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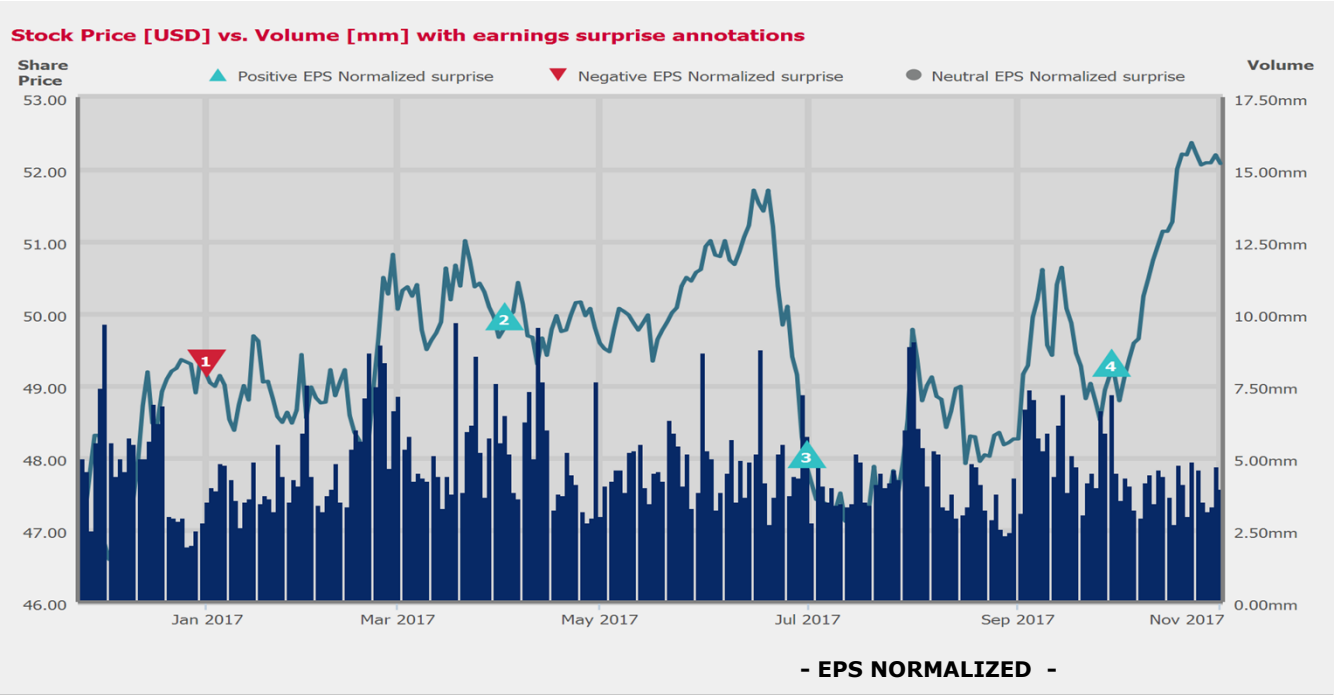
FQ3 2017 Earnings Call Transcripts

Wednesday, November 01, 2017 5:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2017-			-FQ4 2017-	-FY 2017-	-FY 2018-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.07	1.11	▲3.74	0.49	2.95	3.03
Revenue (mm)	6163.69	6201.00	▲0.61	4808.47	22320.49	23251.27

Currency: USD
Consensus as of Oct-27-2017 5:20 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2016	0.30	0.24	1 (20.00 %)
FQ1 2017	0.58	0.66	2 13.79 %
FQ2 2017	0.71	0.73	3 2.82 %
FQ3 2017	1.07	1.11	4 3.74 %

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Call Participants

EXECUTIVES

Aaron Abramovitz

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Thomas A. Fanning
Chairman, President & CEO

ANALYSTS

Agnieszka Anna Storozynski
Macquarie Research

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Andrew Levi

Ashar Khan

Dan Jenkins
The State of Wisconsin Investment Board

Gregory Harmon Gordon
Evercore ISI Institutional Equities, Research Division

Jonathan P. Arnold
Deutsche Bank AG, Research Division

Julien Patrick Dumoulin-Smith
BofA Merrill Lynch, Research Division

Kamal Patel

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Michael Weinstein
Crédit Suisse AG, Research Division

Paul Basch Michael Fremont
Mizuho Securities USA LLC, Research Division

Paul Patterson
Glenrock Associates LLC

Praful Mehta
Citigroup Inc, Research Division

Stephen Calder Byrd
Morgan Stanley, Research Division

Steven Isaac Fleishman
Wolfe Research, LLC

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Presentation

Operator

Good afternoon. My name is Colin, and I will be your conference operator today. At this time, I would like to welcome everyone to the Southern Company Third Quarter 2017 Earnings Call. [Operator Instructions] Please be advised that today's call is being recorded today, November 1, 2017. Southern Company's third quarter earnings call will feature slides that are available on our Investor Relations website. You can access the slides at www.investor.southerncompany.com/webcast.

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

Aaron Abramovitz

Thank you, Colin. Welcome to Southern Company's Third 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 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. Reconciliation 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 reviewed 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. Our premier state-regulated electric and gas utilities and Southern Power performed well during the third quarter, and they remain on track to deliver on their targets for 2017 on an adjusted basis. Before Art provide a complete overview of our financial results, I'd like to first provide updates on what's happened since our last call.

First, for Plant Vogtle. On August 31, Georgia Power filed a VCM 17 with the Georgia Public Service Commission which, in line with our co-owners, recommends completion of Vogtle Units 3 and 4. Georgia Power expects Unit 3 to be in-service by November 2021 and Unit 4 to be in-service by November 2022, with an estimated total cost for Georgia Power for both units of $8.8 billion. Factoring in expected payments under the Toshiba parent guarantee, the new total net cost of the project is estimated to be $7.1 billion, which is an increase of $1.4 billion over their previous estimate.

In this 17th VCM filing, Georgia Power is requesting the PSC to confirm that: one, the revised cost and schedule estimates are reasonable; two, the 2016 prudent stipulation remains in effect; three, the certified cost is not a cap; and four, Georgia Power is not the guarantor of the Toshiba parent guarantee. A schedule for all the proceedings has been approved and a decision by the PSC is expected in early February 2018.

Georgia Power continues to work on mitigating project risks and mitigating the overall cost of the project to its customers. On September 29, Georgia Power received a Conditional Commitment for an additional $1.67 billion from the Department of Energy to expand the Vogtle 3 and 4 loan guarantee program. Final issuance of the additional loan guarantee is subject to the satisfaction of a number of conditions and is not expected to recur prior to the end of the first quarter 2018. Including this commitment, the total loan guarantees are expected to provide more than $500 million in present value benefit to Georgia Power customers.

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On October 2, Georgia Power and the co-owners received the first and largest payment from Toshiba under its parent guarantee obligation totaling $300 million, of which $137 million is Georgia Power share. Earlier today, we received the second scheduled payment. While we anticipate Toshiba will fulfill its remaining obligations over the next 3-plus years, Georgia Power and the co-owners have been actively evaluating and preparing for the option of monetizing its rights in the remaining Toshiba guarantee payments and its bankruptcy claim against Westinghouse. Any monetization transaction is subject to DOE and approval under Georgia Power's loan guarantee agreement. We believe the process could be complete before the end of this year, effectively eliminating this risk for the owners and our customers.

Turning to construction, the primary success factor for this project, going forward, will be productivity in the field. Throughout the transaction of the site from Westinghouse control to Southern Nuclear control, productivity trended in the right direction and we have even seen that trend continue in support of the updated schedule. This continued improvement can be attributed to several factors including improved leadership in the field, improved work package management and continuous monitoring and communication of performance. A contract with Bechtel to service the prime construction contractor was finalized 2 weeks ago, and we see another incremental step towards improved site performance.

