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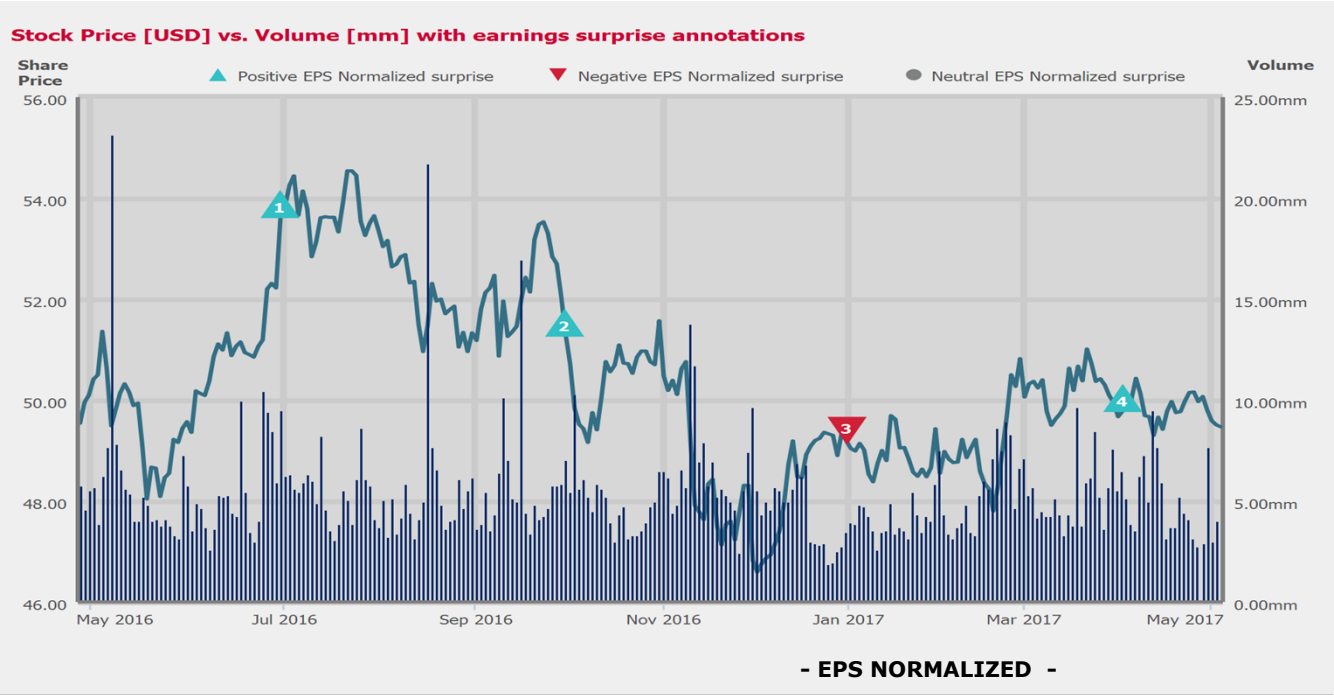
FQ1 2017 Earnings Call Transcripts

Wednesday, May 03, 2017 5:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2017-			-FQ2 2017-	-FY 2017-	-FY 2018-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.58	0.66	▲13.79	0.71	2.98	3.12
Revenue (mm)	5584.44	5771.00	▲3.34	5267.59	22130.89	23295.72

Currency: USD
Consensus as of May-03-2017 12:46 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2016	0.70	0.74	1 5.71 %
FQ3 2016	1.18	1.28	2 8.47 %
FQ4 2016	0.30	0.24	3 (20.00 %)
FQ1 2017	0.58	0.66	4 13.79 %

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Presentation

Operator

Good afternoon. My name is Carlos, and I will be your conference operator today. At this time, I would like to welcome everyone to The Southern Company First Quarter 2017 Earnings Call. [Operator Instructions] As a reminder, this call is being recorded, Wednesday, May 3, 2017.

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

Aaron Abramovitz

Thank you, Carlos. Welcome to Southern Company's First Quarter 2017 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, we will make forward-looking statements today in addition to providing historical information. Various important factors could cause actual results to differ materially from those indicated in the forward-looking statements, including those discussed in our Form 10-K and subsequent filings. In addition, we will present non-GAAP financial information on this call. Reconciliations to the applicable GAAP measures are included in the financial information we released this morning as well as the slides for this conference call. The slides we will discuss during today's call may be viewed on our Investor Relations website at investor.southerncompany.com.

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

Thomas A. Fanning
Chairman, President & CEO

Good afternoon, and thank you for joining us. As always, we appreciate your interest in Southern Company. Each of our major business units had a great start to the year. Despite headwinds from unseasonably warm weather during the first 2 months of the year, our traditional electric and gas operating companies performed well, and they are on track to deliver on their targets for 2017 and beyond.

Southern Company Gas, including its 7 premier state-regulated gas utilities, performed exactly as expected. Art will update you on our financial results in just a minute, but I'd like to first provide brief updates on the status of the Vogtle and Kemper projects.

First, Plant Vogtle Units 3 and 4. As you know, Westinghouse, the primary contractor for the Vogtle expansion, declared bankruptcy on March 29. Georgia Power and the co-owners of Vogtle were well prepared for this event. The owners immediately entered into a 30-day interim agreement, which was, as announced last week, extended through May 12. The interim assessment agreement allows work to continue and maintains momentum on the site while we develop comprehensive schedule and cost assessments for the project. Thanks to the interim assessment agreement, in close coordination between Georgia Power, the co-owners, Southern Nuclear, Westinghouse and Fluor, approximately 6,000 workers have remained on-site, safely completing multiple concrete placements and other work within the 2 nuclear islands and the balance of the plant. In fact, we've seen meaningful improvements in productivity since our last earnings call in late February. Currently, we are working on an agreement with Westinghouse that will allow work to continue even if current the EPC agreement is rejected as part of the bankruptcy proceedings. Westinghouse has indicated its intention to reject the EPC contract.

The limitations on Westinghouse's execution of the project imposed by the bankruptcy creates uncertainties that are not good for the project, especially over an extended period of time. If Westinghouse has not committed to perform under the EPC contract, Southern Nuclear is well positioned to manage the site. The agreement we are negotiating is intended to ensure a smooth transition and

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continued access to Westinghouse resources. This should put us in the best possible position, whether the ultimate decision is to complete the project or not.

Separately, we are seeking to add structure to Toshiba's payment obligations under the $3.68 billion parent company guarantee. Ultimately, Georgia Power's objective is to be positioned with sufficient information to make a fully informed recommendation to its regulators within the next month or 2. It is possible that we will need more time to ensure that we have the best information possible and to reach consensus with the co-owners regarding the best path forward for customers and all other stakeholders.

More importantly, the conclusion of our assessment and development of a recommendation will merely begin a regulatory process that does not yet have a definitive time frame. An important consideration as we move forward will be ensuring that the regulatory recovery framework for the project continues to support the financial integrity and strong credit ratings of Georgia Power.

Now let's turn to an update on the Kemper County project. Over the past 2 months, Mississippi Power has continued its efforts to improve gasification reliability as we work towards reaching sustained operations using both gasifiers in the production of electricity. As we discussed earlier this week, the ongoing challenges with various systems have led to extending the estimated in-service date to the end of May. Mississippi Power expects to file its Kemper rate case with the Mississippi PSC by the June 3 deadline. In connection with this filing, Mississippi Power expects to request an accounting order to defer all costs incurred after in-service that cannot be capitalized, are not subject to the cost cap and are not already included in rates. As a reminder, Mississippi Power's current strategy is to file both a traditional rate case and an alternative multiyear rate mitigation plan as provided for under Mississippi law. A negotiated settlement with interested parties that will be subject to PSC approval is an acceptable outcome. We don't want to get ahead of that process on today's call. Our goal remains to achieve an outcome that balances the interests of customers and other stakeholders.

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

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Thanks, Tom, and good afternoon, everyone. As you can see from the materials we released this morning, we had solid results for the first quarter of 2017, reporting earnings of $658 million or $0.66 per share compared with earnings of $489 million or $0.53 per share in the first quarter of last year. First quarter results for 2017 include after-tax charges of $67 million related to increased cost estimates for work at Mississippi Power's Kemper County integrated gasification combined-cycle project.

