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

Tom, just a follow-up on that, is there a scenario where the sort of lack of green boxes causes someone -- is there a determination to be made that it would be better for customers just to run this as a gas plant?

Thomas A. Fanning
Chairman, President & CEO

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

Yes, Jonathan, I suppose there's a million different scenarios that we could evaluate. The good news is, and you folks know as well as we do, and it's been a painful process: Getting to this point, we certainly have taken our lumps, but we have delivered what was certificated back in 2010. I think we will. And we'll see how that goes. Based on the order, we're going to give them what was required for us to build, and we'll see how that discussion goes. Certainly, there's a lot of different ways the regulatory process could unfold from there, but that's our starting point.

Operator

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

Julien Patrick Dumoulin-Smith
UBS Investment Bank, Research Division

So perhaps just to kick it off where Jonathan left it, can you elaborate a little bit more on this filing in Mississippi around the $25 million a month? What's the time frame for that to kick into effect? What should we be tracking there? And more importantly, is that a good...

Thomas A. Fanning
Chairman, President & CEO

So you mean the accounting order?

Julien Patrick Dumoulin-Smith
UBS Investment Bank, Research Division

Yes, exactly. Sorry, apologies. And is that a good leading indicator on thinking about ultimate recovery of Kemper in a future rate case?

Thomas A. Fanning
Chairman, President & CEO

Yes, I really don't think it is, to be honest with you. It's interesting, so our -- once we go in-service, we think on a pretax basis, the run rate is about $25 million a month. What it will be -- when we file for tax and accounting and services essentially prescribed via accounting and tax rules. So when we hit that level, we think that 4 or 5 days of continuous integrated operation will make that determination. We're having some conversations with the Mississippi staff about what the kind of threshold for operation will be in order to get the accounting order. But everybody should understand that whether these costs fall inside an accounting order or outside until we get an accounting order, they will all be subject to review and recovery under the rate filing. So it really just has to do with the accounting presentation in the meantime. I think the general thrust of the staff is that they want to see more sustained operation as yet undefined beyond what's required in order to call this thing in service for tax and accounting purposes. We're having those discussions now.

Julien Patrick Dumoulin-Smith
UBS Investment Bank, Research Division

Awesome. And then moving back to the other side of major projects. You discussed productivity trends going well thus far, where are we in that kind of hiring process ramping up? Are we almost done with that? And then just to be clear about what you said earlier, I assume that between any kind of liquidated damages from the consortium and the fixed-price guarantee that ultimately there's fairly limited changes to your or customer-incurred cost as a result?

Thomas A. Fanning
Chairman, President & CEO

Yes, I think there's almost no changes to incurred costs. I mean it's pretty clear, I mean, we've been meeting with management. In fact, Steve Kuczynski, our CEO of Nuclear, and I met with, I want to say, Westinghouse's Chairman, Toshiba's Chairman, I think the President of Westinghouse in DC in December. Paul Bowers and his team there, he's our CEO of Georgia Power, had a meeting with management all

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

along the way. So you should view it as having a reasonably continuous contact with management. It's very clear to us, I think it's clear to the contractor that all these issues, especially issues relating to productivity at the site, are for their account. In all the media releases that you have seen, there has never been a dispute raised to that effect. The predicate of your question was just a wee bit off, though. One of your predicates of the question was that staffing wasn't where it needs to be. Really, staffing is. Julien, I think the bigger issue there is productivity of the staffing that exists. And interestingly, and I think we have a slide in the deck. It's Page 23, and it's in the Appendix. It shows the productivity, if you will, it's a productivity-looking slide anyway, of various activities that were accomplished in Unit 3 and then the duration of those activities later for Unit 4. And what you can see by that chart is effectively true. That broadly, productivity at Unit 4 is a lot better, and we're learning a lot from having undertaken activities at Unit 3. So that's why you see the difference in the change in schedule from 6 months to 3 months. It really has nothing to do with the amount of staffing on-site. The amount of people we need are on-site. Further, we believe Westinghouse is pulling in the best nuclear construction people and project management talent from all over the country to augment their efforts on site, particularly in the nuclear island. And so they are all about trying to improve their productivity and improve their own financial results.

Julien Patrick Dumoulin-Smith
UBS Investment Bank, Research Division

Got it, that's fair. And then, yes, just confirming that there's no change for consumers, right, and yourself, more importantly?

Thomas A. Fanning
Chairman, President & CEO

Yes, no. In fact, what you should -- the way I think about LPs is that they really offset owners' costs for any delay.

Operator

Our next question coming from the line of Michael Weinstein with Crédit Suisse.

Michael Weinstein
Crédit Suisse AG, Research Division

So I just wanted to confirm that I guess V.C. Summer is going to be -- looks like a few months behind you, right? So you're ahead of them by about 3 to 4 months, is that right?

Thomas A. Fanning
Chairman, President & CEO

You want to ask them that.

Michael Weinstein
Crédit Suisse AG, Research Division

All right. Do you think that -- so you don't have any opinion as to why you guys might be a few months ahead of them or whether...

Thomas A. Fanning
Chairman, President & CEO

We really try to stay away from those things. I think we're much better served paying attention to our own project at this point.

Michael Weinstein
Crédit Suisse AG, Research Division

Okay. And there's no change to the cost of the projects as far as you can see...

Thomas A. Fanning

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

Chairman, President & CEO

Not to us, not cost to our customers, no.

