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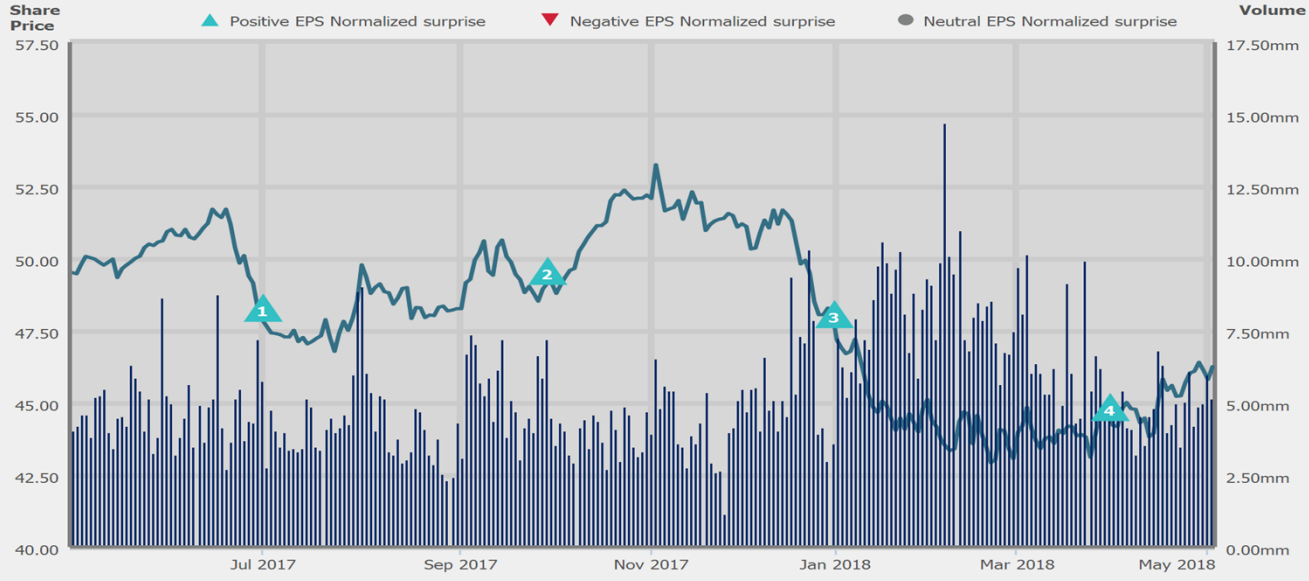
FQ1 2018 Earnings Call Transcripts

Wednesday, May 02, 2018 5:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2018-			-FQ2 2018-	-FY 2018-	-FY 2019-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.84	0.88	▲4.76	0.63	2.89	3.04
Revenue (mm)	5982.89	6372.00	▲6.50	5157.42	22617.82	23350.59

Currency: USD
Consensus as of May-02-2018 1:42 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2017	0.71	0.73	1 2.82 %
FQ3 2017	1.07	1.11	2 3.74 %
FQ4 2017	0.46	0.51	3 10.87 %
FQ1 2018	0.84	0.88	4 4.76 %

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Presentation

Operator

Ladies and gentlemen, good afternoon. My name is Frank, and I will be your conference operator today. At this time, I would like to welcome everyone to the Southern Company First Quarter 2018 Earnings Call. [Operator Instructions] As a reminder, this conference is being recorded on Wednesday, May 2, 2018.

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

Aaron Abramovitz
Former Investor relation contact

Thank you, Frank. Welcome to Southern Company's First Quarter 2018 Earnings Call. Joining me this afternoon are Tom Fanning, Chairman, President and Chief Executive Officer of Southern Company; and Art Beattie, Chief Financial Officer.

Let me remind you that we will make forward-looking statements today in addition to providing historical information. Various important factors could cause actual results to differ materially from those indicated in the forward-looking statements, including those discussed in our Form 10-K and subsequent filings.

In addition, we will present non-GAAP financial information on this call. Reconciliations to the applicable GAAP measure are included in the financial information 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. Our state-regulated electric and gas utilities as well as our other businesses are on track to deliver on their targets for 2018. As we've mentioned before, tax reform provides an enormous benefit to our customers and the economy.

During the first part of this year, we've received 2 constructive regulatory results -- we received constructive regulatory results in several of our states, including our 2 largest subsidiaries. Recall as a part of our tax reform strategy, we have been engaging with each of our state regulatory jurisdictions to provide meaningful rate benefits to customers while preserving the credit quality of each of our state-regulated utilities.

Thus far, tax reform has produced over $1.7 billion of benefits to our customers, and our regulators have demonstrated their steadfast support for preserving the credit quality of our utilities by accommodating higher equity ratios. As we continue working through our remaining jurisdictions, we will keep you informed.

Let's now turn to an update on Vogtle Units 3 and 4. With more than 6,000 workers on-site, our focus remains on productivity and safe, efficient, high-quality construction. As of the end of March, total construction is slightly more than halfway complete. Significant progress continues in all phases of construction with the setting of modules and equipment for Unit 3, setting up the reactor vessel for Unit 4, both commodity installation and major concrete placements across the project. In fact, several areas of the plant are already being transitioned from the construction team to the operations team.