First quarter results for 2016 included after-tax charges of $33 million for the Kemper Project. First quarter results for 2017 also include after-tax charges of $20 million associated with Plant Scherer Unit 3 as a part of the Gulf Power rate case settlement approved by the Florida PSC. The settlement resulted in Gulf Power's remaining $240 million investment in Plant Scherer being placed into retail rate base. Additionally, the settlement provided for an increase in the equity ratio from 46% to 52.5% while preserving the 9.25% to 11.25% allowed ROE range. Overall, it was a very constructive result.

Excluding these and adjusting for other items described in our earnings materials, Southern Company earned $652 million or $0.66 per share during the first quarter of 2017 compared to $536 million or $0.58 per share in the first quarter of 2016. The major earnings drivers year-over-year for the first quarter of 2017 included results for Southern Company Gas and improved performance at Southern Power, offset by increased shares and interest expense.

Moving now to an economic and sales review for the first quarter. Collectively, the economies of Southern Company's regulated electric and gas markets continued to enjoy increased population and employment growth in the first quarter of 2017. While consumer spending is tepid, measures of consumer confidence are at record highs. Similarly, leading indicators of industrial activity are improving and suggest that the U.S. economy should continue to expand in the first half of 2017 with real GDP projected at 2.4% for the year.

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The ISM Manufacturing Index remains in a solid expansion mode at 54.8 in April. The increase in this index mirrors the jump in consumer confidence seen since the election last November and bodes well for improving industrial sales throughout the year.

Year-over-year weather-normal retail electric sales in the first quarter of 2017 were down 1.1%. Customer growth remains strong in both our regulated electric and gas markets. We added 13,500 new electric customers on the residential side and 7,500 new residential gas customers in the first quarter of 2017. This strong growth was offset by expected declines in use per customer in our electric, residential and commercial classes, driven by energy efficiency and increase in multifamily housing, e-commerce and the closing of brick-and-mortar retail stores. Overall, we continue to believe our forecast of electric retail -- electric sales growth in 2017 of 0% to 0.5% is achievable.

Before turning the call back to Tom, I want to provide our earnings estimate for the second quarter and share a brief reminder on our financing plans for this year. First, we estimate that Southern Company will earn $0.70 per share in the second quarter of 2017. Second, our various equity plans continue to operate throughout the first 4 months of this year and our current plans are to continue issuing new shares consistent with the outlook we've provided at our Analyst Day. We remain steadfastly committed to the financial integrity of Southern Company and our major subsidiaries.

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

Thomas A. Fanning
Chairman, President & CEO

Thank you, Art. Following an eventful 2016, Southern Company has entered 2017 with strong momentum. Our franchise businesses performed at a high level, solidifying our position as an industry leader as our customer-focused business model continues to serve us well.

Finally, I'd like to highlight that our Board of Directors recently approved an $0.08 increase in our common dividend to an annualized rate of $2.32 per share. This is our 16th consecutive annual increase. And for 69 years, dating back to 1948, Southern Company paid a dividend that was equal to or greater than that of the previous year. But more importantly, the Board's decision to increase the rate of growth of the dividend speaks to the resilience of our long-term plan, which is underpinned by a firm foundation of premier state-regulated electric and gas utilities.

Moreover, it supports our objective of providing superior risk-adjusted total shareholder return to investors over the long term.

In conclusion, we believe Southern Company is well positioned for continued success in 2017 and for years to come. Now 32,000 employees strong, we remain committed to providing clean, safe, reliable and affordable energy to the customers and the communities we are privileged to serve.
We're now ready to take your questions. Operator, we'll now take the first question.

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Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Greg Gordon with Evercore.

Gregory Harmon Gordon
Evercore ISI Institutional Equities, Research Division

So if I'm thinking about the time line here, you have the next month or 2 to make what you consider a fully informed decision, get all the stakeholders involved. And at that juncture, you'll then proceed with the dialogue with the Georgia PSC, is that right?

Thomas A. Fanning
Chairman, President & CEO

No. You should view our relationship with the staff -- they have independent monitors. They're commissioned. It's kind of real-time. So it's continuous, not discrete. The notion of the 1.5 months or 2 months or whatever it is, is really this idea of getting consensus among us, our co-owners, our boards and the commission staff as to how to proceed. Based on what our assessment is at that point, we will work constructively as we have, gosh, since, I don't know, 1992 or so, to develop a constructive approach. The reason why we're kind of vague as to what that approach is, it may change based on what our recommendation to the commission is. So until we kind of get a better feeling within this next month or 2, we really won't have very much to say about what the continuing process of the commission will be and what time frame it will occur over.

Gregory Harmon Gordon
Evercore ISI Institutional Equities, Research Division

Understood. I'm just trying to get a sense of the milestones, Tom. And so at some point, there'll be a path that you've decided to...

Thomas A. Fanning
Chairman, President & CEO

Recommend.

Gregory Harmon Gordon
Evercore ISI Institutional Equities, Research Division

Go down, which you're going to file with the commission, or a menu of paths that you want to potentially go down, which you file with the commission in a formal proceeding, correct or incorrect?

Thomas A. Fanning
Chairman, President & CEO

No, that's right. And really, I was just picking on a couple of words, you said a decision before. This is going to be a collaborative dialogue, I think, between the co-owners, us and the commission about how to proceed.

Gregory Harmon Gordon
Evercore ISI Institutional Equities, Research Division

Okay. And then -- but you will continue -- and I may be presuming incorrectly. It sounds like you will continue to build the plants, continue to keep construction moving forward until you get to an end of that process.

Thomas A. Fanning
Chairman, President & CEO

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That's exactly right.

Gregory Harmon Gordon
Evercore ISI Institutional Equities, Research Division

Because you may continue to build all the units, you may continue to build 1 unit, you may continue to build no units, but until you know that path you're taking, you'll continue to construct as -- on the current schedule?

Thomas A. Fanning
Chairman, President & CEO

Because that preserves the option. That's exactly right.

Gregory Harmon Gordon
Evercore ISI Institutional Equities, Research Division

All right. Okay. Well, my last question, because I'm sure you've got a ton. You have the $920 million letters of credit that were posted. Have you requested from the banks to pull down on those letters of credit? And at this juncture, have you actually received any cash as a result of those requests to draw down on the letters of credit?

Thomas A. Fanning
Chairman, President & CEO

Yes. Greg, there's a process under which you propose to draw under those letters, and we're following that process to the letter. So as of today, we've not drawn on those LCs, but we're following the process.

Gregory Harmon Gordon
Evercore ISI Institutional Equities, Research Division

But you've requested to draw, and you have -- but you have not yet received. Is that what you're saying?

Thomas A. Fanning
Chairman, President & CEO

There's a period in which you provide a notice to draw.

Gregory Harmon Gordon
Evercore ISI Institutional Equities, Research Division

But you've provided that notice?

Thomas A. Fanning
Chairman, President & CEO

Yes.

Operator

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

Jonathan P. Arnold
Deutsche Bank AG, Research Division

On the Vogtle subject, I noticed in the 10-Q, there's a number of aggregate liability under the interim assessment agreement of $470 million, of which your share is $215 million. Is that a current, like through right today number? Or is it -- because it also says the $245 million was paid or accrued at the end of March. Just trying to get a sense of the pace at which that number is increasing during this period.

Thomas A. Fanning
Chairman, President & CEO

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So that would be an assessment as to the first 30-day period plus any liens that have been placed on the property in order to clear the liens, so we can continue to progress the work. It really represents kind of how much we've spent.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

Okay. So -- but it seems to imply a couple of hundred million a month is sort of the spending rate. Is that about right?

Thomas A. Fanning
Chairman, President & CEO

That's a decent guess, yes.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

Okay. And then just on the other, I mean obviously you made the disclosure as well this morning that your current assessment is that the cost to finish the plant would exceed the value of the parent guarantee. Can you give us any more sort of an indication of by how much or is that a close call currently, or how do we think about that?

Thomas A. Fanning
Chairman, President & CEO

Yes, but I wouldn't view that as a conclusion at this point. Let us do our work, and we'll figure out kind of what we believe the hours remaining to complete, the cost remaining to complete. And certainly along the way, we will evaluate the $3.7 -- in round numbers -- billion guarantee and what remains and whether that all looks like a good deal for our co-owners and certainly for our customers, and we'll be -- I can assure you an ongoing dialogue with the commission about that. So let us continue to progress over the next 30 to 60 days, and we'll figure it out. And certainly, we'll absolutely use the LCs to offset damages we've incurred and will incur going forward.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

But you're not -- it is that -- you have disclosed, though, that you already think it's more than the guarantee, right?