Let's move now to our recent announcement regarding Southern Company Gas. A few weeks ago, Southern Company Gas entered into asset purchase agreement with South Jersey Industries for the utility operating assets of Elizabethtown Gas and Elkton gas. We anticipate closing these transactions by the end of the third quarter of 2018, subject to regulatory approval and other customary closing conditions. The total proceeds of $1.7 billion will be used to reduce external financing needs for both Southern Company Gas and Southern Company, and we expect the transaction to support our EPS growth and credit metric objectives. We are gratified to have a buyer like South Jersey Industries, which is committed to providing the same level of outstanding service and reliability that Elizabethtown Gas and Elkton Gas customers are accustomed to receiving today. We believe this is a value-maximizing transaction for all parties involved.

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. Good afternoon, everyone. As you can see from the materials released this morning, we've reported earnings for the third quarter of 2017 of $1.07 per share compared to earnings of $1.18 per share in the third quarter of 2016. For the 9 months ended September 30, 2017, we reported earnings of $0.35 per share compared with earnings of $2.40 a share for the same period in 2016. Excluding the charges associated with the Kemper Project, wholesale gas services, acquisition and integration costs as well as other items described in our earnings materials, earnings for the third quarter of 2017 and the 9-month period ended September 2017, were $1.12 per share and $2.51 per share, respectively. This compares with $1.27 and $2.62 per share for the same period in 2016.

Major earnings drivers to our adjusted results for the third quarter of 2017 included retail revenue effects at Southern Company's state-regulated electric businesses, offset by milder weather, timing of Southern Power tax credits, increased interest expense and increased shares. As for the earnings estimate for the next quarter, we estimate that we will earn $0.46 per share in the fourth quarter of 2017, which would have us at $2.97 per share or just above the middle of our range for the year-end 2017 on an adjusted basis.

Moving now to an economic review of the third quarter. Economic growth remains encouraging, both nationally and in our service territories. The U.S. has now experienced 83 consecutive months of job growth and employment, and our footprint continues to outpace the national average. The Southern Company system is experiencing strong residential customer growth at a rate of 1%, with the most robust growth occurring in Florida and Georgia.

In the commercial sector, we continue to see expansion of square footage across our footprint including office space, warehouses and data centers. Offsetting these positive trends is the ongoing adoption of new technology and energy-efficient equipment and appliances, especially HVAC and lighting in both the residential and commercial sectors.

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In addition, the advancement of digital commerce continues to negatively impact prospects for growth in the commercial sector. Nationally, economic activity in the manufacturing sector expanded in September at the fastest pace in 13 years and the ISM Manufacturing Index climbed to 60.8, its highest reading since May of 2004. In the Southern Company footprint, we have seen electricity sales increase in primary metals and chemicals, with 6 of our top 10 industrial sectors showing positive momentum.

Economic development activity in our service territories has been robust. Daimler has announced plans to expand its Alabama operations with a $1 billion investment in infrastructure and in 600 new jobs at its global logistics center, all of which is expected to support the manufacturer of electric SUVs by 2020. In Georgia, the Anthem technology center is expected to add 1,800 new IT jobs with the potential for 3,000 jobs, over time. And online retailer, ASOS will create 1,600 new jobs in its fulfillment center.

Looking ahead, we anticipate that the rebuilding and repair work associated by the damage sustained from recent hurricanes should help sustain economic growth in our territories through the end of 2017 and early 2018, and automakers are already reporting higher sales as residents of Texas and Florida replace vehicles destroyed by flooding.

Let me now update you on our financing plans for the remainder of 2017 and provide you insights into 2018 and beyond. At our 2016 Analyst Day, we outlined cumulative equity needs of approximately $1.4 billion from 2017 through 2021. Much has changed since last October, and our equity needs for the remainder of 2017 and forward continued to evolve. For 2017, while our Kemper charges generated an incremental $1 billion need for equity to rebalance our capital structure, the pending sale of Elizabethtown Gas and Elkton Gas as well as the potential monetization of the remaining Toshiba obligation, have greatly mitigated that incremental need.

Here are a few other key drivers expected to change our equity needs in the future. First, Southern Power secured tax equity for the Cactus Flats wind project announced in July, and will likely explore the same financing vehicle for future renewables projects. The use of third-party tax equity is expected to significantly reduce the amount of debt in common equity deployed by Southern Power over the forecast horizon. Moreover, the use of third-party tax equity is not expected to diminish Southern Power's contribution to Southern Company's EPS growth.

Additionally, we are considering launching a process to sell a minority equity interest in Southern Power's portfolio of solar assets. We are very proud of the leadership position we have taken in utility-scale solar across the U.S., and we continue to view these assets as an integral part of Southern Power and Southern Company. However, we believe this portfolio has tremendous value in the market, considering the quality of long-dated contracts tied to the underlying assets. Selling up to 1/3 of our interest in the portfolio represents a clear opportunity to extract value from the market and redeploy capital in a manner that further supports our overall financial objectives. We will likely initiate a sale process some time before year-end with a potential closing in mid-2018.

The updated cost and schedule for Vogtle 3 and 4 will also have an impact on our longer-term financing plans. While the potential monetization of the Toshiba obligation would greatly reduce project risk and mitigate near-term financing needs, it would not have a significant impact on our longer-term financing plan. We do, however, expect increased debt and equity needs for Vogtle 3 and 4 as a result of the incremental $1.4 billion of capital costs. Any incremental equity from Vogtle's change in cost and schedule will be part of Georgia Power's retail capital structure.

Finally, as we have alluded to in the past, we are actively evaluating opportunities to modernize our basic business operations as our customers' needs evolve. Our objective, as always, is to improve the way we serve our customers while maintaining affordable prices. We anticipate these initiatives would have the added benefits of strengthening the long-term EPS growth contribution of our state-regulated utilities. These modernization opportunities could increase our long-term funding requirements. We look forward to sharing with you our updated long-term capital and financing plans as well as our long-term EPS growth projections on our fourth quarter call in February.

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

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Thomas A. Fanning
Chairman, President & CEO

Thanks, Art. In closing, we continue to see Southern Company Gas performing exactly as expected, complementing our outstanding electric operations including our competitive generation subsidiary, Southern Power. In our state jurisdictions, we continue to foster constructive regulatory relationships as evidenced by several positive rate outcomes this year. As we look ahead to 2018 and beyond, we are well positioned to deliver value to our investors over the long term.

Finally, I would be remiss not to mention the catastrophic weather events that occurred during the third quarter, including Hurricane Irma and its impact on customers in our service region, especially those in Georgia and Alabama. We experienced roughly 1.7 million outages system-wide that we were able to restore service in less than 5 days for customers who could accept service. Thanks to the close collaboration and tireless efforts of line crews and staff from all of our operating companies as well as others across the electric utility industry.

Prior to that, we were pleased to contribute to efforts to help restore power outside of our own service territory in wake of damage incurred by Hurricane Harvey. Both of these recent restoration efforts represent an unprecedented collaboration between investor-owned utilities, municipal utilities and co-ops, along with tremendous support and cooperation from the United States government. As a matter of fact, U.S. Department of Energy Secretary, Rick Perry, was a valued participant in all of our daily teleconferences, offering unfailing help at every opportunity.
Thanks once again for joining us this afternoon. We will now move on to the question-and-answer portion of the call. Operator, we're now ready to take questions.

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Question and Answer

Operator

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

Gregory Harmon Gordon
Evercore ISI Institutional Equities, Research Division

Can I ask some questions with regard to the financing plan? Is the reason why you're not formally updating the plan today, simply sort of trying to give us some direction on puts and takes, because we don't know yet about the go, no-go decision on Vogtle? And once we get that, you'll be able to sort of lay it out more clearly for us?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. That, Greg, plus any modernization initiatives that might come about included in the plan or excluding from the plan, there's lots of moving parts yet. So this is just a preview, but we'll give you more to chew on in the next call.

Thomas A. Fanning
Chairman, President & CEO

The sale of the minority interest in solars and the other one. Yes, we'll have a better idea later.