Michael Weinstein
Crédit Suisse AG, Research Division

Yes. Okay. And...

Thomas A. Fanning
Chairman, President & CEO

And the schedule remains within the prescription that we settled, that was agreed to by the Public Service Commission and the settlement in the prudence hearings.

Michael Weinstein
Crédit Suisse AG, Research Division

Right. Has there been any movement on the IRS review of tax credits or anything like that at this point?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

We're awaiting on the Congressional Tax Committee, Joint Committee of Congress, and we believe that some time in the first half of this year that we should hear something from them.

Thomas A. Fanning
Chairman, President & CEO

And you're referring to the 174 deduction?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, that's the 174. I assume, Michael, that's what you're asking about.

Michael Weinstein
Crédit Suisse AG, Research Division

Right.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

For Kemper? Okay, not for Vogtle, right? Kemper?

Michael Weinstein
Crédit Suisse AG, Research Division

Yes.

Operator

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

Anthony Christopher Crowdell
Jefferies LLC, Research Division

Just obviously, everyone is hoping for a great outcome at Kemper. The companies are making progress, but is there a scenario that happens at Kemper where Southern, the parent, no longer supports the operating company?

Thomas A. Fanning
Chairman, President & CEO

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

We've been over that a lot. We try to evaluate every potential card that could get turned up on the table here. It's our belief that we will maintain our support from Mississippi Power in the manner that we have described. It's just not in anybody's interest to consider in any serious way something other than that.

Operator

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

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Congrats on a good end of '16 and nice start to '17. Real quick on Vogtle, and then I want to turn to Southern Natural Gas for a second. On Vogtle, the projects are getting closer, meaning the Unit 4's in-service date is I think you said September 2020. What happens if this pushes out another a couple of months into 2021? How should we think about the risk to things like production tax credits or -- meaning the ability to qualify for them -- or for things like bonus depreciation treatment for Vogtle 3 and 4 if they come online after 2020?

Thomas A. Fanning
Chairman, President & CEO

Yes, so I'll hit production tax credits. Art, you do bonus. But listen, our team in Washington is working really hard to get an extension for the 2 projects that are under construction. And so we're working that angle, and we think actually there's a good vehicle, good circumstances in which to make that happen. The second thing that I would say to you is this 6-month and 3-month kind of extension to the schedule is something we're reviewing. When you look at that slide that I showed you, that I talked about before, Page 23, Vogtle Unit 3 versus Unit 4 duration, our position has been, gosh, we ought to be able to hit Unit 4 really pretty well on without any kind of 3-month schedule extension. I think the schedule extension there may do more with staging work among and between the different units rather than the productivity we're seeing at Unit 4. So I think Unit 4 schedule remains absolutely under discussion, and we'll see where that goes. Over the next month or so, we're kind of tying the proposed schedule change to what the lower-level schedules would indicate right now. We have to make sure those things all gee haw, if you will. So that will be the topic of a lot of review over the next 4 to 6 weeks. Art, do you want to talk about bonus? Oh, I'm sorry, go ahead, yes.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Well, just on the PTC, is the goal to try and get an extension of the PTC date kind of as part and parcel or an amendment to some broader tax package? Or is this kind of try and get this done in some separate type of legislation?

Thomas A. Fanning
Chairman, President & CEO

We've actually had a lot of different kind of ways to do this, we'll see. And let me just tell you, there's a lot of support in Congress for this. This is not an adversarial or any kind of controversial thing. Getting stuff done in Congress, as we all know, is hard so -- but it's got a lot of support.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

So Mike, did you want to know about bonus? I was looking at something...

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Yes. What happens if the plants come online post 2020? What's the treatment for bonus D&A if they don't meet an end of year 2020 in-service?

Arthur P. Beattie

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

Former Executive VP & Chief Risk Officer

I believe it's 0. Of course, all that's subject to change under what's being proposed so we'll see what happens.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Understood. And then finally, Southern Natural Gas, you introduced the new lateral off of the pipeline where you're a 50% owner with a large midstream company. Do you see a lot of other opportunities like that? And do you see those coming to fruition over the next 3 to 5 years, meaning bolt-on projects, bolt-on laterals or even storage? Or is the growth, kind of the bigger growth off of that pipeline, off of that position more longer term than that?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. We -- I think we did at our Analyst Day, we outlined $300 million of opportunity, and this is a piece of that $300 million. And we're looking at other opportunities jointly with Kinder Morgan on opportunities just like this.

Thomas A. Fanning
Chairman, President & CEO

Beyond the $300 million placeholder, if you go back to Rich Kinder's analyst call after we announced the acquisition of 50% of SONAT, he referred to a lot more growth opportunities. We support those things. We're aware of them. We're working with him where it makes sense. None of those additional growth opportunities are in our financial plan.

Operator

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

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

First question, Tom, just wanted to clarify your earlier comments, this economic viability test at Kemper. So just to understand, is this one of the tools that the commission is going to use to determine what investment gets recovered as part of the rate case filing? And this last test where you have the 3 green boxes, is that really what goes in front of them when they're doing their analysis? Or will there be any updates to this?