Thomas A. Fanning
Chairman, President & CEO

It might be. That's a possibility, and we'll just assess it when we get into the end. We're not in a position to say what that amount is.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

Right, I got it. And then could I just quickly on Kemper, if the plant hasn't entered service by the June date for filing, do you still file?

Thomas A. Fanning
Chairman, President & CEO

Yes.

Operator

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

Anthony Christopher Crowdell

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Jefferies LLC, Research Division

In the Q, you -- it stated that I guess the owners of Vogtle do not believe the revised in-service dates are achievable. If I guess, we think of a best case option through this interim period, what do you think the new in-service dates are?

Thomas A. Fanning
Chairman, President & CEO

We really haven't reached that conclusion, that's the whole point. So if you recall the process back, I guess, earlier this year, it was that we were going to review all the documentation and all the schedule and all the cost information associated with that schedule. And then along the way, before we complete that, Westinghouse filed bankruptcy. Now as part of our agreement in working through the bankruptcy, Westinghouse has completely opened their books to our evaluation of time and cost remaining to complete. That's where we're in right now. So it's almost as if we're in one track and now we're in another track of evaluation, because now we can't rely on them. We have to look at an option other than Westinghouse finishing here.

Anthony Christopher Crowdell
Jefferies LLC, Research Division

What -- if we think about it, is the option of a fixed-price contract the next stage of Vogtle even likely? Or should we all be thinking that the type of contract to finish this project is going to be more of like a cost-plus-type contract?

Thomas A. Fanning
Chairman, President & CEO

It could take a variety of different forms. Certainly, we could find a third party to kind of give you a fixed price. That would be most likely a Fluor/Bechtel kind of thing. We could certainly take over the project ourselves and act as a general contractor. And all this really has to do with what we think is the best way to most economically complete the plant, and in concert with our regulator, an equitable kind of division of risk and return as to how we intend to proceed. So all of that is part of an ongoing discussion.

Anthony Christopher Crowdell
Jefferies LLC, Research Division

And just lastly, do you get that feeling at all that Westinghouse, even through this bankruptcy, would like to continue on the project? Or there's no sense in that?

Thomas A. Fanning
Chairman, President & CEO

I think they pretty well signaled the reason they went into bankruptcy was to insulate themselves, and so we'll see. As we said, I think, in the comments, in the script, we believe their intent is to reject the contract. They'll do that once we conclude these interim agreements. And Anthony, let me just be very clear, what we're referring to -- you and I were both referring to there was their obligations as a general contractor in the construction. They still have the obligations to play ball on things like intellectual property and whatever else they're going to do to finish the plant.

Operator

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

Stephen Calder Byrd
Morgan Stanley, Research Division

I wanted to discuss the Department of Energy and approaches that the DOE could take in support of Vogtle. What's sort of the range of possible options and the range of types of support that we could potentially see?

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Thomas A. Fanning
Chairman, President & CEO

Yes, and let me just be a -- I'm going to be a wee bit coy here because there's lots of conversations going on. Let me first say that the most obvious thing the United States government can do is to lend support to extend the in-service or the time frame on the production tax credit. My assessment is they are absolutely willing to do that. This is an issue that is bigger, I think, at the United States government level, certainly bigger than Vogtle and Summer. This is a national security issue, and it follows on the heels of what, by all accounts, is the very successful visit with Abe and Trump. And recall that as a result of those successful meetings, I guess the Prime Minister and the president instructed Deputy Prime Minister Aso along with Vice President Trump -- Vice President Pence to set up essentially a commission and effort to evaluate lengthening and strengthening the kind of infrastructure investment opportunities that we could collaborate on between our 2 great nations. There were 3 segments of activity. One of those segments was energy infrastructure. And then some weeks following that, we have a bankruptcy in Westinghouse. And so I think this is something that has taken our -- the attention of our elected officials. I would assess the support of the Trump administration and the relevant cabinet officers as A plus. They had given us all kinds of support, and we have constructive dialogues underway with them ongoing. Likewise, in Congress. I think we have tremendous support because I said before, this is bigger than Vogtle and Summer. This is a national security issue. If the United States wants nuclear in its portfolio for the future, we've got to figure out a way to be successful here. I'd rather kind of leave it there, if you don't mind, Stephen, rather than go through and explore specific options.

Stephen Calder Byrd
Morgan Stanley, Research Division

Very much appreciate that given where we are. We'll wait for the DOE study outcome and recommendations.

Thomas A. Fanning
Chairman, President & CEO

Thank you, sir.

Stephen Calder Byrd
Morgan Stanley, Research Division

If I could shift gears over to, just philosophically, thinking about how you think about the risk of further cost overruns and the regulatory treatment for that, assuming again that you do decide to continue to move forward. Are there certain sort of philosophical guideposts that you would want to secure in terms of how you think about addressing and sort of allocating for that -- for further overruns?

Thomas A. Fanning
Chairman, President & CEO

Well, right now, I mean, we have an agreement that was entered into in 2016 that essentially doesn't have a cost cap. So theoretically, one approach is that we could live with the prudent stipulation that addresses return levels during construction. And then following construction, presumably, these amounts of capital will revert back to GPC base rates. And even when you think about Georgia law, it really has been very consistent over the years, and this is now decades, for the recovery of all reasonably and prudently incurred costs for a certified IRP resource, regardless of the original certified cost. And let me also remind you of the math. When the thing was originally certified, the amount of price increase we thought we would have would be about 12%. Now we estimate it will be in the 6s to 8%. So we feel that we have at least the structure to begin a dialogue, certainly as we have to make a recommendation. Once Westinghouse decides to reject the contract, which they've given us every intent of doing so, then we, Georgia Power and the co-owners, have to make a recommendation as to whether to proceed or to recommend not completing the plant. We have structures available for both of those. Certainly, it's a different risk posture and that will be part of the conversation with the commission. And certainly, all of this, as we have in the past, we've demonstrated it over with Mississippi and others, Southern Company

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has always been committed to supporting the ratings of our subsidiaries. And I think we've shown our hand and that we are faithful in that resolution.

Operator

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

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Turning to Mississippi. If I read the detail in your SEC filings correctly, you've got $25 million per month or so of costs, including the depreciation, that are not in rates once the plant goes online, and that doesn't necessarily include a return on capital of the plant, the PP&E that's not in rate base or that's not in customer rate. So $25 million, 12 months, that's $300 million a year plus the return on capital of, pick a number, but it's not a small one. On a utility this size, that's a pretty big rate increase. Are you having conversations in Mississippi with the legislature, the governor or others about potentially expanding the use of things like securitization, which I think you need a legal change to do, to be able to mitigate some of that rate impact?

Thomas A. Fanning
Chairman, President & CEO

Yes, look, I think we've said this in the past, but remember what we said in the script here is that we're going to file a traditional rate case and then we have, as provided by law, a rate mitigation plan. The notion of the rate mitigation plan is to essentially put in place revenue requirements that are similar to the revenue requirements associated with the original order. So if we provide the plant and the plant is operational consistent with the original order and we have revenue requirements that are similar to the original order, that's kind of a way to approach. Of course, there are a host of other opportunities that we can engage in beyond those 2 things, and that's really what we were pointing to when we started talking in the script about the settlement conversation as an acceptable outcome. So rest assured that we're working constructively, being very mindful of the total rate impact to Mississippi's customers and the way -- the best way to structure a regulatory outcome that meets everybody's needs.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Are other folks within the state outside -- meaning other legislative or folks in the governor's office involved in this process? And do you need legislation to implement some of the things that might come across the table in these talks?

Thomas A. Fanning
Chairman, President & CEO

In terms of need, probably not, but we don't want to, again, get ahead of the process that we're going to be following through here as we approach any court settlement or as we approach the filing.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

One or 2 for Art, and these are just kind of housekeeping types. Southern Power recognized a pretty big benefit -- tax benefit in the quarter, a little over $50 million. Just curious, what is in your guidance for the tax benefit at Southern Power this full year?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Are you referring to production tax credits and investment tax credits?

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

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I'm looking at the whole kit, cat and caboodle. I'm looking at Southern Power's income statement in your Q and...

