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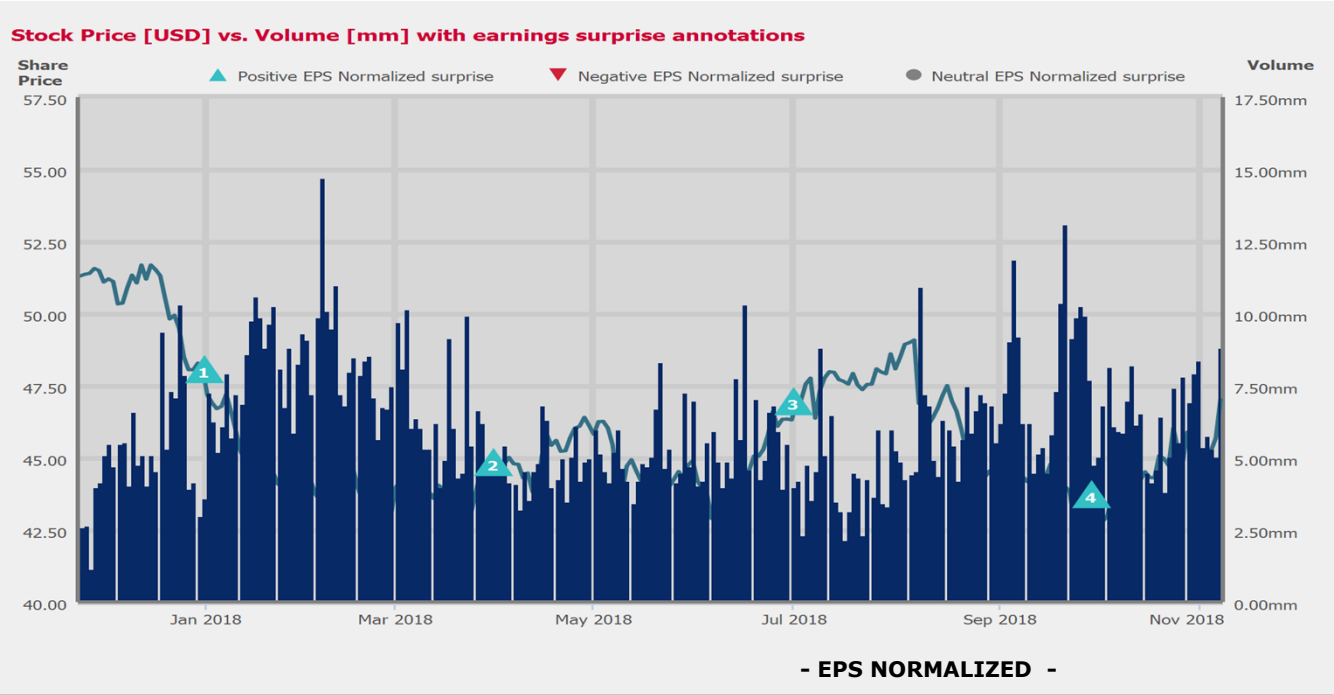
FQ3 2018 Earnings Call Transcripts

Wednesday, November 07, 2018 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2018-			-FQ4 2018-	-FY 2018-	-FY 2019-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.07	1.14	▲6.54	0.28	3.01	3.01
Revenue (mm)	6681.42	6159.00	▼(7.82 %)	4099.80	23055.06	22836.79

Currency: USD
Consensus as of Oct-29-2018 9:49 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2017	0.46	0.51	1 10.87 %
FQ1 2018	0.84	0.88	2 4.76 %
FQ2 2018	0.69	0.80	3 15.94 %
FQ3 2018	1.07	1.14	4 6.54 %

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Presentation

Operator

Good morning, ladies and gentlemen. My name is Bridget, and I will be your conference operator today. At this time, I would like to welcome everyone to The Southern Company Third Quarter 2018 Earnings Call. [Operator Instructions] Please note as well, ladies and gentlemen, that today's conference is being recorded Wednesday, November 7, 2018. I would now like to turn the call over to Mr. Scott Gammill, Investor Relations Director. Please go ahead, sir.