Thomas A. Fanning
Chairman, President & CEO

Well, I mean, it's just another piece of input that goes into the process. It's nothing more than that. We know that gas forecasts have changed a lot over time. And with respect to whether we should recover it or not, I don't think -- I mean, as a matter of fairness, I cannot imagine that the company is going to be held accountable for a change in gas price forecast. We all entered into this certificate, this order from the commission in 2010, with the understanding that this was a gas hedge, and in fact, it remains a gas hedge. There are still green boxes on the economic viability analysis which would indicate that under certain scenarios, this is a very economic thing to do. And let me remind you, if you had 2015 gas forecast instead of 2016, '17 gas forecast, you would have 6 green boxes. So just because you have this more recent snapshot of what we believe about the future, which we all know has changed dramatically over time, that does not mean anything about the imprudency of costs incurred.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Okay. And then switching to Vogtle. As you said, you've been obviously closely in contact with Toshiba, Westinghouse. Can you just remind us, in the scenario that for whatever reason, Toshiba's financial health

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

implodes further or they are no longer committed, what are the backstops and what would be the scenario if they cannot complete the rest of their obligations?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, Ali, some of that is public, but they are -- we have every reason to believe that Toshiba is going to remain viable. They have recognized the fact that they do have an obligation as a parental guarantee under these contracts. We believe it's in their best interest from an economic perspective to complete these projects, and our expectation is that they will, and that's what we've been communicated to by them.

Thomas A. Fanning
Chairman, President & CEO

And if you think about it, when you look at the credit banks that support Toshiba and the government, they own about 20% of the stock. Further, there's about 170,000 employees in Japan and elsewhere that are impacted by the viability of Toshiba. Further, the nuclear renaissance in Japan, such as it may be, the cleanup from Fukushima and then restarting other nuclear reactors, Toshiba has a central part of that role for Japan. They're just an important player in the economy, and we continue to get feedback that Abe's administration supports Toshiba. 2 other financial facts, 1 financial fact. We have -- and we've disclosed this, I think, a lot -- almost $1 billion, $920 million of letters of credit. And further, we have a multibillion-dollar guarantee to Toshiba, the parent. So there's a lot of reasons why we believe -- including Toshiba's own statement and moves that are now in the press, that I should just let you look at in the press rather than me comment on -- that Toshiba has taken hard steps necessary to improve their financial viability, and that they remain committed to these 2 projects. Ultimately, success on Vogtle will inure to the success of Toshiba long term.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Fair enough. And last question, we've been seeing consistently, Tom, the weather-normalized sales have remained negative, in fact, got a little worse in the fourth quarter, negative 1.5%. I know you alluded to some of this, Art, perhaps in your commentary, but what is causing this consistent negativity? And what's the optimism that we see at least flat if not slightly better as we look at '17 and beyond?

Thomas A. Fanning
Chairman, President & CEO

Yes. It's really that we're seeing it at the fed, too. I probably mixed the data for you, but the strength of the dollar has slowed exports, number one. Number two, low oil prices have slowed things like expansion of pipelines and a variety of other things. So we have seen already those effects weigh on industrial sales. In the commercial sector, we've seen real improvement in terms of office occupancy and a variety of other measures. But there is a secular change, we think, going on in the commercial sector really related to e-commerce that is changing the nature of big-box department stores particularly. Further, we are seeing things like energy efficiency take a lot bigger share, clearly lighting and HVAC, from the commercial sector. On the residential sector, we're seeing, we think at least for now -- of course that sounds kind of weird -- for now a secular change. But a secular change away from kind of primary housing in the 70, 30 to multifamily more to primary 60, multifamily 40. We think those things may be generational. In other words, the younger generation not wanting to get tied down under a mortgage and home ownership and actually prefer the flexibility of apartments. It could be still people under recovery. It could be people not wanting to extend their credit risk from a household standpoint. And we have seen at the federal level a larger savings rate in the household income level. All of those things would suggest that the residential buying power isn't what people had hoped it would be in the past, say, 3 years. The good news is that we still see an influx of customers into the Southeast. And when you think about it, not just the Southeast. If you add together Southern Company Gas and the traditional electric operating companies at Southern Company, you're talking about 70,000 new customers. We went from 4.5 million customers to 9 million customers. And one of the things we're definitely looking at is how do we increase the margin? How can

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

we increase more sales and more value, associated with having a customer, whether we sell either therms or electrons in front of the meter or whether we put energy infrastructure on the other side of the meter. Fortunately, this thrust on the other side of the meter is happening outside our territory: High price, low reliability, low customer satisfaction areas. The Southeast remains a bastion of strength in that regard -- low price, great service, great customer satisfaction. So look, what we're trying to do is take advantage of all of our natural resources to improve our own organic growth, but where we're losing organic growth to things like beyond the meter sales or energy efficiency, we're playing offense where we can to improve our posture and gaining value from customers there, whether they're inside our territory or not.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Got it. Tom, one last clarification. So the 5% growth over the next 5 years, that's pretty straight line, it's not front-end or back-end loaded, is that the way we should think about it?

Thomas A. Fanning
Chairman, President & CEO

Yes. Pretty straight line, yes. Take the bottom of the range and the top of the range and grow them by 5, that's what we showed you in October, and we stand behind that. And that permits, assuming the board continues to agree, our dividend policy that we outlined in October as well. I think that should show everybody in the investment community great strength and belief in our future. And remember, this is not just lengthen, it's strengthen.

Operator

Our next question coming from the line of Paul Patterson with Glenmark (sic) [Glenrock].