Gregory Harmon Gordon
Evercore ISI Institutional Equities, Research Division

Okay. Right. Because you guys had said, relative to Kemper, that you needed $1 billion of equity this year. But you never said you needed $1 billion of common stock, you just needed to find $1 billion of cash, right? So the Elizabethtown deal, that's not going to close until late next year, so that's not part of what you need now. But the third party tax equity, the minority interest sale, the monetization and bringing some cash forward from Toshiba, all those things could theoretically severely limit or even maybe eliminate the need for a common equity in the short run, right? Or wrong?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

You're correct. We think we can eliminate the need in the short run. The monetization will actually equal itself out over time, but it will certainly help in the short run.

Operator

And our next question comes from the line of Angie Storozynski with Macquarie.

Agnieszka Anna Storozynski
Macquarie Research

I never ask M&A questions, but I will this time around. So okay, so just bear with me. Okay. So you are pursuing construction of your project in Georgia, the nuclear project. There will be some lessons learned from it. You, for now, have the 5% earnings growth objective, which could go higher. And why not attempt to grow those earnings through an acquisition in South Carolina? You are better positioned than anybody else to potentially offer continued construction of this V.C. Summer project. Maybe not now, but in the future applying some lessons learned from the Vogtle construction. You have an incredible operational track record. There is a utility there that needs help. So just talk me through why that would not be a rational course of events for you guys?

Thomas A. Fanning
Chairman, President & CEO

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Yes. Angie, thanks for the question. Look, I mean you've known us for decades, I bet. You can't really comment on any specific opportunity. As with Elizabethtown, as with AGL, we really pay attention to those for being both a disciplined seller and buyer. We use roughly the same kind of threshold, et cetera. And so we'll apply that logic wherever we look, and you know that we have an active radar screen. As I've said before in many different earnings calls and one-on-ones and everything else, these deals are extraordinarily hard to get done. In order to balance the different objectives, first of customers, then of the companies and all the other external publics, any attempt like this is a bit of a long putt. Certainly, time will tell, but I think that's probably my best answer right now. There's so many -- especially there, there are so many moving pieces. It's just hard to see through them right now.

Agnieszka Anna Storozynski
Macquarie Research

Understood. And my second question is, so I understand that there is -- you have partners at the Vogtle project and the DOE needs to opine on the monetization of the Toshiba securitization -- Toshiba proceeds. Is that the reason why it's taking longer than what we saw with SCANA?

Thomas A. Fanning
Chairman, President & CEO

Yes. There's a normal course of financing. You know that the Toshiba guarantee is part of the security package, underlying the DOE loan guarantees. And so we have to get an approval of essentially a change in the security package, not only for the existing loans outstanding, but anything new in the new commitment by DOE. OMB has a say in that and it's just taking some time for OMB to process a change in the security package. My belief is that they will get there and we will get this done. It's just taking a little bit of process.

Operator

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

Paul Basch Michael Fremont
Mizuho Securities USA LLC, Research Division

Good call. I guess, there's still are open regulatory matters in Mississippi. If there were to be any further disallowances as were recommended by some of the intervenor parties in that proceeding, would -- should shareholders expect that you would infuse additional equity into Mississippi Power? Or is that off the table?

Thomas A. Fanning
Chairman, President & CEO

We pretty much said consistently that we're going to protect the financial integrity of Mississippi Power along the way. We'll see what unfolds. The process right now though, Paul, and everybody should understand, in a very painful way, we've taken the gasifier off the table. What's remaining to be evaluated under this rate process is a combined cycle asset that has been delivering round numbers about 1/3 of the energy to the customers in Mississippi Power, has had a reliability circumstance that is something less than 1% of equivalent outage rate where industry averages may be 3-or-more times that. So this is a terrific asset and economic asset, and we expect to be treated fairly.

Paul Basch Michael Fremont
Mizuho Securities USA LLC, Research Division

And then sort of as a follow-up on that, I mean, under what circumstances would you potentially consider selling Mississippi Power, if any?

Thomas A. Fanning
Chairman, President & CEO

Well, I think I answer that question with Angie's question, too, Paul. Listen, in representing the interest of shareholders, we try to be exceedingly disciplined whether we buy or sell, and that goes to companies,

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it goes to assets, it goes to everything we do. So taking all that into account, what is the best mix of Southern Company assets for the benefit of our long-term growth rate, our risk-return profile, ultimately, a newer and for the benefit of shareholders. That's just the best way to leave that question, I think.

Operator

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

Michael Weinstein
Crédit Suisse AG, Research Division

Have you -- do you have any indication as to how the monetization of the payments would be treated by regulators? Is this like going to be a refund? Are they looking for refunds? Or are they going to allow you to keep it on the balance sheet and help finance the project?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

We've had discussions with regulators, but there's been no finalization of that. What we would recommend is that they apply it to the construction work-in-progress balance, and that would provide for a great reduction in their NCCR rate which would benefit customers in the short run and will accrue AFUDC once it passes the $4.4 billion spend mark.

Michael Weinstein
Crédit Suisse AG, Research Division

Will the fact that the DOE loan guarantees are -- have this as one of their provisions, does that prevent regulators from trying to even attempt to refund it to customers in some way?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

I don't believe so. I think those are all -- those would all be independent.

Thomas A. Fanning
Chairman, President & CEO

Yes. You know the Georgia Commission has a long track record of constructive regulation for the long-term benefit of customers. I think they'll follow that practice.

Operator

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

Stephen Calder Byrd
Morgan Stanley, Research Division

I wanted to just explore the potential for further cost-cutting at the different utility businesses. When we look at the cost structure of Summer utilities, did you see some potential there? But I'm just curious, I know that's a -- I imagine it's an ongoing thing that you all think about, but is there anything specific that could be under way or that you could be thinking about further in terms of further cutting O&M cost at your utility businesses?

Thomas A. Fanning
Chairman, President & CEO

Yes. Stephen, I think we should think about a better way to put those actions in context. We call this our modernization plan. And largely, what we're doing is displacing O&M with capital. Why is that? What we're able to do now, we've been employing a business model for 100 years or more in the Southeast, and what we see are opportunities now because technology is enabling it and because certain customers are requiring it. We're thinking about how to displace historical practice, for example, in Georgia, being in every small town in the state with, perhaps, a more modern way to connect with customers. Interestingly,

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while we have reduced our local office -- physical presence in the state of Georgia, we have expanded our points of presence with customers, largely through technology. I think almost 4x. I think that's about the right number. And interestingly also, we were very uncertain as to the effect that these changes may have on our customer base. I think last year, Georgia Power's named the most trusted utility in America, and so we think those kinds of changes have helped. That's kind of in the customer-facing business. We are also evaluating changes in our generating fleet. Now we have a long-term plan that speaks to kind of a transition between now and say, 2050, to a low- to no-carbon future, that thinks about whether we believe about nuclear, whether we believe about coal, the importance of natural gas infrastructure and renewables. And so you continue to see us exercise the latest thinking on technology improvements to our operation. The final thing I will say is this business model of making, moving and selling energy up to a meter and then having kind of a relationship where the customer does something with the energy on the other side of the meter and sends us a check every month, is changing. And that is we have created, I think, a very important, but rather small, at least at this point, option with PowerSecure. Where, in effect, we're taking some small steps at what I would call creative destruction. That is creating the make, move and sell on the customer premises, allowing customers more control. And we're doing this, largely, in areas that aren't in the Southeast. In other words, in the Southeast, we provide customers with the very best reliability, the lowest prices and the best service, again, in the United States. Once again, I think our top 5 utilities and customer satisfaction were our 5 utilities, including Southern in that. And I think that's giving us another opportunity to think about the advent of technology and displacing what otherwise has been what I would call traditional service. We continue to seek ways, as Art mentioned, earlier in response to, I think it was Michael's call, but it was the idea of thinking more and more about how our CapEx budget may be impacted by these modernization efforts. Along with that, in order to keep -- because every time you add CapEx, it does an increase to the customer bill, we're going to try and make reductions in O&M to keep customer bills indifferent and still provide better reliability, better cost, better service.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Stephen, one other comment in that regard, if you look at our consolidated as reported earnings, it shows a pretty hefty increase in non-fuel O&M year-over-year -- on a year-to-date basis, but most of that increase is due to the inclusion of Southern Gas, which was not in last year's year-to-date number. So if I look at the electric operating companies' same period, they're down almost 6% year-over-year. So there are a lot of moving parts in that regard.