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

In the Q, okay.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Yes, sir.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Let me address that first. There was a couple of timing things that went on in the first quarter. One of them related to the manner in which we recognize PTCs. When we gave our estimate for the quarter, it was $0.57. We assumed that we would recognize production tax credits under an earnings-before-tax perspective for Southern Power. We actually change that methodology during the quarter and went to an as-production basis. So we recognized more income at Southern Power related to production tax credits in the first quarter, but we merely accelerated them out of the second and third quarter and you'll see that flip back around during the year. So we don't expect that to occur throughout the year, and it won't have an impact on income for the entire year. It's all based into our guidance.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Okay. So your guidance, I'm just trying to think about how much renewable tax-related items is embedded within your full year guidance.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Okay. So $53 million of onetime are those PTCs, ITCs, and $178 million of ongoing PTCs.

Thomas A. Fanning
Chairman, President & CEO

I think it's interesting to point out that when you look at the onetime events as compared to '16 and '17, something like, what was it, 50%, 51%, something like that were onetime events, and 2016 and '17, it stands about, what, 17% or something?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, I think quarter over -- for the year, between PTCs and ITCs, we'll end up with $16 million less in total year-over-year.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Got it. And last question...

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

What you're losing on ITCs, you're picking up on PTCs.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

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Right. It seems pretty flattish year-over-year. And my last one, also a housekeeping one. At Southern Gas, if I -- and I know you didn't own it in the first quarter of last year. If I were to back out the mark-to-market in both periods, how significant of a change was net income at Southern Gas? And what were the biggest drivers?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, hold on just a sec. It was pretty flattish. If you look at 4 distinct segments, the gas distribution operations was pretty flat. Gas marketing services was down a little, maybe $9 million in net income. Midstream operations were bigger, mostly due to Southern Natural Gas being added, and the other, there was some other mishmash of some couple millions. So $13 million year-over-year increase.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

And that fell within what you expected even after you considered things like rate base growth and O&M synergies, those type of items?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Everything's in, yes.

Thomas A. Fanning
Chairman, President & CEO

That was amazing. It hit it exactly on the nose for the [floor], what we expected, and that's after backing out a really big positive in Sequent, which we will regularly do. We will not include Sequent as our ongoing earnings.

Operator

Our next question comes from the line of Paul Fremont with Mizuho.

Paul Basch Michael Fremont
Mizuho Securities USA LLC, Research Division

My first question is if you were to go the abandonment route, is it reasonable for us to assume that it seems like through March of 2017, the total Vogtle investment is $5.4 billion including financing? Is that sort of a reasonable starting point in terms of the number to assume?

Thomas A. Fanning
Chairman, President & CEO

Yes.

Paul Basch Michael Fremont
Mizuho Securities USA LLC, Research Division

Okay. And then I think the Georgia legislation provides for recovery of your investment plus a return. In a proceeding to determine what that return would be, would that be the Georgia Public Service Commission who would decide that?

Thomas A. Fanning
Chairman, President & CEO

Yes, and the law provides for all prudently incurred costs.

Paul Basch Michael Fremont
Mizuho Securities USA LLC, Research Division

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Okay. And I guess the other question that I have is, it looks as if the banks financing Westinghouse took a collateral interest in the intellectual property or the -- I guess, it's the EPC plans. How does that affect your situation if you decide to continue with construction?

Thomas A. Fanning
Chairman, President & CEO

And then -- so that's exactly this filing that we've made with the bankruptcy court. Potentially, the debt financing wanted to have essentially access to everything. However, the funds used in the debt financing only apply to the so-called good-co, which is kind of the nuclear fuel processing business, their services business, O&M, decommissioning and others, and don't flow to the benefit of our project. And so we don't believe they should have lien rights on the IP or anything to do with our project. And frankly, the creditors committee agreed with our position. There will be a hearing on that on May 10, but I think we're on pretty firm ground there.

Paul Basch Michael Fremont
Mizuho Securities USA LLC, Research Division

And then it would be up to the bankruptcy judge to decide how to resolve that?

Thomas A. Fanning
Chairman, President & CEO

That's right. It would be odd for the debt financing to only apply some of Westinghouse and not others, and then to give the benefit of all of the security potential to the debt financing. So it seems like an awfully logical position here. Yes, hey, let me just make sure that we clarify something. I think it was Michael -- it was Paul that raised the issue. In the scenario for abandonment, the only amount at risk for the abandonment charge is $4.1 billion, not $5.4 billion. The delta is the financing cost, and that's already under recovery. So just want to make sure everybody understands that. Math was right, $5.4 billion, but the amount at risk for recovery under the abandonment scenario was $4.1 billion. Okay?

Operator

Our next question comes from the line of Praful Mehta from Citigroup.

Praful Mehta
Citigroup Inc, Research Division

So most of my questions have been answered, but just wanted to clarify on a couple of points, coming back to Vogtle. If you don't find -- if Westinghouse steps out and you don't find anybody who's willing to accept a fixed-price contract and so Southern steps in to complete the project, is there any sense of what that -- how much overrun, firstly, that could entail given Southern's going to do it? And secondly, what does that actually mean operationally? Are you hiring all the people? Like what does that actually mean practically to kind of complete that project by Southern itself?

Thomas A. Fanning
Chairman, President & CEO

Sure. Okay, so let's kind of take it step by step. There's already been a tremendous amount of work that's been complete on the site. And then what you have to do is evaluate what is left, okay? So that would be time to complete, cost to complete. It is our intention that absent any kind of smaller changes in management, that the people that we need are already present on-site. We've been able to do that with these interim agreements to keep people working, and that's really important. So we evaluate what's been spent. We evaluate what needs to be spent. Recall, we have the Toshiba guarantee. So that would be, round numbers again, $3.7 billion that would offset those future payments. So then we would evaluate if there was -- if that was sufficient or if there was anything in excess even of the $3.7 billion in addition to the normal budgeted cost. And we'll evaluate that in terms of schedule and potential cost within the construct of whatever our co-owners need and what we need via our regulatory regime in Georgia. Recall also that I think we've got a great deal of flexibility in how we think about this. You must realize that Southern is pretty well unique in being able to fulfill these kinds of obligations. We have been involved

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uniquely in the supply chain efforts throughout the project. We have been involved uniquely in terms of the scope of presence on our site. I think we have roughly 400 people that have been engaged in oversight work even with Westinghouse and with Fluor. And now we have provided for, as we started to see Westinghouse get under duress, a transition plan even before Westinghouse has filed bankruptcy. So we have a transition plan in place. The people are turned on. They're on-site. We won't have to go grab bodies, if in fact, that's the course we decide to take.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, I think it's important to add that we've got stepping rights to all subcontracts. So if we choose to do so, we can step in and contract with Fluor and any other subcontractor that has a primary contract with Westinghouse at this time.

Praful Mehta
Citigroup Inc, Research Division

Got you. That's very helpful, Tom. And just quickly on the $3.7 billion parent guarantee, that -- there is no risk to it at this point as I understand. The only risk being if Toshiba files for bankruptcy, then you become just an unsecured creditor. But apart from that, there isn't any other risks, is that correct?

Thomas A. Fanning
Chairman, President & CEO

Well, I mean, we're trying to be very rigorous in our approach here for all these things. When we think about the guarantee, we don't want to get into a position where there's an argument about the amount. We don't want to get in a position whether that amount is available, whether we finish or don't finish the plant. If Westinghouse rejects it, then we're in that position. We don't want to get into a position of arguing how the draws under the guarantee might be available, and we want to have some assurance as to the security of those draws. So we're working through a lot of issues there. Likewise, with Westinghouse, I never want to get into a position -- look at them, they're in bankruptcy -- of relying on Westinghouse's efforts. I want have clear, commercial agreements set forth for the IP that currently is under development. You know all the IP is not finished. There's some related to instrumentation and controls that is currently under development. It's not a surprise to anybody, but we want to make sure that there is a commercial obligation for Westinghouse to finish that IP, to make available the skills and resources necessary to carry it forward. Also, you should note, too, that there will always kind of be along the way some opportunity to change the intellectual property as design changes are manifested on the site. Further, you should know that this notion of transition is a critically important issue. It sounds like a detail, but getting all the clearances, getting the transfer of contracts, the transfer of personnel, et cetera, we want to be very clear about all that. So we're taking a very rigorous approach to all these issues. So these 2 big issues, the certainty around the structure of the guarantee and certainty as to the commercial relationship we have with Westinghouse, I think, are really important in order for us to even consider moving ahead should Westinghouse ultimately reject the contract.

Praful Mehta
Citigroup Inc, Research Division

Got you. That's really helpful color. So you do expect to continue to update us as you have further color on these discussions, I'm assuming.