As you can see on the materials provided this morning, the team at the site continues to work toward an accelerated construction schedule, ahead of the November 2021 and November 2022 in-service dates that were approved by the Georgia Public Service Commission. All critical path milestones are on track, and our

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continued progress over the past several months is encouraging. To be clear, there is a lot of hard work ahead, particularly associated with confined areas like the reactor containment structure. So there's a long way to go, but we are cautiously optimistic that our work plan will remain ahead of the commission approved schedule.

In the coming months, we are focused on securing additional skilled craft labor, particularly electricians and pipe fitters in anticipation of the increased productivity requirements in the critical areas of the project.

As a final note on Vogtle 3 and 4, we are encouraged with the fuel load recently completed at Sanmen Unit 1 in China. Recall, Southern has had a number of personnel on-site there, and we look forward to learning more during the start of activity at these units.

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

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Thanks, Tom, and good afternoon, everyone. As you can see from the materials we released this morning, we had solid results for the first quarter of 2018. Reporting earnings of $938 million or $0.93 per share compared with earnings of $658 million or $0.66 per share in the first quarter of last year. Excluding charges associated with the Kemper Project, Wholesale Gas Services and other items described in our earnings materials on an adjusted basis, for the first quarter of 2018, Southern Company earned $893 million or $0.88 per share compared with $652 million or $0.66 per share during the first quarter of 2017.

Major earnings year-over-year drivers for the first quarter of 2018 include revenue effects primarily driven by weather at our state-regulated electrics and by infrastructure investments at Southern Company Gas as well as optimization of Southern Power state tax positions. These positive drivers were partially offset by increased depreciation and amortization.

Now moving on to an economic review of the first quarter. The economy is performing well as GDP growth is expected to be 2.7% for 2018, which includes a slight lift from tax reform. In our state-regulated service areas, we are seeing this economic growth translate into employment growth on par with national growth of 1.5%.

In Georgia, where we serve both gas and electric markets, 1.7% job growth continues to outpace the nation, and Atlanta was ranked third in population growth in 2017 across the 12 largest metropolitan statistical areas in the nation.

On the industrial side, the ISM Manufacturing Index averaged 59.7 during the first quarter, signaling a continuation of strong industrial expansion across the nation. We are seeing similar trends in our service territories where 9 out of 10 of our industrial segments showed year-over-year gains in electric sales. The ISM Index for April was at 57.3, which while still expansionary, signaled friction in the industrial supply chain that we will be monitoring.

Overall, we expect the economy to continue performing well, supporting customer growth and our energy sales projections, but we are keeping a watchful eye on potential policy interventions such as shifts in interest rates or developments related to international trade landscape that could affect economic growth.

Before turning the call back to Tom, I want to provide an earnings estimate for the second quarter and share brief updates on our financing plans for this year in Southern Power. First, we estimate that Southern Company will earn $0.65 per share in the second quarter of 2018.

Now for an update on our financing plans. As Tom mentioned earlier, we have been constructively working with our regulators to ensure lasting benefits of tax reform for our customers while preserving credit quality. The recent outcomes in several of our state jurisdictions are supportive of our previously discussed tax reform strategy. Continued success in the execution of this strategy should result in a financial outlook with less leverage and strong credit quality, which supports the value proposition from our state-regulated utilities.

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Our 5-year $7 billion equity need has not changed. Recall, approximately 80% of this equity is to be invested directly into our state-regulated electric and gas utilities. The timing of fulfilling our equity needs could be influenced by the nature and the timing of regulatory outcomes and by our consolidated credit metric objectives. As mentioned on our call, last call, we will seek to optimize the timing and source of equity by seeking opportunities for investor-friendly funding.

The sales of Elizabethtown Gas, Elkton Gas and our planned sale of 33% of Southern Power solar portfolio should be seen as past examples. The sale of Pivotal Home Solutions is a more recent example. It is a small part of fulfilling our current need.

As an additional example of our thinking, we are also exploring third-party tax equity financing for much of our existing wind portfolio at Southern Power. Post-tax reform, the economics of this financing vehicle could be more attractive given the extension of our tax credit carryforward position well into the next decade.

Most of these projects were originally financed corporately at Southern Power. This opportunity could offset approximately $1 billion of Southern Company's $7 billion total equity need at Southern Company with the potential to receive the funds in the second half of this year. Additionally, we are updating our investment forecast for Southern Power. Post-tax reform, it is clear that our optimal allocation of capital is reweighted towards our state-regulated utilities. We continue to expect success with incremental renewable projects, many of which will allow us to leverage equipment purchases we've made to safe harbor the value of production tax credits.

Our updated outlook for Southern Power reflects potential growth investments of up to $500 million per year, which is approximately 1/3 of what we outlined on our last call. These potential growth opportunities will require little to no incremental equity from Southern as they are expected to be funded with a combination of internally generated cash flow, debt and third-party tax equity. Southern Power remains an important part of our business, and the long-term contracted nature of these assets serves as a great complement to our state-regulated utility business model.

The continued investment in renewable generation at Southern Power and our state-regulated electric utilities is also an important part of our broader, long-term, low to no carbon objective. Recall that our 4% to 6% EPS growth outlook is not dependent on unregulated growth. As a result, this more modest opportunity set for Southern Power represents upside within our 4% to 6% range. Moreover, our less aggressive growth outlook should result in reduced costs, further supporting Southern Power's value proposition to the overall enterprise.