Thomas A. Fanning
Chairman, President & CEO

And let me throw one more idea. We've done this in years past and talked about it in my recent memory. We have this program in place where we include optionality into our spending. And so recall, this year, I want to say this quarter, Art, we had $0.10 of weather year-over-year that was negative. In other words, yes, this year's weather in the third quarter was reasonably normal, but last year was exceedingly hot. And I think, year-to-date, it was something like $0.23, $0.26, what was it?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

$0.23.

Thomas A. Fanning
Chairman, President & CEO

$0.23. We've been able to maintain our earnings through effective cost management. So I guess that I'm describing these -- they're our kind of tactical changes. And what I was describing earlier are kind of strategic changes in our cost structure. We've demonstrated year over year over year, and if you look at almost any company, our actual performance compared to our guidance, we almost always hit it. We can't guarantee that for the future, but if you look at our track record, Southern Company is one of the most predictable and reliable earnings performers in the industry.

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Stephen Calder Byrd
Morgan Stanley, Research Division

Very, very helpful. And then just shifting over to Vogtle, I was thinking just about the Bechtel involvement here and the case of SCANA. SCANA had an independent assessment done of the project. Have you all engaged any independent assessments of the project? Or has it really just been part of the core team that has been developing the budget, i.e., is there an outside party that's been taking a separate look? Or has it really just been the entire project team sort of together, if that makes sense?

Thomas A. Fanning
Chairman, President & CEO

Absolutely. Yes. Now along the way, I won't speak to SCANA's issues. Our issues are very clear and that is we've had Dr. Bill Jacobs, who's the independent monitor for the staff, the commission in Georgia. He's a terrific guy. He's had complete access to everything that we've done. He sits in the meetings with us. Gosh, I mean, all along the way, we've been exceedingly transparent with the commission, and through him with us and the staff, as to all of the issues, whether their cost, whether their schedule going forward, everything has been on the table really through all of these VCM processes. And it's easy, go look at the testimony. Further, as we went through this decision of whether to go, no-go, we've had lots of independent evaluations. We wanted to really cover this kind of idea, soup to nut, and so we've had a farm called Kenrich involved. PwC made an independent assessment. And of course, Fluor and Bechtel, both made independent assessments. The Bechtel assessment, ultimately, have provided the foundation upon which we have a new commercial relationship where they have significant fees at risk. So I think we've been, a, exceedingly transparent; and b, we view that information not only in the past, but using it in the future to create, I think, an effective commercial relationship.

Operator

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

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

First question, I just wanted to be clear, as you laid out on Slide 16, when you're looking at the equity for this year, was this the original [$575 million]? It looks like we'll end up at $750 million. Is that accurate? Am I reading that right?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

That's correct.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Okay. And so then, again, from a high-level perspective, you laid out the importance of various things that have moved around, the asset sales, potential monetization, et cetera. When you put it all together, I mean, is it fair to say the message is that net-net, your needs are likely less than what you are previously thinking? Or is that not fair to think?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

I think, near term, we have certainly -- as we've said before, near term, they are a lot less than what we had outlined on our last call. But as you go through time, especially related to the increased cost associated with Vogtle, the potential increase in modernization efforts, which are all part of our upcoming plan that we'll talk more about in February. So yes, there's a lot of moving parts, but I think you're getting the gist of it. And all of that slides intended to do was to let you know that there's a lot of stuff going on.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

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Yes. But those big gas, utility sales, the monetization of part of the solar portfolio, the tax equity, these were, again, I think things that you had not been pushing forward earlier. So even with the Vogtle increase and with the modernization, it just seems that there's more cash coming in. But maybe that's not the case. I just wanted to be clear if that was.

Thomas A. Fanning
Chairman, President & CEO

It is clear. There is more cash coming in. I think the other thing that we need to make very clear is that when we think about any marginal equity increases in the future, the vast majority of them will be associated with this modernization effort in the operating companies. So those will represent additions or regulated investments.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Okay. And on a separate note, looking at the trends in your weather-normalized sales, you're down 1.3% in third quarter, but down 1% year-to-date versus your expectation was still flat to slightly up for the year. I'm just wondering how your thoughts have changed, both near term and long term, when you're thinking about your weather-normalized load outlook.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, I think this year is partially explained, at least in the quarter, by the hurricane, which you could technically call it weather but we don't pull that out specifically. And residential weather-normal sales were down 2%. I think some of that was influenced by the hurricane and the outages associated with that. Industrially, it's not been as strong as we thought it would be, but we expect that the momentum for the rest of this year and into '18 will be stronger, so that number could improve by year-end. When we think about our long-term forecast, we're still kind of in the low. We always say, I think, last year, 0 to 1%. But right now, I think, for '17, we had estimated 0.3%. And we'll update you on our new forecast in our plan in February.

Thomas A. Fanning
Chairman, President & CEO

Yes. And those of you that are into the trivia, during the storm, we lost in Georgia 9% of our load; for the month, 2.2%; for the quarter, 0.7%. So that kind of gives you the magnitude of the storm effects.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

I see. Last question, also I wanted to clarify. You were talking about some tactical moves you can make on O&M as storm and other cost come in. Should we view those as sort of temporary onetime in nature? Is there a permanency attached to that? Or how should we think about the O&M cost increase of the '17 base going forward?

Thomas A. Fanning
Chairman, President & CEO

Yes. Ali, we've been doing this, really, going back. I mean, I started this back when I was CFO of Mississippi Power, for heaven's sake, but -- so we called our flexible budgeting system where we identify things that we just have to do. We identify things that we want to do and then we -- if we had, for example, a favorable weather, higher revenues, these are things that we would tee up and only do if we have the opportunity to do them, so we actually kind of fourth-ranked O&M when we have a sense of priority over time. And really, since I've been CFO of Southern, so now that it goes back, gosh, a decade or more, we do this comprehensively across the system. And it's enabled us, in a very kind of sensible, orderly way, where we get biggest bang for the buck, to be able to handle variations in the economy and in weather. And we do that up to a confidence level, and it's worked exceedingly well. Interestingly, with the gives and takes of weather, some years are hotter and some years aren't, we're able to satisfy what

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we think is a normalized O&M spending over a period of time. So it's -- some years, it's up. Some years, it's down. And overall, we've been able to deliver the results we need. And the demonstration of that is this reliability we have, the customer satisfaction we have and the fact that we maintained low rates through this period. It's been exceedingly, exceedingly beneficial.

Operator

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

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

One on Vogtle and then one on the gas business. On Vogtle, you've still got multiple years of construction left before you complete the project. How, whether it's via project management or via it's your contract with your -- with Bechtel or others, how do you protect Georgia Power and Georgia Power's partners from continuing to have even more project delays and even more cost inflation on the project?