Paul Patterson
Glenrock Associates LLC

I wanted to touch base on Vogtle. So I hear you on the confidence and all the good points you're bringing up on Toshiba and its economic needs. But your partner to the north, SCANA -- not your partner but whatever, the guy who got the nuclear plants as well -- they seem to be taking some potential contingency planning with respect to whether or not Westinghouse can complete the project from seeing potentially other contractors or even themselves taking a role. And I was wondering, are you guys looking at anything like that or...

Thomas A. Fanning
Chairman, President & CEO

Well, sure. Look, and again, I don't want to compare to SCANA. I will not do that. I would just tell you about what we're doing. And that is -- I hope I get these numbers right -- we have about 400 people on site involved in oversight and have had that. And recall that we've had people all over the world in the supply chain. I would argue that Southern Company, unlike anybody else in the United States, has the technical depth to be able to step in if we need to and finish the project. Further, we have all the contractual rights with respect to getting IP, to make sure that we can run the project successfully, et cetera. We've been through every one of those contingencies. I think those are way more tail risk than they are substantive. But if they ever become substantive, we are primed and ready to go.

Paul Patterson
Glenrock Associates LLC

Okay, great. And then with respect to Kemper, looking through this 2017 economic viability analysis, I didn't -- for some reason, I'm not sure if it's redacted, it just doesn't appear to be there, but the actual gas price assumptions. And I was wondering if you guys could tell us from the high end what those gas price assumptions are, the ones with the green boxes.

Thomas A. Fanning
Chairman, President & CEO

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

Yes. Just give me a -- I'll give you a point estimate. At 2020, the high gas forecast is wee bit over $5 per million BTU. So think about volatility in gas prices. Could you be at $5 by 2020? Conceivably. And then beyond 2020, there's obviously a trend that continues to grow in that manner.

Paul Patterson
Glenrock Associates LLC

Okay. Now, you guys are clearly in sort of the testing phase and what have you, so you guys want the gasifiers and everything to work. But in the current environment, it sounds like you probably -- it would be more economic to run the plant just simply on natural gas and not run the gasifier. When would that -- is that correct? Or I mean, how long would this testing phase sort of go through? Would you expect the phase in which you'd have to sort of run the gasifiers just to show that it's working okay?

Thomas A. Fanning
Chairman, President & CEO

Oh, you bet man. Yes, Paul, I got you. I got you. So here we go. So actually, when we've had the gasifiers kind of ready to go, they've actually been performing pretty well. Like I say, what we've been able to demonstrate, once they're ready to go, they're in the 50% to 60% availability. Remember, all we talked about during this first year is something like 35% availability. So who knows what it'll be over a year. So I don't want to guarantee anything, but we're actually happy once we get the things up and running and look at the way A is running right now. The other issue that I think is important and inherent in your question is this notion of what is the energy value of the plant to Mississippi's customers? And I've talked about this a lot in the past. And actually, I've been reasonably conservative in how I postured that. I've used I think the range of numbers with you all on a gas price equivalent at about, I don't know, $2.75 to $3 per million BTU equivalent. That didn't include all of the value of the byproducts sales, and it really probably hived off more O&Ms than what our people would traditionally use on a dispatch assessment. And we have planned this thing back through our system planning people. If you do the traditional dispatch assessment and you include the value of all the byproducts sales, we believe this thing will dispatch out at about $1.75 per million BTU. So from a used and useful standpoint, this plant has tremendous energy value. Now would you rather run the plant, keep it going -- it has a rather large fixed O&M component -- and get the benefit of the energy or would you rather convert and just run on natural gas is kind of the question you'd get to and then it underlies, I think, your point. But these are things that we will discuss with the commission as we file the rate case. The other thing that, that analysis still ignores is what's the value of the plant as a gas hedge. So there is absolute value there. It'll be interesting to see how all that assessment goes forward.

Operator

Our next question coming from the line of Praful Mehta with Citigroup.

Praful Mehta
Citigroup Inc, Research Division

So first question on the tax reform side. The slide you provided was helpful but wanted to get a little bit more context more specifically at the holding company level? Could you give us some color on the earnings impact at the holding company level if the interest deduction went away?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, that's included in our worst-case scenario. Obviously, the holding company would be a heavy weight on the downside for tax deductibility. And so it's incorporated into that scenario. All we've really tried to do, Praful, is just to outline the top and the bottom scenarios. But there roughly is about $0.5 million a year...

Thomas A. Fanning
Chairman, President & CEO

$0.5 billion.

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

$0.05 billion a year of interest expense that's exposed. So what we've done is project that out to 2021.

Praful Mehta
Citigroup Inc, Research Division

Got you, that's helpful. And then as you think about the commercial segment and the additional CapEx at the commercial segment, clearly that is funded with CapEx at the holding company. So wanted to understand with the tax reform, not just the increased deductibility but broadly tax reform, how does the commercial segment growth get exposed both from the economics associated with holding company leverage and other tax reforms that might impact economics at the project level for the commercial?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. Praful, when we talk about commercial, we're talking about the commercial class in our regulated business. We're not talking about the unregulated businesses, which I think that you're referring to.

Thomas A. Fanning
Chairman, President & CEO

If you're talking about Southern Power, they...

Praful Mehta
Citigroup Inc, Research Division

Yes, my question is more directed at the unregulated investment.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

That's correct.

Thomas A. Fanning
Chairman, President & CEO

Well, if you're talking about Southern Power, they finance off their own balance sheet.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

That's correct.