Thomas A. Fanning
Chairman, President & CEO

Absolutely. If there's material information, we'll put it out in an 8-K.

Operator

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

Ashar Khan

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Tom, I just want -- what I can't understand is you guys -- as you are spending on these projects, as we're going through this analysis, right, and you mentioned, you're spending at a run rate of about $200 million or so a month. So I guess, by the time the decision takes place, it might be 8 or 9 months into the year, and that would imply another -- I don't know, whether the $200 million was for the whole and your share is $100 million, but it could be another $1 billion spent on the project by the time you make the decision. Doesn't that make it that the real decision is going forward in how to recover the cost? How can you -- I just don't get the chance of abandonment. If there was any chance of abandonment or anything like that, you should have slowed down and not let's spend more on the project because in the end, the customer has to pay for it and it would be really bad for the customer to be given a bill of another $1 billion that you make the decision. So am I missing something? To me, the chances of abandonment are really low. If they were a little bit higher, then you should have slowed down the process and kind of like -- do you know -- part of it and that would kind of indicate the options are more there. Or am I thinking through this wrongly?

Thomas A. Fanning
Chairman, President & CEO

Yes. No, no, sorry. You raised a good point. Let's just kind of walk through it a bit though. As this next 30 to 60 days, we're working with our co-owners and, of course, with our board in conjunction with the staff, the independent monitors and the commission. I think we'll reach a point where we're in a position to start making a recommendation, and also as we finish the resolution of these commercial contracts I just talked about. I think then we'll kind of be in a position to say, yes, I think it looks likely that we're going to recommend going forward. Otherwise, if it looks likely the best thing for customers is to not complete these plants, I think at that point, you may take a totally different posture on-site. So long as it is viable for us to complete the plant, it is absolutely, I think, important for us to not only maintain, but improve productivity on the site so that the ultimate long-term cost is as attractive as it can be. Were we to start sending people home, the chances of us getting those people back on-site would be awfully difficult. The other thing -- hey, the other thing is, recall some of these first amounts that we've been talking about were amounts that were already owed. So this is really just fulfilling the contract as it exists. And yes, I think we said this before, but if we didn't, let me just be very clear that, that $200 million or so a month, it could be a wee bit less than that, but that's a decent conservative number, is 100%. So Georgia's share of that would be 45.7.

Operator

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

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

The $3.7 billion, is that inclusive of the $920 million?

Thomas A. Fanning
Chairman, President & CEO

Yes.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

And $3.7 billion is for 100% of the project, both units?

Thomas A. Fanning
Chairman, President & CEO

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That's right.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Right.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

And then switching gears, a big driver in the quarter was O&M. How much of that is sustainable?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, Paul, some of that is certainly timing that -- where we spent later in the year. There were some outages pushed out of the quarter into the second. So you're going to see some of that, but a lot of that is going to be sustained as we move through the year. As you know, the third quarter of each year is our big quarter and we'll determine how much O&M is spent between then and end of the year. So we still believe that we can hit our targets and in light of the underrun on O&M in the first quarter.

Thomas A. Fanning
Chairman, President & CEO

The other thing though that we're doing, Art and I have kind of pushing it at The Southern Company management council level, is to approve the growth profile of the operating companies. And one of the things that we're looking at is, are there some things that we can do that can -- maybe do capital investment, technology investment, a variety of other things that will actually improve the reliability, customer service and price of our product. Associated with those investments may be some permanent reductions in O&M. So we're pushing very hard to make the grid more resilient, to really understand and rightsize the amount of investment in our fossil/hydro fleet, to automate what otherwise are some administrative processes. I think we have the opportunity to improve the organic growth profile of our operating companies and reduce O&M at the same time.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

And is the permanent piece of the O&M, does that push you to one end of guidance, the top end there? Or is it just one of the gives and takes that we're seeing?

Thomas A. Fanning
Chairman, President & CEO

No. Paul, we don't even mess with that until the end of the third quarter. We just keep our guidance where it is. What I'm really doing with that initiative, though, is not worrying about the tactics of where we are within a range in a year, but rather make even more resilient the 5% long-term growth rate that we referred you to. I said before in October, I thought -- October '16, I thought it was hard to knock us off the balance beam. We've been talking hard about resilience and how well founded I think our long-term plan is. And remember I said back then, if you want to really see proof of where our board sees that and where we see it, for heaven's sake, is let's watch and see what the board does on the dividend. And sure enough, they increased the growth rate and the dividend, as we thought they may, this April. I think that was a big vote of confidence in our long-term ability to hit the growth rate.

Operator

Our next question is a follow-up from Jonathan Arnold, Deutsche Bank.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

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So just could you quantify how much the change in accounting for PTCs benefited the quarter versus what you had in your guidance for the quarter?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

About $0.05.

Operator

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

Steven Isaac Fleishman
Wolfe Research, LLC

Just a couple of technical questions on Vogtle. If it's going to take a month or 2, you think, to decide, why was the interim assessment only moved to May 12 and not further? And why shorter than, let's say, what SCANA did?

Thomas A. Fanning
Chairman, President & CEO

Yes, I think it's very clear. We're working very hard on these agreements related to the Toshiba guarantee and related to the ability for us to effectively transition the plant away from Westinghouse, should Westinghouse reject the contract. It is, I think, clear to us, that once we reach that point, making the transition to management on the site is really important as to the effectiveness. So keeping a short leash on the relationship with Toshiba and Westinghouse. And ultimately, should Westinghouse reject the contract, having us take over the site, if that's what we choose to do, in a shorter time frame, is good for the project. Keeping Westinghouse in this kind of limbo role under bankruptcy is not good for the project for any period of time. We want to keep that as short as we can.

Steven Isaac Fleishman
Wolfe Research, LLC

Okay, that makes sense. Second question is just -- I know you're kind of keeping the commission staff apprised. I guess, when we ultimately get your decision in a couple of -- a month or 2, whatever it is, how should we think about kind of how much they are on board with it already or not?

Thomas A. Fanning
Chairman, President & CEO

Yes, I mean, Steve, you know us. We've been working with -- collaborating with the commission. I guess we had the original Vogtle decision back in '92 with the last one there. And then in '95, we reached the agreement on these 3-year accounting orders. And every 3 years, we've put in place a series of interesting accounting orders. It seems like every 30 years, we had a unique set of challenges in which to handle. We just have this track record of constructive regulation here in the south. And Georgia has been a tremendous kind of example of how an integrated, regulated system meets the needs of customers. We have the best reliability. Price is significantly below national averages. The best customer service. It works. And so our evaluation is we'll be able to work constructively with the commission to handle these very challenging issues. And I think that with our no-surprises way of working with the commission, I think when we reach the point of beginning a filing process, I would assume we have a decent degree of consensus around that approach. I would be surprised if we reached that and there are a lot of surprises on either side.

Steven Isaac Fleishman
Wolfe Research, LLC

Okay. And then last question, just on the nuclear PTC. Unless something happens quickly in Congress, we're probably not going to have an extension of that prior to you making the decision. Should we just

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assume that your confidence level is high enough in that, that you're going to assume in your analysis that, that is going to get extended, if needed, per delayed dates?

Thomas A. Fanning
Chairman, President & CEO

Yes, that's an important variable in all of this. And I can tell you that the conversations we've had, it's going to be broadly across government, whether it's Congress or the administration, have been very constructive and supportive. They understand that this is kind of bigger than Vogtle. This is a national security issue and that, frankly, the cost of extending this time frame is almost nothing as they score it in Congress. So we've experienced a tremendous amount of support. We could come up with a variety of ways to evidence that support, but I'm just going to assure you that as we reach our -- the end of our deliberations and make a recommendation, this will be central to that recommendation. And if we decide to go forward, it would be because we believe, and we may have evidence at that time of our belief, that we'll be able to manage it. There may be ways we can demonstrate their support even without the law -- or the tax reform bill being passed is my point. Hello? Steve? Operator?

[Technical Difficulty]

Operator

His line is still open, sir.

Thomas A. Fanning
Chairman, President & CEO

Okay.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Steve, are you still there?

Thomas A. Fanning
Chairman, President & CEO

I don't know what happened. Steve, I hope that answers your question. Certainly if it doesn't, call us back.