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

Thomas A. Fanning
Chairman, President & CEO

Thanks, Art. Southern Company has started 2018 with strong momentum. All of our businesses are performing at a high level. Our Board of Directors recently approved an $0.08 per share increase in our common dividend to an annualized rate of $2.40 per share. This is our 17th consecutive annual increase and for 70 years, dating back to 1948, Southern Company has paid a dividend that was equal to or greater than that of the previous year. The board's decision to increase the dividend speaks to the enduring strength of our business, 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.

We're also excited about the forthcoming changes to our management team. As announced 2 weeks ago, effective June 1, Art is retiring, and Drew Evans, currently Chairman, President and CEO of Southern Company Gas, will become the Chief Financial Officer of Southern Company. On a personal note, I want to thank Art not only for his 42 years of distinguished service to Southern Company, but also for his friendship. His sound fiscal discipline, strategic thinking and consummate professionalism have been invaluable to our company as he has helped steer us through some incredible moments in our history. He will be sorely missed.

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At Southern Company, we are committed to cultivating the best leadership in our industry. This announcement underscores the fact that we continue to advance the thought leadership and experience that serves to support our objective to provide clean, safe, reliable and affordable energy with superior customer service.
Operator, we'll now take the first question.

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Question and Answer

Operator

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

Gregory Harmon Gordon
Evercore ISI Institutional Equities, Research Division

Art, you're definitely going to be missed, and congratulations. It's been a long and illustrious career. So a question on the $7 billion. So I think you were pretty clear, you need $7 billion over 5 years, average $1.4 billion. But should I be -- the $365 million you're raising from the Pivotal transaction, should I consider that as one of the sources of that $7 billion? Or is that outside of that box?

Thomas A. Fanning
Chairman, President & CEO

No, that's within our financial plan.

Gregory Harmon Gordon
Evercore ISI Institutional Equities, Research Division

So it reduces the $7 billion or it's outside of it?

Thomas A. Fanning
Chairman, President & CEO

No, it reduces it.

Gregory Harmon Gordon
Evercore ISI Institutional Equities, Research Division

Got you. Clear, okay. And so the extent that you can do this tax equity financing on the wind, that could reduce it by another $1 billion; you still have 50% of the 1.8 gigawatts of solar, that reduces it further, et cetera. So as we're thinking about how you whittle this down to the actual amount of common equity you might or might not need, is that the right way to think through it?

Thomas A. Fanning
Chairman, President & CEO

The solar was already part of the plan last year.

Gregory Harmon Gordon
Evercore ISI Institutional Equities, Research Division

Okay. So the solar is outside, okay. And then you've got some really rational outcomes from the regulators here on doing what they ought to be doing to make sure the credit quality of your operating companies remains sound. But you have to fund that, right? You have to put that equity in to get the earnings and cash flow that they deemed to be fair and appropriate and reasonable. So would that lead us to believe that the equity needs are sort of front-end loaded because you want to get that equity into those subs so that you can get to the appropriate credit metrics faster?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. Greg, we've already advanced to Georgia Power, I think it's $900 million of equity. We've taken that in the form of short-term debt until the time we're at a point where we can replace that with equity.

Gregory Harmon Gordon
Evercore ISI Institutional Equities, Research Division

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Okay. So would it be fair to assume if we're modeling this that you can advance the equity infusions to the subs through borrowing at the parent and then pay that off with either asset sale proceeds or equity over time?

Thomas A. Fanning
Chairman, President & CEO

Exactly.

Operator

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

Michael Weinstein
Crédit Suisse AG, Research Division

Just to clarify Greg's question. The $1 billion of tax equity proceeds in the second half, that offsets the $7 billion of equity expected over the next 5 years?

Thomas A. Fanning
Chairman, President & CEO

Yes, it's part of it. We have lots of flexibility on how to think about the equity raise going forward, and flexibility in terms of content and time.

Michael Weinstein
Crédit Suisse AG, Research Division

In terms of timing, current plans can handle about $1.5 billion a year. Is there -- has the regulatory outcomes in Georgia, Alabama and a few other places, has they -- has that -- has the higher equity ratio required more equity upfront? Like does it front load some of that into the current year?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Georgia's certainly -- as I mentioned on Greg's answer, we've already advanced some equity to Georgia Power in the form of debt at the parent temporarily. Alabama does not start -- their process does not even start until 2019. So theirs is an achievement of an equity ratio over time.

Michael Weinstein
Crédit Suisse AG, Research Division

Okay. So in other words, you would expect the equity to be kind of evenly spread out throughout that 5 years and you would lever as necessary at the parent in between?

Thomas A. Fanning
Chairman, President & CEO

Yes. Basically, the Alabama plan provides us a pathway in which to raise equity ratios over time. There's some flexibility around that, depending upon a host of variables. So as we have the opportunity to raise the equity ratio, we will do that. And obviously, as we do that, that will have a bearing on the amount and timing in any given period.

Michael Weinstein
Crédit Suisse AG, Research Division

And one last question on the tax equity. The $1 billion, is that for -- that's just to refinance existing portfolio projects? Or does that include the potential $500 million this year?

Thomas A. Fanning
Chairman, President & CEO

It's just the existing portfolio, that's right.