Thomas A. Fanning
Chairman, President & CEO

Not at the parent level.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

That's right.

Praful Mehta
Citigroup Inc, Research Division

Right. But interest deductibility will still impact the economics; so will other tax reforms, so what I'm trying to get at is how do those projects and the growth of those projects get impacted by the tax reform.

Thomas A. Fanning
Chairman, President & CEO

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

Well, listen. I've been walking around the hill on this. I chair EEI, and I have a finance background and we kind of go through all these things with all the people that we should, both in the White House administration and Congress, both in the House and the Senate. And I can just tell you, there's interesting nomenclature up there, and this notion of eliminating interest deductibility is a grand experiment and has the ability in the very near-term to radically change. Of course, it depends on how this thing is factored in over time transitional, but radically change how America finances long-term capital. And if we're trying to stimulate long-term capital, I'm not sure that, that's the right way to go. On the flip side, you say, "Well, how can we help on the national income statement?" There's this idea about expensing capital. I understand some people like that, but given the long-term nature of the kind of capital that this industry commits to, whether you give bonus depreciation or not has very little influence on our spending habits. We really do -- for example, Vogtle, Kemper, transmission lines, these are long-term trending capital commitments and varying tax treatment over time has very little influence on our behavior. We always do what's right for customers. So when you think about it, it makes much more sense, and these things in scoring are really pretty close, keeping interest deductibility is about equal to keeping the current tax depreciation and not expensing CapEx. The government's purporting to give us a benefit that really has very little value. So that's kind of where we are on all that. With respect of Southern Power and what the incremental effect may be, I think we've been awfully famous over the years and enormously successful, we've done this for the board, our ex post review of the performance of the portfolio at Southern Power, and it's even exceeded, ex post our review, what was required by our own disciplined IRR approach. The other thing that you just have to understand is there's a lot of people around those deals right now, particularly tax equity, projects without tax credits. There's all sorts of uncertainty going forward. Just rest assured we'll use the same discipline, and my sense is the market will react to that as well.

Praful Mehta
Citigroup Inc, Research Division

That's very helpful context. So just to understand, the Southern Power CapEx, like the $8 billion that you have from '17 to '21, do you see any risk with that spend depending on what happens on tax reform?

Thomas A. Fanning
Chairman, President & CEO

Well, there's uncertainty with respect to tax reform, but you should know that by virtue of the agreement that we signed with RES and then ultimately with the turbine suppliers, that we have safe harbored our PTCs in the 100%. And you show me, but I am not aware of any tax law change in which they unwound commercial decisions once entered into. So my sense is, from the value of the PTC that we just entered into with that arrangement last December, we think that will persist under any tax reform.

Operator

Our next question coming from the line of Andy Levi with Avon Capital.

Andrew Levi

Just a couple of questions. Maybe I just had some questions on Kemper and on Vogtle. So on Kemper, the only thing I think that I have left is in your 10-K, you talked about $105 million of increased O&M annually, possibly, I guess on the disclosure here. Could you just describe that? And who would pay for that?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, we have already -- are you talking about the 21st year O&M? Is that what you're referring to?

Andrew Levi

Yes. It says operations main expenses have increased an average of $105 million annually, and maintenance capital has increased by $44 million for the first full 5 years of...

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

We talked about at the Analyst Day, I think, the fact that we had an additional $68 million in the first year and that we were going to expense those in the first year of operation, so that is included. As we go through -- and I think Tom talked about it already, and look at the fixed O&M cost associated with the asset, that is part of the negotiation that will go through the regulator around what's the best option for customers. So it is part of the equation that we're going to, and it's incorporated.

Thomas A. Fanning
Chairman, President & CEO

Yes, and you may be referring to O&M that was in place, estimated way back in 2000. It actually probably first got filed around 2008 with the subject to review at 9, part of the order in early 2010. And that dealt with the level of O&M that was estimated at that time. That since has been updated in 2015. It was updated to $100 million. And then most recently, in October, again revised in November of last year, was updated to around $140 million. So the increase over say '15 till now is about $40 million a year. I think what you're reading is probably from a certificate level.

Andrew Levi

Right. Okay. So the bottom line is they'll be negotiated...

Thomas A. Fanning
Chairman, President & CEO

You can't get the benefit -- yes, without the -- you can't get the benefit of the plant, all those energy savings I mentioned, without that O&M. You can't separate the 2. And recall also in 2012, the commission specified the operational parameters that we're going to have to stand up to. We believe we can hit those parameters. O&M is not part of those parameters. Those things deal like with availability, heat rate and byproduct sales and something else.

Andrew Levi

And then I guess this issue about removing ash deposits has kind of plagued -- maybe I'm inaccurate, but has plagued both gasifiers. Can you maybe just describe kind of what that issue is, again, not in a long way...

Thomas A. Fanning
Chairman, President & CEO

Yes, I'll do it in the short way, the very short way.

Andrew Levi

And how does that get resolved?