Scott Gammill
Head of Investor Relations

Thank you, Bridget. Good morning, and welcome to Southern Company Third Quarter 2018 Earnings Call. Joining me this morning are Tom Fanning, Chairman, President and Chief Executive Officer of Southern Company; and Drew Evans, Chief Financial Officer.

Let me remind you, we'll be making 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 the Form 10-K, third quarter Form 10-Q and subsequent filings.

In addition, we will present non-GAAP financial information on this call. Reconciliations to the applicable GAAP measures are included in the financial information we released this morning as well as our slides for this conference call.

The slides we will discuss today will be viewed on the 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 morning, and thank you for joining us today. As you can see from the materials we released this morning, we had a solid quarter. Our premier state-regulated electric and gas utilities as well as our competitive generation subsidiary Southern Power continue to perform well, and we remain on track to deliver adjusted results that are well above our original expectations.

While our financial performance this year is notable, we are particularly proud of our how our employees performed before, during and after the recent severe weather events.

The resolve and professionalism of our employees has never been more evident than as demonstrated through recent restoration efforts in Alabama, Florida and Georgia following Hurricane Michael.

Hurricane Michael was the strongest hurricane ever to come ashore in Northwest Florida, packing maximum sustained winds of 155 miles per hour and a powerful 14-foot storm surge that left devastation across the panhandle of Florida.

The destruction continued inland as Michael maintained category 3 strength as it moved into Georgia and Alabama, another first-time event. Immediately following the storm, more than 600,000 customers were without power across our service territories.

Storm restoration to customers of Alabama Power and Georgia Power was accomplished within 3 days of the storm.

For Gulf Power, the effort included similar results for the service area which could be restored. However, much of their system around the Panama City area had to be entirely rebuilt.

This rebuild effort was accomplished within 13 days, some 30 hours ahead of the estimated time to complete. This extraordinary effort was not only a testament to the hard work and dedication of over

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12,000 Southern Company personnel but also included the critical contributions of over 35,000 personnel from 27 states in Canada, who assisted with the restoration efforts. We owe these hard-working men and women a debt of gratitude for their commitment and personal sacrifice.

The successful collaboration of our public and private partnership with the Department of Homeland Security and Department of Energy resulted in what we would consider an historic textbook restoration effort.

Before I turn the call over to Drew for a review of our financial results, I'd like to first provide a few key updates.

First, an update on plant Vogtle Units 3 and 4. On August 21, the Georgia Public Service Commission voted unanimously to approve Georgia Power's VCM 18 filing for Vogtle Units 3 and 4.

Subsequent to that approval, Georgia Power filed its 19th VCM report beginning a review process, which is expected to conclude in February of 2019.

A full schedule for the VCM 19 proceedings is included in the appendix of the slide deck for this call.

Additionally, on September 26, all 4 Vogtle projects co-owners voted to continue construction on Units 3 and 4.

This commitment means that we will continue forward with the construction of the project, which is critical to Georgia's and our nation's energy future. While there have been and will be challenges, we remain committed to safely completing both units and maintaining constructive relationships with our partners along the way.

Let's now move on to the progress at the site. The revised total project capital cost forecast including contingency communicated in the second quarter earnings call remains unchanged, including no assignment of the contingency estimate.

We have continued to firm up subcontract costs and now have executed contracts for approximately 95% of estimated subcontract costs compared to approximately 2/3 as of our last earnings call.

Recall that the approved-in service dates for Units 3 and 4 are November 2021 and November 2022 respectively.

However, we continue to manage the site's plan work based on an accelerated completion dates of April 2021 and April 2022 for Units 3 and 4 respectively to preserve schedule margin.