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Michael Weinstein
Crédit Suisse AG, Research Division

Okay. So in other words, there could be additional tax equity for new investment?

Thomas A. Fanning
Chairman, President & CEO

That's exactly right.

Operator

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

Jonathan P. Arnold
Deutsche Bank AG, Research Division

Just looking back to what you could have had when you set out the plan last quarter, I think you calibrated the FFO-to-debt metric improvement that you were needing to go after, so like 2% to 3% at the subs and 3% to 4% at the consolidated level. I just want to -- can you give us any sort of feel for where -- how you feel you're doing with the mitigation achieved so far and other pieces of the plan against that -- what I think was the target?

Thomas A. Fanning
Chairman, President & CEO

Yes. Look, we have to execute, and time will tell. But we're very confident we're going to be right on the money in doing what we need to do.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

So we're kind of -- we can't kind of specify just kind of where -- how much improvement we've seen yet or...

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, again, it's going to be to the degree we can earn on the equity in the subsidiaries and the more postponed that is, we may have to take down parent debt sooner in order to achieve the targets that we've established. So we will get there one way or the other. We would rather do it in the least dilutive way possible.

Thomas A. Fanning
Chairman, President & CEO

Yes. And I bet people are dying to have us kind of lay out what the investor-friendly equity sources are. We'll certainly update you on the next earnings call. And if there's activity before then, we'll certainly bring it to everybody's attention. But it really kind of deals with our execution on all those sources.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

Well, can I just pick up on the investor-friendly comment, Tom? You obviously had a slide that showed this $1.4 billion a year, and now you're sort of talking about it more as $7 billion over the 5 years. I mean, do you guys consider investor friendliness to be getting it behind you? Or having to -- or doing it -- or pushing it out? I mean, that's, I guess, a philosophical question in part.

Thomas A. Fanning
Chairman, President & CEO

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Well, it's always better to get it behind you, I think. But the shape -- just as we suggested on the last question from Michael, I mean, the amount and nature really depends on the execution on these regulatory plans. I must say, we've been very gratified with the response we've gotten out of our states in order to return benefits to customers and balance that with the preservation of financial integrity. We pretty much have execution in Gulf, in Georgia and in Alabama. We have plans in other subsidiaries, so we're working to do that. Our bias in all of this is to preserve our metrics and really restore the financial integrity that we had prior to tax reforms. So if we had a bias, I guess it would be to get it done sooner rather than just leave it out there. And always, I think there's always this notion of overhang in equity issuance. To the extent you eliminate overhang, that's a good thing, too.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

Okay. And then just on Vogtle. I think in your comments, you said that you were cautioning that there's a lot of heavy work in front of you, but that you're cautiously optimistic you would remain ahead of the approved schedule. You're currently quite a decent bit ahead of that schedule. So are you signaling that you think you'll narrow the gap a bit here? Or you think you'll stay at...

Thomas A. Fanning
Chairman, President & CEO

Well, those of you that have been in my one-on-ones, I do these artful audiovisual presentations. I do this chart to demonstrate, to illustrate what hard work is. A lot of this reactor vessel containment area is tight spaces, a lot of commodity work, a lot of people. And I'm just cautioning everybody. Yes, the schedule looks fabulous so far. In fact, we are ahead of our April-November -- April 2021, 2022. We're ahead of our April schedule so far, but we cannot count on that. I'm just cautioning everybody that with this very tough work, I would expect even to see some erosion in that. But our ability to perform ahead of the regulatory schedule, November '21 and '22, I think, is pretty good. I think we feel confident about that.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

That's great. And just on the cost side, can you give us a sense of just your confidence. You're obviously tracking above at the moment, but what gives you the confidence you have the line of sight that you can sort of accomplish the schedule and bring the costs sort of into where they need to be?

Thomas A. Fanning
Chairman, President & CEO

Yes. What's interesting about that cost chart is that we make the note: performance remains well within the threshold of the approved estimate to complete. What we should note is that, that cost chart is really tracking the kind of personnel efficiency, labor efficiency that is associated largely with the Bechtel work. That represents about 20% of the remaining cost in front of us. So yes, it looks like it's substantially above the cost target. We really want and are working very hard with the Bechtel people at all levels in the organization. And in fact, I probably have been meeting with, via telephone or in person or whatever, Brendan Bechtel. So my level, I know Paul Bowers, the CEO of Georgia Power; Steve Kuczynski; the guys on-site. We are working at all levels within Bechtel to try and drive better performance on the cost index. And I think we see our way through to improving it somewhat. But you've got to understand, everything we see right now shows that we will be within the cost thresholds that we've had approved at the Georgia Public Service Commission, even if we don't...

Jonathan P. Arnold
Deutsche Bank AG, Research Division

The message there, Tom, is don't take that sort of index and apply it to the whole cost, right?

Thomas A. Fanning
Chairman, President & CEO

That is exactly right. It's only about 20% of the cost. The rest of the costs are pretty well known.

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Operator

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

Stephen Calder Byrd
Morgan Stanley, Research Division

Art, congratulations on your upcoming retirement. I just wanted to go back to what you had walked through in terms of the tax equity, and I'm sorry if I missed it. I was just trying to think about just from a [GAAP] point of view modeling the cost of the tax equity financing. Could you just refresh my memory on just how to think about the [GAAP] cost to that financing?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

I'm not sure, I know...