Thomas A. Fanning
Chairman, President & CEO

Yes, sure. There were really 2 different kinds of issues. One of the things we've always said about this was if you remember, one of the big technical risks was lignite in, ash out. That was kind of one. And then the other one you may remember from years past, and you've been around this for a few years, is this notion of the instrumentation and getting all the digital controls synchronized. Remember, this is a pretty complex plant. Happy to say all the instrumentation has, even though it's complex, has really performed terrific. So we haven't had hardly any problems with that. With respect to lignite in and ash out, I think part of regular startup practice is to iron out all the bumps in the road and I think you may remember from all the conversations in the past about lignite dryers and all this other stuff, we've solved lignite in. Ash out, we've kind of had to 2 different kinds of problems. This one recently is a really different one, okay. The outages that we took in the fall were related to clinkers and what they dealt with was ash that was melted due to some temperature excursions as we brought the plants into and out of service. We think we've solved all of those problems. This latest problem really dealt with the notion that on Train B, I guess we started and stopped it about 7 or 8 times, and this is -- They use the word agglomeration, but if

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

you can imagine, there are vertical and horizontal pipes in this plant. And what we have seen is when you turn the plant on and off, the fluidization inside that's circling through that boiler stops. And whatever ash is in there will sit on a horizontal pipe. And what they think happened in its latest run was that some of the ash just started sticking to each other. When the plant is running and the velocity of the ash is going through the plant, it doesn't stick and it performs exactly the way you want it to, they think it's just stuck together. So they're going to take the plant out of service, get it out, start it up, and they think it will run fine.

Andrew Levi

So it sounds like more of a -- I guess, obviously, it's an engineering issue, but it's trying to predict kind of the right heat to use?

Thomas A. Fanning
Chairman, President & CEO

Yes, but we've done that. That's the early problem, and they've solved it. And one of the advantages, just to remind you, this thing runs at a lower temperature, therefore less O&M. You don't have clinking and scaling and its operational performance should be better than a conventional boiler.

Andrew Levi

Okay, I think I understand it. I guess we can talk more about it next week up in Boston. And then on the Vogtle side, so just to understand, I guess, you have this letter of credit and I have gone over it with IR, but I just want to make sure that I'm clear on it. This letter of credit which is $920 million or $930 million and your portion of that is 45% of that: That expires every July, is that right, and then it needs to be renewed? Is that correct? Or is that incorrect?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

I believe that the banks are in the position to renew it automatically every year. If they fail to renew it, there's a 60-day notice on the bank's part to let them know they're not going to renew. We have an option, if they do that, and that Toshiba can't replace the LOC, to draw on a 30-day notice. So we think we're in good shape around all that.

Andrew Levi

So there doesn't have to be a default, which is right now why -- when you would draw, kind of outstanding.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

That's kind of one of the conditions. I wouldn't call that a default, but if they stay...

Andrew Levi

No, no, that would be a default, right, but if they fail to -- obviously, forget them pulling it, right? The bottom line is if there's a default or something like that, you obviously can draw on it.

Thomas A. Fanning
Chairman, President & CEO

If you just recall the reason -- the reason they had disclosed these letters of credit is because their financial condition fell below a certain level. So long as their financial condition is at that level, they have to provide LCs or be ready to file.

Andrew Levi

Right. But if the banks decide to pull it, you, within that 30 to 60-day window, when you're informed, you can actually draw on that letter of credit? Is that correct?

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

Thomas A. Fanning
Chairman, President & CEO

That's it.

Andrew Levi

Right, right. Okay. And then do the banks -- I mean, I guess whose money is it? Is it Toshiba's money or the bank's money that is that 900 and whatever million dollars?

Thomas A. Fanning
Chairman, President & CEO

Hey, it's our money at that point.

Andrew Levi

No, no, no. I get that part. I'm saying but right now, it's a bank guarantee, right? The banks go after Toshiba, right? You get the money...

Thomas A. Fanning
Chairman, President & CEO

It's the bank's money, and Toshiba is a creditor to the bank.

Andrew Levi

Right. And is there a scenario where the bank just decides not to pay you? Or is that kind of an out there far-fetched type thing?

Thomas A. Fanning
Chairman, President & CEO

That's pretty far-fetched, my friend.

Andrew Levi

Okay. Okay. And I think that's it. Actually, one last -- in a bankruptcy situation for Toshiba, how does your fixed cost contract kind of work? And I guess the letter of credit stands, so that's fine. But do you just become a creditor? Or is there any type of backstop in that type of scenario?

Thomas A. Fanning
Chairman, President & CEO

We have the LCs. Other than that, we're an unsecured creditor. We just think that's really unlikely.

Andrew Levi

The bankruptcy or the unsecured creditor part?

Thomas A. Fanning
Chairman, President & CEO

The bankruptcy part.

Operator

Our next question coming from Paul Ridzon with KeyBanc.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

One of the 8-Ks a few months back talked about sustainability of nitrogen with Train A and Train B simultaneously. I assume that's been fixed or you wouldn't be this far?

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

Thomas A. Fanning
Chairman, President & CEO

Yes. Here's the deal. We need supplemental nitrogen in order to basically start up both trains. But while we have the technical performance profile that once we are in operation, we don't need to supplement nitrogen, that we are able to run the process, and the nitrogen on site is sufficient.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

And back to energy efficiency. You keep seeing usage per customer decline. Does that plateau? Or is technology kind of keep moving the bar on you enough that this could go on for several more years?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

That's an interesting question. I think you'd have to talk about different markets. In the commercial market, we think it may have a little ways to go. In the residential market, it's just a matter of change out of appliances and how many new multifamily units are in place versus single-family homes. So that ebbs and flows over time. And I think we are seeing a slowdown in construction of apartments at this point. And whether that morphs into more single-family homes, we'll just have to wait and see.