Operator

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

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

First question, Art, I may have missed this, but if I would bridge the gap in the first quarter between your $0.57 original guidance and the $0.66 you reported, was that all coming from that change in accounting for the tax? Or what's causing that $0.09 delta?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

No, I think what you're seeing is a lot of it was from the PTC recognition of Southern Power, the vast majority of that, $0.05. The other $0.04 really came by better O&M management across the fronts of all operating companies to do a little better than what we had buried into our $0.57 estimate.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

I see, got it. And then, Tom, on Kemper, do you see, at all, any scenario in which the plant ultimately just ends up being as CCGT?

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Thomas A. Fanning
Chairman, President & CEO

So I mean, the way you asked that question, sure, I mean there's that possibility, but that's going to be taken into account in the deliberations in the state of Mississippi. Recall the 9-cell kind of red, green diagram they used in order to assess the viability of the plant. Still under high gas scenarios, we still get green cells in there. And certainly, it remains a hedge. And along the way, as we have built into the technology the ability to operate under dual fuels, we've been able to demonstrate the ability to deliver whatever energy is the cheapest. So there is a possibility you could do that. We'll just have to see.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

I see. Would that be part of sort of the rate case and prudency review? Or will that be outside of that scope?

Thomas A. Fanning
Chairman, President & CEO

Well, it's all part of the conversation. So the conversation is kind of underway, and we don't want to ever get in front of that conversation. So Ali, whenever you ask a question, is it possible, there's a lot of stuff that's possible. Let the process run, and we'll give you an illumination when we get it.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Okay. And then a different topic. As you pointed out, electric sales weather-normalized were negative 1% this quarter. In fact, if I'm right, I think that's the fourth consecutive quarter we've seen negative weather-normalized sales. I'm just wondering how you square that with the economic growth profile that you're seeing out there. And how should we think about that going forward?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. Ali, we got a couple of things going on in both commercial and industrial classes. We began to see a reduction in use per customer in the commercial class in the second quarter of last year, if you go back and look at our history. And so when you're looking at the first quarter year-over-year, that trend continues in 2017, but it wasn't in 2016. So you still have the effect of that showing up. And then the industrial market, it was kind of the same thing. We had some industrial customers who were -- who had announced that they were shuttering portions of their process, their operating processes, midyear, last year, that were in process for the first quarter of last year. So year-over-year, you're going to see some effects of that as well. More importantly, I think if you look at our sales compared -- on a weather-normal basis compared to what we estimated they would be, we were only down 0.3%.

Thomas A. Fanning
Chairman, President & CEO

Yes, and let me throw in the other stuff, you probably heard this. But leap year, February of '16 as compared to February '17, that matters in the numbers. The other thing, and our numbers have been very consistent with what I'm seeing with my work at the Fed, and I said this on Squawk Box this morning. But January was kind of a bad month. February was an awful month year-over-year in comparison. But then, holy smokes, March, especially the end of March, turned around. And I always do not only a year-over-year comparison, but a momentum comparison. The momentum comparison for March as compared to the quarter showed that of the 10 largest industrial sectors in March, 9 of them were positive and 1 of them was reasonably flat. So it's fascinating to me that we saw a big turn. The Fed saw that also for the nation. So it's very, very fascinating stuff. We're a little bit stronger than the rest of the nation in terms of our economic growth, job creation, 1.9% versus 1.5%. Listen, I think there is reason for us to hang with our annual projection of between 0% and 0.5% growth this year. Let's see what happens on the sustainability of that March performance.

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Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Okay. And last question, Tom, if I recall, in your legacy regulated business, when we look at the long-term growth, the expectation was that, at the back half of the decade, environmental CapEx would likely pick up and drive rate base and earnings. That probably won't materialize currently on this scenario. What takes the place of that? And what can you use to offset that growth in the future?

Thomas A. Fanning
Chairman, President & CEO

Sure, man, absolutely. In fact, boy, I remember showing this to my board almost day 1 I got on and everything else. But we went through a period there where we were kind of at the end of David Ratcliffe's time frame. For a while there, I was CFO and then Paul Bowers took over, and I went over as COO where we were talking about really healthy EPS growth rates. That's where we were spending capital like crazy as compared to a rather modest net committed capital base, and so our earnings per share growth rate was going off the charts. And then as we started winding down on a lot of environmental construction as I took over, and then as we saw the riskiness of Kemper and Vogtle, at one time, our long-term growth rate got real flat. And I started saying that to you all and started saying that, well, it may flatten out through the last half of the decade. But as you remember correctly, it should turn back up with environmental CapEx and then with new capital associated with new generation coming back in. What we were able to do in '16 was execute on a growth strategy. You may remember, too, I had been talking for some time about the wisdom of natural gas infrastructure and getting ahead of natural gas being a primary source of fuel for the future, a bridge, if you will, between now and 2050. And we recognized early on in our strategy deliberations here, under my tenure, that, I get gas, but boy, you know what? The gas resource isn't where the load is. And so there needs to be a new rethinking of natural gas infrastructure. And that's where we started pursuing ideas that ultimately became realized with Southern Company Gas. That is, AGL Resources and the -- Kinder Morgan, 50% of the Southern Natural Gas pipeline. And now we're adding to that a little bit. So the last thing is just a tiny little thing, but PowerSecure is really an option for the future. It doesn't add meaningfully to earnings in the near term. But Ali, if you think about it, we have added to our growth rate, as I suggested. We dropped down to -- I forget where we were, 3% to 4%. And then when we went to AGL, it became 4% to 5%. And then when we added on the rest of SONAT plus everything else plus Southern Power, man, we jumped all the way up to 5%. And what we've been able to demonstrate, I think, is the resilience of that 5%. In other words, we stress tested that against a variety of scenarios and really put it through some tail risk. And we believe our 5% long-term growth rate is, in fact, resilient against a variety of outcomes. So we're very happy with that, and I think, frankly, we've accomplished through those series of transactions and through the strategy we placed. And now for the future, what I'm suggesting is there may be a way to rethink the growth rate of the organic business in the electric companies, that, frankly, has been a wee bit lackluster, to improve that and really improve service to our customers at the same time. All of those things lead me to believe that we don't need new generation in the future until, say, the low 20s. We think we have a reasonable estimate as to environmental expenditures. I think we're in terrific shape to achieve the 5%. We've done that work last year and the work we're doing continually.

Operator

Our next question comes from the line of Mike Weinstein with Crédit Suisse.

Michael Weinstein
Crédit Suisse AG, Research Division

In the event of an abandonment for Vogtle, what's the possibility that prudence -- prior to 2016, through VCM #16, what's the possibility that it could be revisited in light of the fact that the project would not be online, used and useful and -- as anticipated?

Thomas A. Fanning
Chairman, President & CEO

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Yes. The notion of prudence presumes that we build the plant. And so I mean, it's a fair question. We believe that the costs were prudent, but it's a fair question. But anyway, we believe they were prudently incurred. I think you go through the process, you go and build a plant, who could have predicted that Westinghouse would have had the difficulty it had? So I actually think we're in reasonably good shape. But I mean, it's a fair question. I think it's a tail risk kind of question, in my opinion.

Michael Weinstein
Crédit Suisse AG, Research Division

Now do you think prudence includes a full return on capital, though?

Thomas A. Fanning
Chairman, President & CEO

Yes. Prudence -- but prudence under the Georgia law basically puts it in a rate base.

Michael Weinstein
Crédit Suisse AG, Research Division

And it's not -- I mean, even though the current deal for everything above $5.44 billion, you only get a debt return in -- through construction -- I mean, could we see something like that? Is it possible that they could go back and say you only get a debt return on an unfinished plant?

Thomas A. Fanning
Chairman, President & CEO

When you say, is it possible, I guess anything's possible. But recall, even under abandonment, what you would do is take the Toshiba guarantee against those amounts. So kind of use that in your thinking.

Michael Weinstein
Crédit Suisse AG, Research Division

Yes. Yes, that's true. Also, is there a possibility that you could be held, I guess, in any way responsible for not achieving the production tax credits if the plant schedule goes beyond 2021 and there is no extension?

Thomas A. Fanning
Chairman, President & CEO

That's conceivable also. I just -- we're dealing with a little hypothetics. I think it's going to happen, though. I think even if you don't get tax reform this year, I feel reasonably confident, given the importance of this issue, given the fact that it doesn't cost anything in the OMB scoring, that I think we'll get support to figure out a way to get it done. That's just my belief.

Michael Weinstein
Crédit Suisse AG, Research Division

And just to follow up on Steve's question about those credits, is that -- is the $800 million that you're expecting to get in value, is that included in the comparison analysis that's in the back of the VCM reports when you compare it with CCGT?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

I believe that's true.