Thomas A. Fanning
Chairman, President & CEO

What do you mean [GAAP] cost?

Stephen Calder Byrd
Morgan Stanley, Research Division

Oh, the earnings drag from the financing -- from the tax equity financing.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, when we model these kind of things, we certainly do it against our current plan. And to the degree you're giving up the tax equity, which for us is really delayed, and then look at other potential buyers who can use it sooner than we can, we think there's value there.

Thomas A. Fanning
Chairman, President & CEO

Yes. It's simply a cost of capital compared to a time value of cash calculations. We wouldn't do it unless it was accretive.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

That's right.

Stephen Calder Byrd
Morgan Stanley, Research Division

Okay, understood. I can follow up just to make sure. Sometimes the accounting impacts just trip me up a little bit. I'll follow up offline. And then separately, just on -- you obviously had a number of questions around different approaches to financing. I think you laid out a number of really creative and shareholder-friendly ways to approach this. Should we be thinking broadly, I know you don't want to get into too much specifics, but just conceptually, more around financing options versus certain parts of the business that could be completely monetized and sold, obviously, you have a lot of very valuable franchises and low-risk businesses that could be sold. So I just wanted to make sure I'm understanding just conceptually, is it more in the sort of financing realm? Or is it more in monetization? Or is really everything a possibility at this point?

Thomas A. Fanning
Chairman, President & CEO

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Yes. We don't want to talk about specifics. But clearly, I think when you look at our track record in the past, it is a portfolio of a variety of options. We'll consider any and all, determined by what gives the best value to shareholders.

Stephen Calder Byrd
Morgan Stanley, Research Division

Understood. Completely understood. And then lastly, just on Sanmen, it's encouraging to see fuel loading. Do you have a sense for when they're going to go through sort of active testing of the equipment, meaning, machinery is actually going to be spinning and they're going to go through real sort of, I guess, not being an engineer, sort of operational testing?

Thomas A. Fanning
Chairman, President & CEO

Yes, we think it's imminent.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, I think they're going to do some preliminary warm-up. But when they start testing with actual fuel load, I believe that's scheduled for another -- be a month or so.

Thomas A. Fanning
Chairman, President & CEO

Yes. I mean, they'll be -- if the word you're looking for is hot. They'll be hot in 4 to 6 weeks. There is a lot of machinery that's spinning right now, but hot in 4 to 6 weeks if that's the question.

Operator

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

Agnieszka Anna Storozynski
Macquarie Research

Art, 42 years, wow, that's hard to believe, actually. But congratulations. Now -- so okay, so $7 billion, reduced by that $1 billion that you mentioned regarding wind, reduced by the proceeds from Pivotal, so the rest would be easily covered by your internal programs. So why do we even need to talk about timing? Is it just simply because the internal issuances of shares would assume some risk of the equity pricing, and hence, you would prefer to potentially front-end load some of these issuances?

Thomas A. Fanning
Chairman, President & CEO

Yes. I mean, it's really a kind of a what and a how, right? I think the what would be, as we demonstrated in Georgia, to the extent we have the ability to invest equity, reduce leverage at the operating companies and earn on it effectively, certainly, that gives rise to an accelerated timing relative to the $1.4 billion per year. And when you think about the knock-on effect to parent company debt and a variety of other things, I think there are a variety of accretive things we can do that are associated with accelerating equity issuances. The other idea is not so much a what but a how. And that really goes to if we can demonstrate a shareholder-friendly approach to raising equity, then, in fact, that takes this kind of overhang issue off the share price and also really speaks to the bias of us getting our metrics fixed sooner rather than later.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

That's where it goes. Don't forget, we've got to address the metric issue, and we can't wait forever to do that in order to maintain our -- the ratings that we're seeking to maintain. So there's a lot of balancing around all these issues.

Agnieszka Anna Storozynski

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Macquarie Research

And you believe basically that these potential asset sales, if I understand correctly, would be earnings accretive?

Thomas A. Fanning
Chairman, President & CEO

Absolutely. We won't do anything that's not in a balanced way.

Operator

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

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Tom, just to be clear, as you look at your portfolio and you look for investor-friendly opportunities, is it fair to say that your core utility -- electric utility businesses are core to the company, not to be messed with? Or is everything potentially available as you're looking at equity-raising plans?

Thomas A. Fanning
Chairman, President & CEO

Yes. Ali, it's a very interesting question. And frankly, we've had a lot of debate even internally and even with the board and everything else. I'd frankly think almost all of what we have is core. Our business is low-risk, infrastructure-driven, state-regulated, integrated utilities. That's what it is. Even in -- we've been that way forever in the electric side. When we did the gas side -- and remember the underpinning of that strategy was safety-related pipeline replacement program that provide us a very low-risk and attractive growth profile. I would argue all of that is core, okay? Pivotal wasn't core, right? And so that was clear. And there's a few things around the edges that aren't particularly that business. But even so, we would consider the whole portfolio of opportunity if it made sense for shareholders. The ultimate test here is what can we do to benefit you all, and we'll evaluate every opportunity we have whether it's structural or financial.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

I see. And then also just to be clear on the commentary you've had, looking at these avenues but looking at acceleration, et cetera, one, can you remind us, and I haven't seen this, but through the first quarter, was there any equity issuance through the plans? And if so, how much have you raised? And secondly, would you take block transactions off the table? Or that's still in the menu of getting this behind you?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

To my knowledge, very small amounts of maybe option exercises, but that's it as far as equity in the first quarter. And as we've said in the past, we've got a toolbox that we can access, and block is only one of the issues. We've got a lot of other options, so we're not going to get specific beyond that.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Right. But nothing is off the table, is what you're saying?