Thomas A. Fanning
Chairman, President & CEO

But there is kind of a natural slowing down of this effect, as you replace out HVAC and lighting, particularly in the commercial sector. So my sense is the rate of decline would slow to 0 eventually. It will approach a limit, as inefficient equipment is replaced with efficient equipment. And then your profile of growth really goes to 2 things. One is adding more customers and the other really goes to things that relate to electrification. Whether that's electric transportation or whether it's feeding the digital economy, I think there's lots of reasons why we should expect organic growth of electricity to be reasonably resilient going forward once we account for energy efficiency.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

I think another driver, Paul, would be the fact that bonus -- remember 50% bonus was passed at the end of '15. And companies that are seeing low interest rates or using bonus. The payback on these kinds of improvements get to be pretty quick, and so that may be driving some of it in the near term.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

So bonus has acted to accelerate the swap out?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

That's a theory. Whether it's actually doing that or not, I'd just say that it certainly would be a piece of low-hanging fruit.

Thomas A. Fanning
Chairman, President & CEO

And just to contrast with my earlier comments about tax benefits like that impacting capital decisions, Art's right. Bonus and those kinds of things typically impact short-term flexible investment decisions, discretionary capital as opposed to long-term committed capital that we would incur with a plant or a transmission line.

Operator

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

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

Dan Jenkins
The State of Wisconsin Investment Board

So I have a couple of questions, first around Vogtle. The CapEx schedule that you lay out on Slide 17 for new generation there, does that reflect the updated schedule you got from Westinghouse? Or did you not have time to reflect that yet?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

No. No change for that yet.

Thomas A. Fanning
Chairman, President & CEO

Remember, we haven't -- we're still reviewing what they're doing, and it's going to be a 1.5 or so months before we kind of get to the bottom of what they're suggesting right now. So there's a lot of uncertainty with respect to their schedule right now in terms of our agreement to it.

Dan Jenkins
The State of Wisconsin Investment Board

Okay. I assumed that but I wasn't -- I just wanted to verify that, that was the case. In terms of Units 3 and 4, I was wondering if you could let us know what the current critical path items are for each of those units.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. The -- still, the critical path goes through the nuclear island. So on Unit 3, we are now morphing beyond just concrete rebar and moving into installation of equipment. We installed the reactor vessel I guess in the near term, on Unit 3. We're looking at steam generator installation, at least the first of 2. We'll begin the reactor coolant piping. And then I guess a little later this year, we'll get the second steam generator in, and then the initial energization of the Unit 3 site is a big deal, and that should be on the horizon as well. Unit 4, we're still putting modular walls into the reactor vessel of Unit 4. We're still pouring concrete in certain areas and setting those last modules inside the containment vessels or containment buildings, so that that's just part of the process of where they are. And I think Tom showed you the productivity of that unit compared to Unit 3. So we're well along our way at Unit 4.

Dan Jenkins
The State of Wisconsin Investment Board

You have -- can you let us know what -- are there any of those key components that have yet to be delivered on-site? Or do you still have some that are being fabricated offsite?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

No, no, no. Everything's on site as far -- as well as I'm aware, and I believe it's just getting concrete to a certain level, and making sure that you're doing thing in an orderly manner to support new placements.

Dan Jenkins
The State of Wisconsin Investment Board

Okay. One other issue I was wondering about is, I know SCANA in one of their filings mentioned the concern they had with the ITAACs submittal process and amount of support they were getting from Westinghouse related to the timeliness of that.

Thomas A. Fanning
Chairman, President & CEO

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

Yes, I mean, we love our brothers and sisters at SCANA. I would argue that our perspective on that is a wee bit different. We have led the charge in working cooperatively with the NRC to put in place something called UIN, uncompleted ITAAC notices. If you can imagine what an ITAAC is, it's a checkout of a system and the plant and what we've done is essentially, when you finish a system like in your house, the HVAC, you'd submit the test and the test results. So it's the process of the test and the results of the test, and it would be checked off as completed. We saw -- and this is some years ago, and I used to use this as one of our big risk factors: We saw a bow wave, if you will of these ITAACs going forward. And so what we did was work with the NRC to develop this UIN, uncompleted ITAAC notice procedure, where we will essentially outline and get the NRC to agree to the process, leaving a blank for the ultimate result of the test. Now what that does is take an enormous amount of review off the forward calendar and puts it right here, so that when we get the test, fill in the blank, boom, check the box and move forward. The other thing that we have been working on lately is consolidating some of the ITAACs. So what's the number? 892 or 70x per unit? We think we have a way forward to knock off 200 of those per unit, just by consolidating some things that otherwise look duplicative. So I think we've made a lot of headway there. If you go back and listen to what I've said now on these past few earnings calls, if ITAACs is one risk factor and productivity is the other, I would put the productivity risk factor at this point as much more important than the ITAAC risk factor. It's still there, we're watching, we're still all over it. I would just pay more attention to productivity than ITAACs at this point.

Dan Jenkins
The State of Wisconsin Investment Board

Okay, good. And the last thing, I wondered if you could just give us a feel for -- on your financing for 2017 that you have on Page...

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, I believe there's a slide in the appendix, Dan, that outlines our '17 financing plans.