Thomas A. Fanning
Chairman, President & CEO

Well, number one, a lot of the variance in the estimate is already taken out. In other words, 95% of the equipment is already on-site. We have healthy contingency included in the estimates, not only in cost contingency, but also schedule contingency. We have incentive structures in the commercial relationship with Bechtel. I think Bechtel has given us an improved productivity set of matrix -- metrics, which are all showing us, since we've taken over the site from Westinghouse and Fluor, that they're all headed in the right direction. And that is based on a schedule that calls for 6 months of contingency. So in other words, if you think about it, the filing we're making, it's kind of a 29-month schedule extension. We're providing our own metrics for kind of a 23 month, therefore, a 6-month contingency schedule. All of those things, right now, are pointing in the right direction. The real key to our success going forward is being able to hit these numbers, really, is going to go to commodity type of equipment and wire and pipes and stuff like that and -- but most importantly, the efficiency of labor at the site. The other thing I'll just say is that this company, me, personally, have had a terrific relationship with Sean McGarvey over the years. The U.S. Building Trades has been a terrific partner in executing Vogtle 3 and 4. They were enormous supporters of ours through this very turbulent period with Westinghouse. And I think they understand that their ability to execute in a favorable way is critical to our overall success, and I believe that everything they can do to help in that endeavor will be done. So if you line up kind of commercial incentives, improved metrics, the type of work, the kind of cooperation we're having with skilled labor on-site, I think we're feeling pretty good. But those are kind of the big variables.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

And when you think about the commercial metrics, and I don't recall what you put in the public domain on this. Is it simply there's upside for Bechtel to finish the project on time and either on budget or even below budget? Or is there sharing in the downside, whereas our incremental project cost creeps due to the inflation or just being able to execute a challenging project schedule. Is there a downside for them, where they share in the downside along with Georgia Power or Oglethorpe and the other owners?

Thomas A. Fanning
Chairman, President & CEO

Yes. Michael, no, we think we've taken good estimate that allow for plenty of contingency. Their incentive is essentially half of their fee that is tied to both cost and schedule performance.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Got it. Okay. I want to change topic a little bit on -- to the gas midstream business. I mean, it's been a while since you bought half of SONAT from Kinder. And just curious about whether you're seeing offshoot opportunities now that you've had that exposure and obviously, since you had AGL for a little bit of time as

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well? Are you seeing offshoot opportunities in the Southeast where there's a potential need for -- to move incremental gas and it requires a midstream solution and you might be well positioned to partake in that?

Thomas A. Fanning
Chairman, President & CEO

So we have looked at some other things; we continue to get those questions. Gas infrastructure is another one of the so-called [dominant] solutions. With the technology revolution provided by directional drilling and fracking, and when you just look at the energy values, it looks as if gas is going to be around for a long, long time. And then we're seeing these kind of new opportunities we've done with Bloom, which is a gas C. We have looked at some other gas pipelines in Georgia that we can speak to. But so far, the kind of big interstate efforts, they haven't hit our threshold. We did have a placeholder in the original SONAT obligation. It was about -- it was over $200 million. I want to say $240 million or so, that dealt with an expansion to the Southern Natural Gas system through Fairburn, Georgia. So we've done that, and we have expanded even beyond our initial investment. Southern Gas already has their own kind of projects underway, and we're executing on those. The big other ones are kind of still out there, and I think people are still trying to figure out how to get them done.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Yes, and the only reason I asked that question is now that one of the major nuclear projects doesn't look like it's going to go forward in South Carolina, it seems that, that's a state that's going to start utilizing a lot more gas-fired generation than maybe it previously had and it's had a lot -- very, very strong gas LDC demand over the last 2 to 3 years, 2 to 4 years. And at some point there will become a need to move gas into South Carolina and it strikes me, you're one of the three opportunities to do it, either SONAT goes further east or Transco has an incremental lateral or ACP comes down. I just didn't know if it's premature in kind of the cycle of all these things to even be thinking about stuff like that.

Thomas A. Fanning
Chairman, President & CEO

Yes, Michael, it's a fascinating question. And the way that we prefer to think about that is kind of as a region, how do we think this moves? Thinking about that question and its implication for just South Carolina may not be the optimal answer.

Operator

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

Jonathan P. Arnold
Deutsche Bank AG, Research Division

I just waned -- on equity, your slide says the near-term needs are greatly mitigated, and I think in Greg's question, you kind of endorsed the word eliminated or even said it, but does near term mean '18? Or is it just '17? This strikes me, you've kind of done the equity you were planning in '17 so, presumably, it means '18, but I want to make sure I'm right on that.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, there are some details yet that had to be filled in and we'll give you on the next call, but I think you're thinking about it right. '17 and then a lot of '18 will be mitigated as well. We'll just have to wait and see until all the moving parts kind of settle down a little bit.

Thomas A. Fanning
Chairman, President & CEO

And that source of equity in CapEx on the other side, we continue on our modernization efforts that are core utilities.

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Arthur P. Beattie
Former Executive VP & Chief Risk Officer

That's right.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

Right. And then -- just as we tie these things together, I mean, you obviously withdrew the slide you had last quarter that showed the step-down for Kemper, but then the 5% growth that you reiterated. I -- assuming that you're still -- and then it was suggested in another question that you're pointing to same, bad or higher. I was just -- you didn't say anything to that. I was curious whether you're endorsing that concept or...

Thomas A. Fanning
Chairman, President & CEO

Yes, we are where we were. We are where we were, Jonathan. We're still in a 5% long-term trajectory. Of course, we'll update all this in the -- whatever it is, the early February call next year.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

Okay. And then just finally on Vogtle, you -- thank you for the productivity metric that you're showing, it's very helpful, but can you give us a little insight, sort of, behind that summary number? Are there some subsets of that? Or do they all look similar? Any you can provide with some extra color there?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Jonathan, yes, I think you want to focus on where our critical path issues are and I think you would define that as the power block. That would be the nuclear island and the turbine building and that's where we'll focus most keenly on productivity because those are the most important aspects of the unit in order to meet the schedules that we've outlined. And right now, we're on-goal with all those metrics. But you're right, there are different approaches to different aspects of construction around the site.

Thomas A. Fanning
Chairman, President & CEO

And it's a fascinating question as we sit through every 2 weeks or so these project meetings. A lot of improving the pace of work is involved with opening up different work fronts. And as you look at our site compared, for example, to other sites, you will see kind of broader expansion, which will ultimately help us in a variety of fronts, not only just putting concrete and rebar and iron on the ground, but also in the regulatory process as we kind of streamline I tax and a variety of other things. So Art's right, I think the critical path for us right now is the nuclear island, but we're opening up a great deal of flexibility by moving on these other fronts. And that provides us a great deal of flexibility going forward in maintaining schedule.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

Okay. And to make sure I understand the metric on Slide 6, and your comment just before that includes contingencies. So if you were to hold that metric around 1, you'd effectively bring the plant on 6 months early, is that...?

Thomas A. Fanning
Chairman, President & CEO

That's a 23-month schedule, that's right. And round numbers -- fellows, correct me here, but I think if we were to bring it on in 29 months, this is around a 1.4 metric. So if you're below 1.4, you're not eating into any sort of contingency.

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Jonathan P. Arnold
Deutsche Bank AG, Research Division

That's helpful. And I guess we're just finally, I think -- weren't we supposed to hear about the fire off of the Sandman AP1000 by now? I was curious if you guys have an insight into what may or may not be going on there.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, Jonathan. We know of no real technical reason why they haven't loaded fuel. We can only surmise that it's just governmental approvals that they are waiting on.

Thomas A. Fanning
Chairman, President & CEO

Jonathan, excuse me, let me just be very clear. 1.4 is equal to a 29-month schedule, 1.0 is equal to a 23-month schedule. If you're in between 1 and 1.4, that means you're in between 23 and 29. I hope that's obvious, but just want to be very clear.

Operator

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

Paul Patterson
Glenrock Associates LLC

So just sort of quickly here. On Vogtle, it seems that there's a little bit more of a focus on the co-owners. I think they're going to be testifying at the hearing coming up. And I don't recall that, and maybe I've just missed it so let me know if -- is that unusual? Or is that a change? And could you sort of maybe describe sort of the -- there seems to be more of a focus in terms of the data request, et cetera. I'm just wondering if you could elaborate what might be going on there.

Thomas A. Fanning
Chairman, President & CEO

Well, listen, this is one of the most important projects in Georgia's economic history. And it was very clear to us, as we've been working through the challenges and now the opportunities available going forward, that we needed to be arm in arm. It's interesting, we do have a shared interest, the co-ops, the munis, City of Dalton and Georgia Power and seeing this thing through the right way. And I think that's what that's a reflection of is really a joined interest and a participation.