Thomas A. Fanning
Chairman, President & CEO

Yes. When we have something to say, we will certainly say it. We just announced Pivotal. We just announced an idea we've discovered on the PTCs. Certainly, we have our earnings call in July. If we advance something, we'll certainly let you know in due haste.

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Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Okay. And then separately, looking at more near term from the financial side, so you ended through the quarter budgeting or letting us know, you were thinking you're going to be earning $0.84, ended up earning $0.88. So what came in better than what you thought? And I know it's early in the year, but could that be extrapolated as you're looking at the full year as well?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. Ali, a little bit of that was better sales than what we expected on a weather normal basis. So I think you've seen our numbers. Retail sales were, on a weather normal basis, up 1.6%. Our industrial sales were up 2.6%. So our forecast was pretty flattish around weather normal load growth. So we picked up some there. But the other side of that is O&M, and O&M was really underspent throughout our business enterprises, which really goes, again, towards our modernization initiative to invest capital and replace it with lower nonfuel O&M. Certainly, there'll be some timing differences that will be part of that. But again, this is the effort upon which we've launched ourselves.

Thomas A. Fanning
Chairman, President & CEO

There's another interesting economic trend, the Fed has spoken about this. There was this announcement today. [It was] AllianceBernstein, something like that, but folks moving out of high-tax state and local areas into low-tax state and local areas. Atlanta, I want to say was the third fastest growing population of any of the MSAs in the United States. And when you think about kind of this potential mega trend, an unintended consequence of tax reform, we think the Southeast stands to benefit.

Operator

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

Julien Patrick Dumoulin-Smith
BofA Merrill Lynch, Research Division

Congratulations, Art. So just to come back to the core earnings of the company. As you talked about sort of front-end loading at least the Georgia Power piece here. How do you think about where you are with respect to your guidance within the range and then sort of front-end loading even the earnings growth within the period that you talk about. Just want to kind of think about the timing of when do these bigger factors phase in here.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, we don't really comment on guidance until after the third quarter. Yes, we've had a good quarter. But again, it was better growth than what we expected, but our weather normal models aren't perfect either. So we -- I always have preached that, it's more of an art, no pun intended, than science. But our range contemplates all different kinds of scenarios, and we'll just see where the rest of the year goes.

Thomas A. Fanning
Chairman, President & CEO

Yes. I think Art is right. We give a guidance in the first -- in the year-end, so it'll be the February call now, and we update it once a year. We've done that for years and years and years, and we'll do that in October, I guess.

Julien Patrick Dumoulin-Smith
BofA Merrill Lynch, Research Division

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But maybe to clarify here, the 4% to 6%, as you guys see it, you would expect despite front-end loading the equity contributions into the utilities that there is still a pretty stable cadence, the 4% to 6%, through your forecast periods?

Thomas A. Fanning
Chairman, President & CEO

Absolutely.

Julien Patrick Dumoulin-Smith
BofA Merrill Lynch, Research Division

Okay, great. That clarifies things. Let me come back just to the equity raise side of the house here just real quickly. Your -- when you say your utilities are -- everything's core, utilities are core, do you have a preference in evaluating, say, Southern Power versus your utilities? And then secondly, let me just also be exceptionally clear about this because I think I heard you say it, with respect to needing to see something accretive, it needs to be earnings not necessarily credit and earnings accretive?

Thomas A. Fanning
Chairman, President & CEO

No, we want it to be both. And we take it as a whole, right? Value is a function of risk and return. If we can buy off risk and at the same time packaged together with a variety of other things, still be earnings accretive, that's a home run to us. With respect to Southern Power, recall, we built that business with the idea that the long-term bilateral nature of that business, as apart from merchant, with low to no fuel risk, transmission risk, creditworthy counterparties, is a structure that is intended to replicate kind of the risk-return profile of our integrated regulated utility business. So it is part of our core business. We've already contemplated through financial transactions selling off, for example, 1/3 of the solar portfolio. We told you that we would consider selling an economic interest in the production tax credits; with the wind, we already have. But that is part of our portfolio of assets. And if there is a better combination for shareholders, we'll certainly consider it.

Julien Patrick Dumoulin-Smith
BofA Merrill Lynch, Research Division

Got it, excellent. Just real quickly, Art, if you can clarify this, you expressed a desire to sort of front-end load your ability to hit the FFO-to-debt target you've delineated. Where do you stand again today? And what are the agencies saying in terms of the time line you need to get there with?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, again, I think we outlined in our last call, we're trying -- if you exclude Vogtle, we're trying to get it back to a 16% to a 16.5% FFO-to-debt ratio. The time lines around that -- we've communicated with the agencies about our plans, and so they are aware of what -- all the things that we are looking at. But we need to make progress on that at some point in time. I think you asked earlier about front loading equity -- or front loading equity in the OpCo, that's certainly true in Georgia, but you'll notice that it's not upfront so much in Alabama. It starts in '19 and stretches out over a number of years. So I want to make sure and be clear that it's different in every operating company.