Dan Jenkins
The State of Wisconsin Investment Board

Got it. Just wondering though, for those numbers, are those pretty much spread throughout the year for the various units? Or there's some more frontloaded or uploaded?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

I don't have the schedule in front of me, but we can get that information to you.

Operator

Our next question is a follow-up question coming from the line of Michael Weinstein with Crédit Suisse.

Michael Weinstein
Crédit Suisse AG, Research Division

Just one last question. With the liquidated damages being triggered by nuclear fueling at the end of the year for 2018 for Unit 3, 2019 for Unit 4, does the -- has the proposed delay from Westinghouse, do they exceed that? Is this something that's going to be negotiated as you review whether to accept or reject the changes that they proposed?

Thomas A. Fanning
Chairman, President & CEO

I suppose you could negotiate anything, but right now, that schedule would trigger liquidated damages.

Michael Weinstein
Crédit Suisse AG, Research Division

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

It would?

Thomas A. Fanning
Chairman, President & CEO

If you believe that, yes, sure.

Michael Weinstein
Crédit Suisse AG, Research Division

OK, All right. I just wanted to make sure about that. All right.

Thomas A. Fanning
Chairman, President & CEO

We've made no contract amendment at all.

Michael Weinstein
Crédit Suisse AG, Research Division

Got you. And liquidated damages are specifically applied to the owners' cost, right, the $6 million a month plus $30 million of financing?

Thomas A. Fanning
Chairman, President & CEO

No, it's just one way to think about it. It's not applied to anything. It's just cash to us.

Operator

And our final question coming from the line of Ashar Khan with Visium Asset Management.

Ashar Khan

I just wanted to -- one thing that was written in the 10-K, if I can just read it out and if you can just help me a little bit on the definition of one of the words. Mississippi Power has evaluated various scenarios in connection with its process to prepare the 2017 rate case, and Southern Company and Mississippi Power have recognized an additional $80 million charge to income, which is estimated minimal probable amount of the $3.31 billion of Kemper IGCC cost not current in rates, that would be recovered under the probable rate mitigation plan to be filed on June 3, 2017. Tom, can you tell me, I don't know, can you guide us a little bit, what is this minimum? Is it 10% or 15%? I was trying to get a better sense of this minimum language that you used, which corresponds to this $80 million write-off.

Thomas A. Fanning
Chairman, President & CEO

Yes, yes, yes. Let me tag team. The first thing is let me make sure you get the context right. So the traditional rate plan is something that we will file. The rate mitigation plan is designed for us to hit as precisely as we can the revenue requirements that were contemplated under the original certificate. And I've said it to you all before, not only does the rate mitigation plan give us the economics that the commission thought they were getting when they certificated the plant, they will have a plant that operates under this original certificate. So that's kind of the big picture. Part of that rate mitigation plan assumed essentially not asking for recovery of depreciation, amortization on the 15% uncovered portion of the plant.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

That's correct. Ashar, as you remember, the plant was certified at 100% level. We entered into an agreement to sell 15% of it. That was undone since. But the rate mitigation plan that we will file basically does what Tom outlined. It recognizes that we won't charge Mississippi for the depreciation, amortization of the 15% of the asset for 5 years, and that's what the $80 million represents.

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

Operator

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

Thomas A. Fanning
Chairman, President & CEO

I just want to say this. I know we have Vogtle and we have Kemper, but if you kind of look past the headline items, we're at a really important point here, as we tried to stress in our October presentation. You think about our earnings that we're forecasting forward, as we said in October, $2.90 to $3.02, with the midpoint of $2.96, when you look at the operating companies that are state-regulated, something like $2.78 of earnings of the $2.96 are coming from those entities. And that does not account for the long-term contracted bilateral contract that has served us so well for so long and has a risk profile similar to those state-regulated entities. I think from a risk-return standpoint, and therefore a value accretion standpoint, Southern Company has lengthened, strengthened and improved its value position going forward. We'll get Kemper started up. We'll go through the regulatory process. We'll continue to make progress on Vogtle. And I think from an investor standpoint, we're as good as we've been in many, many years. We appreciate your help -- I mean, your attention today, and we look forward to talking with you soon. Take care. Operator, that's all I have.

Operator
Thank you, sir. Ladies and gentlemen, this does conclude the Southern Company Fourth Quarter 2016 Earnings Call. You may now disconnect. Have a great day.

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

Copyright © 2019 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

These materials have been prepared solely for information purposes based upon information generally available to the public and from sources believed to be reliable. No content (including index data, ratings, credit-related analyses and data, research, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P Global Market Intelligence or its affiliates (collectively, S&P Global). The Content shall not be used for any unlawful or unauthorized purposes. S&P Global and any third-party providers, (collectively S&P Global Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Global Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON "AS IS" BASIS. S&P GLOBAL PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Global Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages. S&P Global Market Intelligence's opinions, quotes and credit-related and other analyses are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P Global Market Intelligence may provide index data. Direct investment in an index is not possible. Exposure to an asset class represented by an index is available through investable instruments based on that index. S&P Global Market Intelligence assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P Global Market Intelligence does not act as a fiduciary or an investment advisor except where registered as such. S&P Global keeps certain activities of its divisions separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions of S&P Global may have information that is not available to other S&P Global divisions. S&P Global has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P Global may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P Global reserves the right to disseminate its opinions and analyses. S&P Global's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P Global publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.
© 2019 S&P Global Market Intelligence.

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.