Michael Weinstein
Crédit Suisse AG, Research Division

It's part of that, right?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

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Yes. But it -- remember, it's $400 million for each. So it's Unit 3 and Unit 4 split.

Michael Weinstein
Crédit Suisse AG, Research Division

Okay. So I mean, basically, everything is assuming those credits are coming in, and that's -- yes.

Thomas A. Fanning
Chairman, President & CEO

Yes. The only thing I would just add is that remember, the certificate assumes we only got 50% of those credits, and we think we're going to get 100% now.

Operator

Our next question comes from the line of Kevin Fallon with Citadel.

Kevin Fallon

Could you guys provide some color on the decision-making process amongst the co-owners at Vogtle? And in particular, have your co-owners designated Southern to act as their agent on the decision whether to go forward or not go forward? Or does each individual owner make their own discrete decision?

Thomas A. Fanning
Chairman, President & CEO

Well, we act as agent in the execution of the EPC contract and all that stuff. But there are also provisions for everybody to make their independent assessment as to how to proceed, and if those assessments are different, what happens. But in general, the way you should think about that is we all generally agree on how to proceed. We've got a great working relationship. We've got a great working relationship with the co-ops and the munis and the city of Dalton. So I think I would just say that there are -- we are the agent in executing the contract. We have ongoing conversations. And generally, I think almost exclusively, we reach consensus on how to approach these things. We have a really good relationship with those folks.

Kevin Fallon

Okay. And the parental guarantee from Toshiba, does that stay with the project? Or does that travel pro rata with the co-owners if they choose differently?

Thomas A. Fanning
Chairman, President & CEO

Well, probably we'll choose the same, okay? I mean, there are scenarios where they could be different. But no, it would be a prorated guarantee. I mean...

Kevin Fallon

The individual owners would have the right to their percentage of the guarantee individual of all the other parties?

Thomas A. Fanning
Chairman, President & CEO

Yes. But it would be -- I mean, I'm trying to think of an example that would fit your hypothesis. For example, that we only finish one unit, and we decide not to do another unit, and somebody steps out, and the other people stay in. The $3.7 billion would be divvied up based on the final arrangement that we enter into in this commercial agreement. We think that the draw schedule would be reasonably fixed and that they would access that guarantee on that basis, on a prorated basis.

Operator

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

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Dan Jenkins
The State of Wisconsin Investment Board

My question kind of relates to -- and when you talked about your Vogtle update, you mentioned you have seen some meaningful improvements in productivity. I was wondering if you could give us a little more color on what you've been able to achieve. And then also related to that, how do you incorporate assumptions around productivity into your assessment both of the schedule length and costs? Because obviously, those would be key inputs.

Thomas A. Fanning
Chairman, President & CEO

Oh, absolutely, man. In fact, it's a great question. What we've seen since the last call is a productivity improvement of around 20% -- from 20% to about 30%. Use those as round numbers, and we don't know whether they can be sustained or not. But productivity on the site since the last call has improved by that amount, okay? We want to get that number up to more like 40%. So Dan, in the evaluation of time to complete, cost to complete, we absolutely vary scenarios based on what we think we can sustain from a productivity level. It's a very good question you're asking. And so what we do is take different cuts, okay? If it's 40%, it's this. If it's 30%, it's this. That's exactly how we're looking at it.

Dan Jenkins
The State of Wisconsin Investment Board

Okay. So can you give me a little more detail on what kind of improvements you're seeing? Like, is it just in the amount of time it's taking to do things or the number of people it's taking to do things? Or what are the kind of...

Thomas A. Fanning
Chairman, President & CEO

Yes. The key in improving productivity on the site is to reduce dead time, in other words, transit time from check-in to workplace, to have more effective management on-site so that they do their job-site briefings and then get work done. It's really that kind of thing.

Dan Jenkins
The State of Wisconsin Investment Board

Okay. And then just on the details of the project, I just wonder -- I know last time you mentioned that the steam generator installs were a key path item in that for Unit 3. And then you mentioned the last CA modules for Unit 4. Are those upcoming or -- and I noticed they're still kind of in the same location on the slide that you included. So I just wonder if you could give us some updates on the critical path.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. Dan, this is Art. Those things are constantly in motion around what gets prioritized. The steam generators had been moved back a little bit, but that doesn't mean that they were on the critical path to begin with. And so the critical path itself is in the nuclear island, but just those have now been put on the horizon rather than in the near term. But doesn't mean that we're not staying on schedule and improving the productivity within that -- within the nuclear island itself.

Dan Jenkins
The State of Wisconsin Investment Board

How about on Unit 4?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Unit 4 is maintaining. You still have some modules yet to be placed, CA-02 and CA-03, but those are smaller modules compared to, say, CA-01, which is already in place.

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Dan Jenkins
The State of Wisconsin Investment Board

Okay. And then in terms of the equipment on-site, what's the status of that? And...

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, I think we've got 90-plus percent of the equipment on-site already.

Thomas A. Fanning
Chairman, President & CEO

I think all major equipment is on-site. What you're really lacking now is commodities.

Dan Jenkins
The State of Wisconsin Investment Board

Okay. How about the shield panels? Are those...

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. That's -- we're doing very well on the shield panels. I think on Unit 3, we're at the -- at level or course 5 or 6. And on Unit 4, I'm not sure that we've started the shield panels yet, but if we have, it's going to be much lower. But that's all on schedule.

Operator

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

Julien Patrick Dumoulin-Smith
UBS Investment Bank, Research Division

So let's hopefully round this -- wrap this up, perhaps with a little bit of a question on the resiliency you guys have talked about in the past. I'd just be curious, what are the positive drivers that you're thinking about that you like to flag, that kind of offset any potential risks, whatever they may be, across either Kemper or Vogtle? And then the second specific question, on the Kemper side of things, obviously, the previous conversations had suggested that you would get this thing in time for a June rate case. What does it mean if you don't necessarily trigger that? Is that all that meaningful?

Thomas A. Fanning
Chairman, President & CEO

Well, so let's hit the resiliency thing first. I think when we started talking about the balance beam and resiliency and all that early on, I know there were some questions about the ability of Southern Power to hit its numbers. Southern Power, I believe, is -- has already done about half its CapEx, round numbers, this year. And Southern Power already has the ability, I think, to hit its number this year as per our plan, which I think we flagged $300 million to $330 million last October. $315 million is a working number, and they're going to hit that number unless the wheels fall off somehow. And then from 2018 to 2000 -- what is it, 2021, we struck the agreement with RES and others. And I think we've basically spoken for the CapEx that may show up there. So to the extent we do more than what we've already signaled, there's upside there. Further, I think there is a plan underway to improve the growth profile of the operating company further from October. They, I think, have the ability to improve the pace of pipeline replacement programs that are associated with safety elements in the -- all the AGL Resources jurisdictions. We've expanded that, and hopefully, we expanded the pace of investment there. So I think we have plenty of opportunity to do a little better. The other thing that you should know, you've followed us for 100 years or so, is that we are reasonably conservative in our estimates. When we say we're going to do something good or bad, that's kind of what we believe. We don't just throw out billions of dollars of CapEx filler. We really kind of know what we're going to do, and we do that in concert with long-term regulatory relationships. When we put out a starting point, we do it with the notion of a no-regrets strategy. That is,

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we've already stress tested against downtime scenarios. So what you should know is that even within our 5% long-term growth rate, we have stress tested against negative outcomes, and we're still confident in saying that we believe our 5% growth rate long term is viable. So for all those reasons, we are sticking with it. And I think the evidence of that is the board's decision to increase, even with Vogtle and Kemper, the rate of growth of our dividends per share. Second issue was what?

Julien Patrick Dumoulin-Smith
UBS Investment Bank, Research Division

Kemper.

Thomas A. Fanning
Chairman, President & CEO

Oh, I'm sorry. Yes, yes, yes. Certainly would have been helpful, let's not kid ourselves, to have Kemper up and running before the filing of the rate case. But the rate case will take some period of time. And so our expectation is that we'll resolve the issues between now and then and be able to demonstrate performance. Recall, though, that the evaluation of performance in terms of reasonable period is 2018. And so that's kind of the first time we have to step up to some disclosed performance. And I think we've already disclosed that in 2018, our expected availability was around 30% to 35%. So that's a 2018 number, okay?