Operator

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

Paul Basch Michael Fremont
Mizuho Securities USA LLC, Research Division

My question's been answered. And Art, best wishes to you, and it's been great working with you.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

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Same here, Paul. Thank you for the comment.

Operator

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

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

A topic that hadn't come up today, how are you looking around the service territories, really the entire Southeast, in thinking about the opportunity to leverage your position in SONAT for incremental midstream or pipeline growth -- organic growth?

Thomas A. Fanning
Chairman, President & CEO

You bet, great stuff. I'm going to pull back on a comment I made I'll bet you 2 years ago now. There's still a lot of interest because the unconventional gas, particularly Marcellus, that area, is different than the traditional gas, deepwater or coastal Gulf Coast. There had been a number of projects that people are looking at. And I think I spoke about several options that we were presented with from other people. We obviously are a big consumer of gas on our own. Even without Southern Company Gas, Southern Company was, I think, the third largest consumer of natural gas in the United States. You throw Southern Company Gas on there, I think we become the most important consumer of natural gas in the United States. And there continue to be interesting ideas of pipes north to south as well as pipes west to east. And in fact, our constructive arrangement with Kinder Morgan resulted in the Southern Natural Gas pipeline 50% interest. What we said then was that there may be other opportunities associated with that. And we have executed on at least one of those. It wasn't particularly big. But what we told you also was that as the acquisition of 50% of SONAT gives us optionality, we still think that optionality exists, and we'll just be opportunistic in terms of how we exercise it. The opportunities are still out there. We still kick tires. We still look. We still talk. And we have a guy over at Southern Company Gas, Pete Tumminello who runs a terrific shop; a guy with him, Dat Tran, are very, very good gas pipeline people. And so we continue to actively survey the landscape.

Operator

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

Praful Mehta
Citigroup Inc, Research Division

Congratulations, Art. So I guess, can't escape the equity question, so I'll come back to that quickly. In terms of the equity, is there a maximum size that you would look to do in a particular year? I get the front-loading question. But obviously, there is a cap that you would not want to go beyond. Is there any number that we should think of that generally you would not issue beyond that?

Thomas A. Fanning
Chairman, President & CEO

I'd rather not kind of deal in that realm. What I said before is that we would be both credit and earnings accretive with any of these ideas. In terms of sizing, I think that is just an area I'd rather not get into at this point. We've already suggested that the shape of our effort here will be highly influenced by, on the regulatory front, the ability to invest equity in an effective way at our regulatory jurisdiction. Let's kind of leave it there for now.

Praful Mehta
Citigroup Inc, Research Division

Fair enough. It was worth the shot, though. Just following up on the regulatory question then. I guess, on the higher equity ratio, is this seen by the regulators as kind of almost like a bridge to help you get

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to your stronger metrics, but that you [grow] back to the lower equity ratios over time? Or is this seen more as a permanent solution going forward?

Thomas A. Fanning
Chairman, President & CEO

No, it's really just math, if you think about it. Tax reform was just a wonderful thing, right? We were able -- and we worked this on our own. We worked it through EEI. But look, we pounded the pavement up in Washington. It was really important for us to maintain interest deductibility. That would have [visited] on our customers an almost immediate rate hike. Then you say, well, we did that. We got lower tax rate, which are obviously an advantage, and the quid pro quo must have been that we lost cash flow associated with accelerated depreciation. The commissions, I think, we have this very constructive relationship, we have for decades down here. Gee-whiz, when you think about it, we were able to take the benefits by lower tax rate and use them, on one hand, to give customer benefits now over $1.7 billion and at the same time reduce leverage, increase equity ratios to [fix] back to a coverage ratio. So that has been the plan. Our regulators in the Southeast have always understood that good, healthy utilities are good ultimately for customers, recall the old circle of life that I started back, gosh, now, it's getting a long time, 15 years ago when I was CFO. The idea that if we are able to deliver relentless value to customers in terms of reliability and price and service, that generates a tremendous amount of value in the economy. If the customer -- if we generate that value, and therefore, we earn the ability to have constructive regulation, that gives us an environment in which to invest capital and that gives us an environment in which to grow a good, healthy company. So I think our regulators get that model, and I think we all understand that preserving that balance is good for everybody in the long run.

Operator

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

Paul Patterson
Glenrock Associates LLC

Congratulations, Art. Just quickly on the tax equity market. Has there been any change or any experience -- any characterization of any change that's happened because of tax reform that you guys have experienced? Or has it really pretty much been a nonevent in the tax equity market for you guys?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. I think there were -- was talk during all of the passing of the bill that there was going to be a pinching of the market. They're going to be penalized, so to speak. But I think all that was fixed. And to my knowledge, Paul, I believe the accessibility -- and we've got the same players in the marketplace that we'll deal with if we choose to go down that road.

Thomas A. Fanning
Chairman, President & CEO

Yes. I'll just give a little more nuanced answer. There has been a change, but it hasn't impacted us.

Paul Patterson
Glenrock Associates LLC

And why hasn't it impacted you? Could you give us a little more flavor for that? Is it because the type of...

Thomas A. Fanning
Chairman, President & CEO

Because I think when you look at scalable, high-quality issuers like us, we're always going to cultivate a universe of investors that is quick and easy and sophisticated. We know how to do deals. We've done deals in the past. We have a relationship. We get these things done.