Paul Patterson
Glenrock Associates LLC

Okay, and moving on -- let me ask you this, do you think there's any possibility that we'll get a settlement in this latest VCM?

Thomas A. Fanning
Chairman, President & CEO

It's always possible. I've said that before in response to questions about settlements with Georgia's triennial filings. Boy, always possible, but it's a great practice, some might say therapeutic practice, to allow the process to continue and unfold. It allows everybody a seat at the table. Everyone's voice is relevant to be heard. I think we'll get the right conclusion whether we settle or not.

Paul Patterson
Glenrock Associates LLC

Okay. Then on grid monetization, those comments are sort of interesting, I was just wondering if you could sort of comment on perhaps the size of the potential grid monetization that you might be thinking

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about and the nature? And perhaps if there's any tie-in with O&M there, just sort of what you guys are thinking about there and what might be the factors that leads you to go for that or not.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, they're directly linked to each other to the degree -- we identify additional opportunities there, we'll have to identify the O&M that goes along with it from a timing perspective in order to minimize the impacts on rates, so one will lead to the other. We have not outlined size at this point, Paul. We will give you more detail on that on our next call. We're not quite through with our process yet.

Thomas A. Fanning
Chairman, President & CEO

Yes, there's a comprehensive effort across the system to figure out how and when to do these different initiatives. Stan Connally, currently CEO of Gulf Powers, kind of leading now on behalf of all the CEOs. But I can tell you, all the CEOs have different parts of this initiative. It's a really kind of exciting thing. It's a way to modernize the company and recall, this is really being driven by market changes, both in technology and customer requirements.

Paul Patterson
Glenrock Associates LLC

Okay. But I mean, when we think about this, is there any type of technological deployment that sort of stands out? Or is it just a whole bunch of things? And what I meant about O&M, ultimately, like sort of you were talking before about how capital business can save on O&M. And I'm just wondering whether or not we have any sense as to whether or not some of this might pay for itself or sort of anything like that.

Thomas A. Fanning
Chairman, President & CEO

Oh, sure. Oh gosh, yes. And in fact the whole objective here is to deploy the technology CapEx. I gave the example earlier of kind of reducing physical locations in small towns with manyfold increase in points of presence to customers, making it easier for customers to do business with us and actually improving as a result their satisfaction and ultimately their trust in the company. It really is a modernization as to how we approach the marketplace. But as you can imagine as modernization goes into internal systems as well, not only generation and transmission and distribution but even kind of supply chain, human resource, a variety of the so-called administrative areas. We're really pushing this notion of how can we modernize our operation and improve it for customers.

Operator

Our next question comes from the line of Kamal Patel with Wells Fargo.

Kamal Patel

Had a couple of questions. Looking at the potential asset sales that you're evaluating, would you say that market value is at a fair premium to book value?

Thomas A. Fanning
Chairman, President & CEO

That's hard to answer. I mean, it depends on the asset. It was certainly fair in Elizabethtown.

Kamal Patel

Okay. And even with the solar portfolio, I guess, given the YieldCo demand and the financial investor demand, it seems like that would be the case, is that not?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

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Yes, we believe so. There are investors out there, we think they're looking for passive, kind of, deployment of capital into 20-year average life assets, very predictable, high-quality cash flows coming off of that. So we think there's value in the marketplace.

Thomas A. Fanning
Chairman, President & CEO

So we think those kinds of structures have immense more value than, say, a solar asset dependent upon an organized market.

Kamal Patel

Okay. And then looking at machinations in your equity issuance. I understand the near-term needs being mitigated, but looking longer term, where do you see yourself from an FFO to debt perspective at the holding company?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, we target that overall. Overall of our OpCos, so I think over the longer term, we certainly can achieve that target. That's the stake we have put in the ground in order to achieve. And the use of proceeds from these asset sales, we'll eliminate some equity need, but we'll also reduce debt as well to maintain our progress towards those targets.

Thomas A. Fanning
Chairman, President & CEO

And the target coverage ratio we're aiming at?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

16% FFO to debt.

Operator

Our next question comes from the line of Ashar Khan with Verition (sic) [Visium].

Ashar Khan

Tom or Art, I wanted to go back to, I don't know if you can remind us some of these moving parts, the detriment from Kemper that was $0.08 to $0.10 that you had provided on the last slide in the second quarter call. Could you remind us what that was made up of? How did you come up with that number?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, it was a piece of the fact that we no longer would have an earning asset related to the Kemper Project and the additional equity need that it would create from the write-off. So I don't have the splits for you, but I think we can get them to you. $0.05 to $0.06, I think, was the earning asset and then another $0.03 to $0.04 for the equity.

Thomas A. Fanning
Chairman, President & CEO

That's the round numbers.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Those are rough.

Ashar Khan

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Okay. So now with the equity need being alleviated through some other mechanism that we have come up with, does that make that $0.08 to $0.10 now of a lower drag as we look forward or no?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

No. I still think it's still the best approach towards our earnings guidance for '18 going forward. It's still an early assessment yet. We will clear that up certainly in the next call. But it's still our best guess as to where we see ourselves going and what we're trying to achieve over the longer term.

Thomas A. Fanning
Chairman, President & CEO

It certainly gives us more flexibility with respect to changes in EPS growth and credit metric. Our idea is to balance that, maintain our long-term commitment to shareholders.

Operator

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

Andrew Levi

Just a couple of questions. Just -- and this maybe I should know, but I don't. On the asset sales, whether it's the solar or Elizabethtown or whatever else you may end up selling, is there any tax leakage on that? Or basically, for whatever you sell it, because of NOLs or write-offs or whatever, that all goes in your pocket?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. There was actually on Elizabethtown, we expect there will be a taxable gain. But oddly enough, it couldn't result in a slight book loss, which is kind of odd, but that has to do with a lot of...

Andrew Levi

That's not cash, right?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Accretion.

Thomas A. Fanning
Chairman, President & CEO

Goodwill.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Goodwill, excuse me. And then with -- of course, it depends on what happens whether we do a transaction with the solar assets or not, but more than likely, that would result in a tax gain as well.

Thomas A. Fanning
Chairman, President & CEO

And recall, since we're in an NOL, any taxes due are deferred.

Andrew Levi

So -- okay. So you will be able [indiscernible] cash.

Thomas A. Fanning
Chairman, President & CEO

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It's free for a period of time.

Andrew Levi

All right, okay. So in the short run, next couple of years, that's all cash kind of in the door for you. That was my question.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

A good time to start.

Andrew Levi

On that one, and then just thinking about kind of what you've been doing recently with various cash raises. Is one way to think about this -- and, again, maybe I'm getting ahead of myself, but, obviously, you're talking grid mod and we're going to get a revised CapEx forecast in the fourth quarter. But are you kind of getting rid of assets that are maybe not earning the same type of return that you would be able to earn on the regulated side? And so we probably should expect some type of significant cap raise and this is kind of a way to redeploy the capital? Or am I getting ahead of myself on that?

Thomas A. Fanning
Chairman, President & CEO

Well, we always look at kind of who's the best owner of any asset. And that goes to whether we buy it or sell it, right? So we always kind of take -- and that should be viewed as a long-term look, okay? That's not a tactical kind of thing. And we always, also, are very mindful of our impact with all the external publics that we face. So for example, when we even considered Elizabethtown, and like I said, on the day that we announced the AGL Resources merger, I got calls. So that was always an attractive asset in the market for a variety of folks. So as we think about going forward, it's going to be kind of the combined math of all that. It really is kind of opportunistic, where do we think we're going to be in the next 5 to 10 years of that asset? Where will somebody else be? And remember, that's not just returns, that's risk and return. Value accretes to a function of risk and return. If we can reduce risk and improve returns, that's a home run. That's what we're trying to do is just balance the portfolio.