Julien Patrick Dumoulin-Smith
UBS Investment Bank, Research Division

Got it. All right, excellent. So basically, bottom line, you could file the rate case nonetheless? Or is this more about just shifting the rate case timing irrespective and...

Thomas A. Fanning
Chairman, President & CEO

No, no. We will file the rate case. The law in Mississippi basically says within a reasonable period of time before the asset is in service. We could certainly do that. So if the asset's in service on Jan 1, '18, I think this is easy. The June 3 is the deadline to get that done.

Julien Patrick Dumoulin-Smith
UBS Investment Bank, Research Division

Okay, all right. So yes, you'll just prove it up at some point during the [pendency] of the rate case.

Thomas A. Fanning
Chairman, President & CEO

That's it. And -- yes. And actually our performance criteria really goes to the year of '18.

Operator

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

Paul Patterson
Glenrock Associates LLC

So just most of my questions have been answered, but there was a comment by one of the Georgia commissioners that he was sort of looking into the idea of a Kemper type of cap for Vogtle. And I just was wondering if you could sort of address how we should think -- I know you guys are very risk knowledgeable and what have you -- how we should think about your ability -- obviously, it's early, but how you think about that kind of an idea. That's number one. And then number two, I was wondering if you could just address this Reuters story that seemed to be pretty critical of Westinghouse management and whether you think sort of the issues that were addressed in that article have been resolved, so to speak. Is that old history? Or just how you view that rather -- that article which seems kind of negative, if you follow me, in terms of Westinghouse.

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Thomas A. Fanning
Chairman, President & CEO

Yes. Let's hit the first one. I think I've kind of gone through this at length a little bit. The relationship between Georgia and its commission in terms of putting into place effective regulation for the benefit of customers and reliability and price and service has served us all so well for so long. There is nothing out there to me that indicates that, that constructive relationship -- I mean, they're tough regulators, don't get us wrong, but that constructive relationship will remain in place. And certainly, any sort of regime we consider in the future will be central to our belief as to whether it is appropriate, should Westinghouse reject the contract, for us to proceed with construction or not. All of that is integral into how we intend to proceed. So my best advice to you guys is to believe that we will continue to have a constructive relationship. And certainly, anything that seems to go away from that would also seem to inhibit us from going forward with a commitment to build. With respect to the Westinghouse thing, that's really a question for Westinghouse. I'll just say this: Steve Kuczynski is one of the best nuclear people in America today. He's come -- I hired him away from Exelon, Steve -- I mean, Steve. Christopher Crane is just a great guy, the CEO of Exelon. I think he might be the best nuclear guy in America. But he will -- I mean, Steve Kuczynski learned under his leadership, and Steve has brought a lot of those concepts to us and improved dramatically, I think, the whole performance of our nuclear fleet. I believe that even with the short period of time where we have been a lot more intrusive, we've seen some improvement. I think our ability is rather unique in this regard in order for us to take over as general contractor as apart from Westinghouse. Commenting on Westinghouse's own shortfalls is really not productive at this point.

Paul Patterson
Glenrock Associates LLC

Well -- and I'm not asking you necessarily to comment or to pile on them or anything like that. The reason why I asked the question is because you guys may end up taking over the project. And if you do, I guess it's kind of -- I guess the idea obviously would be, what are you sort of taking over? Do you follow me? I mean...

Thomas A. Fanning
Chairman, President & CEO

That's -- yes. I'm sorry, go ahead, go ahead.

Paul Patterson
Glenrock Associates LLC

No. That's basically -- yes, I think you understand what I'm saying. I mean, in other words, I mean, my concern is -- what one's concern could be is that if you take this thing over, and it's been -- what exactly are you taking over? Do you follow what I'm saying? If it...

Thomas A. Fanning
Chairman, President & CEO

Are we taking over a bag of bones?

Paul Patterson
Glenrock Associates LLC

Yes.

Thomas A. Fanning
Chairman, President & CEO

Yes, yes. No, thanks for the question, and it's a very fair question. Look, we have had -- and just kind of dimension this, we've had about 400 people on active oversight here. And you can imagine there has been a lot of give and take as to our evaluation of what was going on first between Westinghouse and Shaw and then Westinghouse and CBI and then Westinghouse by themselves. And we have always had suggestions for improvement, and we didn't want to interfere with the fixed-price contract that we had because that

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would limit our ability to collect under that contract and take away the liability of Westinghouse. So from a commercial standpoint, we had to be reasonably careful about how intrusive we were. But you should know that we have, I think, great transparency into what we think it will be required in order to finish from an hours and cost standpoint. We'll have a darn good idea what we're taking over and, I think, a darn good idea as to our ability to execute successfully given the different levels of productivity we may see. I don't think we're going to go into this blindly. Steve Kuczynski is leading the effort to evaluate those issues. And I think given his background, given his performance with us, I think we'll reach an effective recommendation for go, no go, sometime after Westinghouse rejects and within the 30- to 60-day time frame we've suggested.

Operator

Next question comes from the line of Andrew Levi with Avon Capital.

Andrew Levi

I guess I just wanted to get back to a question that was answered -- that was asked earlier. And I don't know if you can then kind of answer it, but just kind of how we should think about this, because you do have 2 other partners. It's Oglethorpe and MEAG. And I've kind of discussed this with some people internally, your company. And I'll be honest with you -- I try always to be honest, but I guess that's like kind of my next concern is that they are much smaller companies than you, especially MEAG. And so their ability to kind of absorb these incremental costs may become an issue. And so I just want to get your thoughts on that. And then since I guess you -- I wasn't realizing that you are working as the agent, and I don't know if that's kind of written in the contract or the agreement -- partners' agreement. But I guess at some point, can they come after you in a legal aspect? Kind of what happened -- I think what happened years ago with Vogtle 1 and 2, not with these entities. But just kind of your thoughts on that and how you're protected in the agreement from that actually occurring beyond you guys having a good relationship.

Thomas A. Fanning
Chairman, President & CEO

Yes. So Andy, thanks. But don't forget about Dalton. They're in there. I forget what it is, it's 1.5% or something like that. So the city of Dalton is part of this also. Look, we have a terrific relationship with these guys. We have had -- remember, they were part of Vogtle 1 and 2. And so we've just had an ongoing relationship. It works exceedingly well. That's not to say we don't have discussions from time to time about issues, but we always seem to be able to work our way through them. I think their ownership shares are commensurate with their size. And so yes, they're a different size, but I think they have the wherewithal to be able to follow through on their obligations. They are certainly different. They are not regulated by a public utilities commission like we have, but they have their own ability to manage rates and make sure that they are viable. So I mean, here again, it's certainly a fair question. But I think you should assume, as a working assumption, that they're going to be fine and that we'll work constructively with each other.

Andrew Levi

And then just the legal aspect of it, too? I mean...

Thomas A. Fanning
Chairman, President & CEO

You know what -- yes.

Andrew Levi

Go ahead. No, go ahead.

Thomas A. Fanning
Chairman, President & CEO

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That's kind of a technical issue. Here's the thing. If you want a briefing on kind of the legal aspects of lawsuits among or between the co-owners, let's do that offline, and I'll get a lawyer on the phone, and he'll...

Andrew Levi

Sure, sure. Yes, okay, that's fair.

Operator

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

Thomas A. Fanning
Chairman, President & CEO

Well, the only thing I just want to say, I probably should have said this earlier when I was talking about the resiliency of our long-term growth rate of 5%. I think what we've been able to do is demonstrate that we can operate that long-term growth rate at 5% within a similar risk profile. Recall that 95% of our earnings are associated with super high-quality, state-regulated integrated businesses. And even of the 5%, you have things in there -- or they're under long-term contracts. And even with the 5%, gosh, some of that is exceedingly consistent. For example, the Georgia natural gas marketing business. That just doesn't vary from year over year over year, and they don't have much weather risk because they hedge most of it. So the beta associated with our ability to deliver on the 5% on an ongoing manner is really good, within the similar risk profile that we've demonstrated for decades. And I'm very proud of that. I know there's a lot of headline risk out there with Southern right now. If you peel the onion, what you see, especially with the action the board took with the dividend, you find a super successful company, one of the icons in our industry and a company that has demonstrated year over year over year -- look at the chart of our dividends -- of being able to deliver on behalf of its shareholders. We intend to continue to do that, and we look forward to talking about it in the future.

Thank you for joining us today, and we'll talk to you soon.

Operator
Thank you, sir. Ladies and gentlemen, this does conclude The Southern Company First Quarter 2017 Earnings Call. You may now disconnect.

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