Paul Patterson

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Glenrock Associates LLC

Okay. And then on the China fuel loading. Do we know what actually caused the delay for so long on that? And I just was wondering if you could elaborate a little bit on that, if you found out what that was and how that may or may not translate to you guys now.

Thomas A. Fanning
Chairman, President & CEO

No, sir, pure speculation. There were rumors everywhere. Nobody knows.

Paul Patterson
Glenrock Associates LLC

Okay. And then, finally, you were mentioning something about, I guess, the tax codes sort of assisting movement to Georgia, I think. I apologize for not gathering exactly what you were saying. Could you elaborate a little bit on what you were talking about? I'm sorry.

Thomas A. Fanning
Chairman, President & CEO

So there's been -- if you look at the macro trend of population shift in America, for some years, because of economic growth reasons, there has been a shift away from the Northeast and the Midwest, particularly the Rust Belt, into higher growth areas like the Southeast, the Desert Southwest, things like that. When you look at the tax code where now you're limited on your ability to deduct state and local taxes, it's one of the things that now we're starting to see is that people are willing to migrate away from high tax areas, which have high state and local taxes into low state and local tax areas. And you know what, it was funny, 100 years ago when I was CEO of Gulf Power, I was on Jeb Bush's transition team. And my assignment there were 2 of his planks, one was education and one was economic development. And one of the theories about, at least, Florida, that we used with Governor Bush at the time, was the idea that physical location in this digital age increasingly didn't matter. And so I think you're going to find people that are much more willing to go to places that are nice places to live, that have reasonable humanlike commutes, that have affordable housing, that have good education, that have constructive business, regulatory and legal environment. Now we have a tax code reason for people to move to those areas. Those are kind of the mega trends I was pointing out.

Paul Patterson
Glenrock Associates LLC

Okay. But these are sort of the high net worth individuals really, right? I mean, with respect to the tax code changes we're talking about, those don't impact the vast -- you're talking sort of like -- is that what you're talking -- you're talking about rich people, I guess, moving to Atlanta [and Georgia]?

Thomas A. Fanning
Chairman, President & CEO

Yes. AllianceBernstein just moved to Nashville. They just announced it. There's other places in the -- I mean, other certainly -- [other companies] that would want to do that.

Operator

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

Andrew Levi

Congratulations, Art. I'll miss you, Art. You've been very helpful to all of us. Obviously, all the questions have mainly been answered. I just have a question on Georgia Power. The $900 million, I understand that. Will there be incremental equity that needs to be put down in there to get to the 55% level?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

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Well, we've already put it down there as equity, but we will replace it at the Southern level in some form or fashion.

Thomas A. Fanning
Chairman, President & CEO

And just as a matter of governance and process, there's always needs for capital contributions to the subs over time, and certainly, that would include all of our subs. So there will be other incremental equity down there in the future, but this speaks to the lion's share...

Andrew Levi

I guess, what I'm getting at -- I'm sorry to interrupt. But what I'm getting at is to get the equity ratio where -- if I remember from my past comments or conversations with you guys, obviously, the first goal was to try to get the regulatory approval, which obviously you got very quickly. And then the second goal was to try to get the equity ratio to the maximum allowed level so you could start earning on that equity as quickly as possible. And so I guess, what I'm asking is does that $900 million, which you put down into there, does that get you to that maximum equity level? Or will there be -- or do you need to put more equity down there this year to get to that maximum equity level?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Andy, yes, it gets us to approximately the 55% level.

Thomas A. Fanning
Chairman, President & CEO

Yes, we're there.

Andrew Levi

Okay, okay. Because I had come up with a different calculation that's why I was confused. Okay, let me see if there's anything else. And then just on the overall equity. And you've touched on this before. So on the tax equity, the $1 billion that you plan to get later in the year, that will reduce the equity need from 700 -- from $7 billion, it's a hard word to say, down to $6 billion and then another $350 million or so has been reduced by the sale to American Water Works, so you're down to about $5.5 billion give or take $100 million.

Thomas A. Fanning
Chairman, President & CEO

Yes. You've got to be careful using gross numbers like on Pivotal because you always want to, first, retire the net committed capital associated with each of these companies so that you preserve your earnings profile. And then to the extent the price is above that is accretive and also gives you the notion of net equity proceeds that you can then use to reduce leverage, yes. And I know rightfully so, we gave you the example of the tax equity associated with the wind PTC. That's one of a portfolio of options we're looking at.

Operator

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

Thomas A. Fanning
Chairman, President & CEO

You know what, I'm going to give Art the last word here.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

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Well, it has certainly been my pleasure to represent Southern Company in front of all you guys on The Street. It's been a rewarding experience for me. But I have to tell you, as much fun as that's been, it pales in comparison to watching my grandson play baseball. So I hope you're not offended by that, but that's the truth. But thank you very much for all your courtesies and your help over these past 8 years.

Thomas A. Fanning
Chairman, President & CEO

Thank you, Art. That's all we have, operator.

Operator

Thank you, sir. Ladies and gentlemen, this does conclude the Southern Company First Quarter 2018 Earnings Call. You may now all disconnect. Have a great day, everyone.

Thomas A. Fanning
Chairman, President & CEO
Thanks, everyone.

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