Andrew Levi

So really it has nothing to do with some future CapEx opportunities of the utilities?

Thomas A. Fanning
Chairman, President & CEO

No.

Andrew Levi

I thought maybe it would be, okay. And then my final question basically has to do with -- when you give '18 guidance and, again, don't want to get ahead of myself there, too, but that will be off of -- that's 5% where you reiterated. Will that be off of 2017's earnings? Or is there potentially some type of small rebase because of Kemper or something like that? And then [indiscernible] off of that?

Thomas A. Fanning
Chairman, President & CEO

Yes, that's exactly it. As we take -- I mean, the math that we've shown before, you take '17, you grow 5%, reduce $0.08 to $0.10, grow that at 5% forever.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

That's kind of it.

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Operator

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

Steven Isaac Fleishman
Wolfe Research, LLC

Just one question on the -- I guess it ties in with the growth rate, but also with the Vogtle monetization and Toshiba monetization. Just you have this ROE reset thing that in 2021 for a period until the units are up. Can monetization in some way help address that? And just how are you going to deal with that in, like, a growth rate? Are you not going to look out to that period because it's temporary anyway?

Thomas A. Fanning
Chairman, President & CEO

Our 5% long-term growth rate, it depends on how that resolves itself. Whether those 2 units are treated the same way or whether you split them or how you deploy the cash. There's a few moving pieces in all that, but any consequence of, if we keep the settlement as is and we travel through it, you will have just a brief divot in '21 and '22, but you're back to the 5% when those things cleared in service. It just looks like 1 year or 2 of underperforming against the 5%. But they clear the service, you're right back at the 5%. Our long-term growth rate is 5%.

Steven Isaac Fleishman
Wolfe Research, LLC

Okay. And then just, is there a way that if you're able to get some of the money and kind of delay getting above that cost cap that you could limit this period? I mean, obviously, we get the plants up sooner, that limits the period, but...

Thomas A. Fanning
Chairman, President & CEO

There is no comp cap per se.

Steven Isaac Fleishman
Wolfe Research, LLC

Okay. It's all just based on timing?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, that's correct.

Thomas A. Fanning
Chairman, President & CEO

That's right. Steve, the other thing, I just want to be very clear about on this 5% and all that. We have been increasing dividends in a regular, predictable and sustainable way, and that's because we believe in our long-term growth rate and even with the challenges at Plant Radcliffe and Kemper County, we increase the rate of growth from $0.07 to $0.08. We are setting our -- of course, this is ultimately the purview of the board. But ultimately, our dividend policy is set on a belief of a long-term 5% trajectory. So any kind of 1-year deviation due to a regulatory construct won't have an impact per se on our long-term dividend strategy. And that ultimately is what drives value.

Steven Isaac Fleishman
Wolfe Research, LLC

Okay. And then just -- I'm curious, maybe you talked about this upfront tax reform. I'd be curious kind of your view, given you're so close to it, how you're feeling about the outcome coming on a way that like some of the utility sector issues are addressed the right way, I guess particularly the bonus and interest deduction.

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Thomas A. Fanning
Chairman, President & CEO

Yes, sir. So let me first say that Kevin McCarthy, Kevin Brady have been terrific in really pushing this thing forward and certainly we've met with all the folks in the Senate. We understand and gotten the support in the White House. Here's my best guess. It's worth a cup of coffee or whatever, but let me be parochial. Production tax credits, I believe that there is unanimity in Congress, in the House and ultimately, in the Senate. I believe, we'll get treated fairly and we will get either the timeline moved or eliminated for production tax credits for Vogtle. Now stepping out of my parochialism, for the industry, I think we will follow what was done in 1986 and that is, I believe, that we will not be accorded expensing of CapEx for public utility property as was originally defined back in '86. And we will follow some, what we came up with back then was ACRS, but some ratable depreciation schedule for taxes, kind of as we have now. And in exchange for that, we will retain the ability to deduct interest. That's where I believe we'll go out.

Steven Isaac Fleishman
Wolfe Research, LLC

Okay. So kind of a carve-out for the utility industry to reflect its unique kind of rate [indiscernible].

Thomas A. Fanning
Chairman, President & CEO

Yes, and it's been a very sensible kind of engagement with Congress and these guys have been terrific in listening.

Steven Isaac Fleishman
Wolfe Research, LLC

Do you think the House will -- will the House come out with that, you think? Since this will be our first look at the bill?

Thomas A. Fanning
Chairman, President & CEO

Well, let's see. I mean, I'm guessing right now, but I think it will. And it's just -- they're giving us a big benefit. Look, I get the benefit of expensing CapEx, it's just that our deployment of long-term capital is dependent largely upon generation and transmission and environmental expansion plans. We don't sway those 1 year or another based on tax benefits, for heaven's sake. Those are really put in place over decades, really. However, the elimination of interest deductibility has an immediate negative impact on customers' cost of energy. So they're giving us a benefit with capital expensing that really isn't a benefit, and they're hurting customers in the near term, especially energy bills tend to be the most kind of regressive form of tax. So the trade actually pays for itself. Let's keep on a tax depreciation schedule for CapEx and let's retain interest deductibility. Congress gets that and it's really important. We're the most capital-intensive industry in the world.

Operator

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

Praful Mehta
Citigroup Inc, Research Division

So the tax reform point was actually very helpful in color and perspective. Just wanted to understand that if what you're saying plays out and basically it's an interest or tax rate deduction or tax rate comes down, right? Let's say it comes down from 35% to 20%, the deductibility of interest expense at the holding company, that tax shield will also then, effectively, come down. What does that mean for Southern? Like, are you looking at the holding company debt right now? And are you evaluating? Because I saw in your plan, you actually increased by $500 million the holding company debt. So I wanted to just figure out how you're thinking about holding company debt given the tax reform and given tax rates might actually come down.

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Thomas A. Fanning
Chairman, President & CEO

Yes, look, it's a simultaneous equation. I mean, you've centered in on some important stuff but, boy, it goes to greater net income because more of it or less of it is subject to taxes. Overall, we believe this is a fair trade for the whole industry, including Southern. The other thing that's an impact to us is any sort of carryforward position or unused tax credit position gets extended with a lower tax rate. But we factored every bit of it into our financial plan.

Praful Mehta
Citigroup Inc, Research Division

Got you, fair enough.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

The other issue around the debt is junior subordinated debt, which will add some equity characteristics to it. So from a rating agency perspective, it's more friendly.

Praful Mehta
Citigroup Inc, Research Division

Got you, fair enough. So it'll help you with your [indiscernible] debt targets as well?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes.

Praful Mehta
Citigroup Inc, Research Division

Got you. And also in terms of the sale of this minority interest of solar projects, I wanted to understand, were you referencing that the sale price you potentially could get for the 1/3 interest sale would be higher than effectively your purchase prices for the same assets? Or have market prices been about the same?

Thomas A. Fanning
Chairman, President & CEO

Yes. We had a huge argument internally about this. We've all agreed, we're going to let the market kind of dictate what prices are. We really would prefer not to get into any sort of market valuation of where that may get. We'll know soon enough. So thank you for your patience there.

Praful Mehta
Citigroup Inc, Research Division

Yes, that's fine. And then just finally, on that point. When you get the proceeds, is there any plan to pay down part of the debt for the projects associated that are being sourced. If you're selling let's say, 1/3 of a project, is 1/3 of the debt going to be paid down as well? Or is the debt going to stay at the full level?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

We finance -- even at Southern Power, we finance on a portfolio basis. So they've got 45% equity ratio. We would use proceeds to reduce debt and equity.

Thomas A. Fanning
Chairman, President & CEO

And you got to understand, the way we finance Southern Power is apart from, say, project financing. It's a much simpler approach and gives us a lot more flexibility than, say, a project finance structure.

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Operator

Our next question comes from the line of Julien Dumoulin-Smith with Bank of America Merrill Lynch.

Julien Patrick Dumoulin-Smith
BofA Merrill Lynch, Research Division

So let's talk quickly here. Love to hear a little bit more about the monetization here on the Southern Power side. Do you have any metrics that you might want to think about? I mean, you all talk about net income historically, but I suppose in the other side of the world, we talk CASB, we talk EBITDA. Any kind of sense, initially, on how to try to size this up? I know we're early days on this, but maybe you, kind of, consolidated basis take 1/3 of whatever metric you want to talk about?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, I think, Julien, the way we like to talk about it is, we think there could be up to 26 solar projects included in this. There may be as much as 1,700 megawatts and these are 20-year average contract lives. We just think that the cash flows for a passive investor, there's lots of interest in that. And that's kind of the target that we've outlined here.

Thomas A. Fanning
Chairman, President & CEO

And the other thing is, yes, we do talk net income because that translates directly into EPS, which translates directly into stock values. We stay away from cash metrics. We tried to do something that's easy for people to value. And if you look at Southern Power's track record, historically, they regularly beat their internal objectives.

Julien Patrick Dumoulin-Smith
BofA Merrill Lynch, Research Division

Got it. So we think about -- absolutely. And let me check with you on this. I mean, is there something to be said, perhaps, an acceleration on this business given the confidence? Or should we be thinking about this as kind of taking down the expectations thereby, sort of, linearly saying, "I'm going to sell down a chunk of this business and we'll swap that out with earnings elsewhere?"

Thomas A. Fanning
Chairman, President & CEO

We're going to give you -- we'll go through this in detail the next earnings call. But what you should expect is that Southern Power will contribute its previous share of EPS growth that it has all along. There is not at all an increase or a reduction. We are keeping exactly with the plan that we laid out in October 2016 in terms of EPS contribution to Southern Company.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

And our intent on selling this portion of solar assets is a one-time thing. There is no ongoing right that we would like to offer to that owner to buy future additions to the solar portfolio.

Julien Patrick Dumoulin-Smith
BofA Merrill Lynch, Research Division

Excellent. Coming back to this earnings question, obviously, the gas storage assets have value to them, maybe not necessarily reflected in kind of a traditional net income metric. How do you think about that part of the overall gas business? I mean, is that ultimately in the long-term core, if it doesn't turn around? And what are the prospects for this across your specific storage footprint?

Thomas A. Fanning
Chairman, President & CEO

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We don't think it's significant to our earnings picture, is the short answer. Hasn't been, don't think it will be.

Julien Patrick Dumoulin-Smith
BofA Merrill Lynch, Research Division

Okay, fair enough. Actually -- and then maybe, if I could try to summarize a little bit of what folks have been asking the last almost an hour and a half here, can you give us a little bit of a sense of the big positives and negatives in terms of the cash flows that you're looking at against the equity needs that you'd originally articulated? Because you, obviously, talking a lot about cash rate here and not necessarily talking about big uses of cash outside of, I suppose, a novel modernization program. Can you just maybe try to summarize that a little bit for us?

Thomas A. Fanning
Chairman, President & CEO

Yes. I mean, I don't know, I mean, the pluses are the fact that we were opportunistic in the market. We found a terrific buyer for Elizabethtown. And like I said, we had interest in that well before we had any equity need that Art started talking about. So that was really a culmination of a series of discussions over time. Southern Power, using tax equity, certainly has an impact on our equity needs going forward, and we're able to maintain our EPS contribution to the overall 5% growth rate of Southern along the way. The other thing is the sale of minority interest of the Southern Power solar portfolio. It's certainly another cash raise that will be, I think, interesting to us. The monetization, as Art said before, the Toshiba guarantee is really a time issue. In other words, we would have gotten that over 3-plus years; now we'll get it in a lump sum. So that's just timing. In terms of equity needs, I think it's whatever is associated to support the credit metrics and Mississippi Power associated with Kemper, whatever we end up with approving with the Georgia Public Service Commission on Vogtle 3 and 4 and then the increases in CapEx and decreases in O&M associated with this business modernization plan in the OpCos. We'll add all of those pieces up, the puts and the takes, and have them in the financial plan first quarter next year.

Operator

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

Dan Jenkins
The State of Wisconsin Investment Board

So most of mine have been answered, but I have just a couple more around Vogtle. In particular, one, I was wondering given the hornet's nest that's been stirred up in South Carolina, wondering around your VCM schedule with the commission in Georgia if you're -- are you seeing any uptick in terms of the activity or aggressiveness in terms of intervenors in that case?

Thomas A. Fanning
Chairman, President & CEO

Dan, I bet you could read that both ways, right? Certainly, we have to be aware of and responsive to any of the issues that come to public in South Carolina. I certainly can't comment on any of those for them, but I certainly can for us. The good news is that we've had this processed, it's VCM processed, it's proven to be such a blessing. And the way we have worked with Dr. Jacobs has been so terrific, as well every VCM process we've invited. It's been a welcoming kind of exercise to have any and all intervenors participate in what is now VCM 17, for heaven's sake. So this has been all a good process, and so I don't think we had these kind of surprises at the Georgia Public Service Commission. So in general, I think we've been thoughtful in the process. The commission has run a terrific, kind of, regime in evaluating Vogtle now over the years, and I think we have a thoughtful way to proceed. And I think the other thing, just to be clear, when you look at the broad public support we have, whether it's statements by the commission or the governor or the legislature or the public polling that we do, our position is widely supported here in the state of Georgia. And I will say, we've had tremendous support out of the federal government. You should know that I think at the federal government level, our continued participation in Vogtle really does have significant national security concerns. And I think that's why you've seen such terrific support in loan

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guarantees and support for getting the production tax credits through; we'll see how that ends up. But a host of other issues, the NRC, I should be very mindful to thank them in streamlining the ITAAC process. We eliminated a lot of the test or consolidated the test, I should say. And we just continue to get great, kind of, support going forward. We still have to execute, there's still risk on the table. We'd completely get that. But boy, oh, boy, I think this is a good external environment in which to move forward.

Dan Jenkins
The State of Wisconsin Investment Board

Okay. And in response, I think it was to Michael, when you talked about -- I know the productivity train. You mentioned, I think, that 95% of the components are on-site. I was curious, what are you still waiting to receive? Commodities mostly?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Dan, most of those are commodities. Wire, just equipment necessary to complete the construction of the assets. So most of the major components are on the ground.

Dan Jenkins
The State of Wisconsin Investment Board

So that -- none of the things that are being [indiscernible] or whatever, okay.

Thomas A. Fanning
Chairman, President & CEO

Yes, your turbines are there. Panels are there, all the big stuff.

Dan Jenkins
The State of Wisconsin Investment Board

All the shield panels and whatever?

Thomas A. Fanning
Chairman, President & CEO

Yes, steam generators, all that big stuff is there.

Dan Jenkins
The State of Wisconsin Investment Board

Okay. And then just to verify, I think you mentioned a little bit the nuclear island and turbine building. I was wondering if you'd give a little more detail on what kind of the fourth quarter or before your next earnings call, what are the critical path items that are kind of scheduled for this next 3 months or so.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, Dan, we've got a slide in the appendix, I believe. It's Slide 13 that we'll outline a lot of that stuff for you, both the near-term progress items and then horizon projects. And that outlines them for both Unit 3 and Unit 4.

Thomas A. Fanning
Chairman, President & CEO

And I think as Art said earlier, when you look at these kinds of things, when you see words like containment building, that is kind of pointing to critical path items.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Correct.

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Operator

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

Thomas A. Fanning
Chairman, President & CEO

Yes, I just want to thank everybody, it's an exciting time. And thank you for your patience. I know we got a lot of positive activities going on right now. And I know some of those positive activities are not going to be dimension-able until they're executed. We expect to see a lot more information on that in the next quarter and certainly by our next earnings call, we'll have a much more thorough explanation as to the gives and takes and what that means to our growth rate going forward. We feel very confident in our path. We're excited about the future, and we appreciate your attention and participation as an investor. Thanks very much.

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

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