While some weekly results were impacted by Hurricane Florence and Michael, we have otherwise seen sustained improvement in productivity since the site stand-down and reset in late July.

Since Bechtel became the primary construction contractor in October 2017, the cumulative schedule performance index and cost performance index are currently at 1.02 and 1.17 respectively.

More recent weekly performance at the site resulted in FPI in line with historical performance, and a significant improvement in CPI compared to long-term averages. We continue to view these 2 measures as the best indicators of performance at the site as they consider the collective impacts of productivity of the craft labor and staffing levels.

Productivity is a key element of the project performance in that it ultimately determines the number of resources that we will need to successfully complete the project.

Focus at the site on key schedule drivers including the ramp-up of craft labor, productivity, system turnover and continuing to build upon the workable backlog to ensure maximum productivity.

Most productivity improvements including weekly earned hours above 110,000 have come from the existing workforce.

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In fact, last week, we achieved 120,000 earned hours, a new site record. This compares to approximately 80,000 weekly earned hours prior to the site stand-down and reset this past July.

We're continuing efforts to ramp up staffing levels to meet the earned hours planned in the accelerating schedule. Our objective is to achieve and maintain those levels from spring 2019 through spring of 2020, as we approach Unit 3 hot functional testing.

We have several craft labor recruitment efforts underway, both domestically and internationally, and we are having success with the helping hands program utilizing other trades to augment the electrician workforce on site.

Overall, the project is approximately 71% complete, including 58% of construction. We've included a list of future milestones in our slide deck.

Since our last earnings call, all of our major milestones have been accomplished in support of our accelerated schedule on site.

Meanwhile, the Sandman 1 and Haiyang 1 units in China have both achieved commercial operation. Sandman 2 and Haiyang 2 are currently synced to the grid with commercial operation expected by year-end.

It is important to note that the startup process for the 4 units in China has gone and continues to go exceedingly well.

Lessons learned from China will continue to benefit our project.

Next, as an update to our ongoing initiatives to optimize sources of common equity, we have reached a definitive agreement to sell Southern Power's Mankato Energy Center to northern state power.

Recall that the Mankato facility consists of an existing one-on-one natural gas combined cycle with an expansion project that is currently in the late stages of construction and is expected to be in service by mid-2019.

The expanded 2 on 1 facility will have a total capacity of approximately 760 megawatts. Subject to customary closing conditions, we expect this transaction to close in mid-2019, be earnings accretive and offset approximately $400 million of equity needs for Southern Company. The total transaction value is $650 million. I'll now turn the call over to Drew for a financial and economic overview and an update on our existing initiatives.

Andrew William Evans
Executive VP & CFO

Thanks, Tom, and good morning, everyone. The Mankato transaction Tom mentioned is another great example of our ability to efficiently source capital to mitigate our broader equity needs.

We are also pleased to announce, consistent with previous investor communications, that we have executed the third-party tax equity financing arrangement for substantially all of Southern Power's existing wind portfolio.

This transaction, which we expect to close before year-end 2018, provides $1.2 billion of total proceeds while retaining our important ownership position in a premium carbon free win portfolio. The transaction is expected to be EPS accretive and would offset approximately $1 billion of equity needs for Southern Company.

We also continue to work through the regulatory approval process at FERC for the sale of Gulf Power and Southern Power's plants Stanton and Oleander.

While Gulf Power's most recent priority has been the restoration efforts in the wake of Hurricane Michael, we currently expect to close both transactions during the first quarter of 2019.

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As a reminder, our initial forecast of post-tax reform equity needs for 2018 through 2022 was approximately $7 billion.

We have successfully reduced our projected equity need for this period by more than $4 billion through our proactive efforts to optimize equity sources.

Additionally, we have already issued approximately $1 billion of equity through our internal and aftermarket programs through October of this year.

Net of the incremental equity for Vogtle that we announced last quarter, our projected remaining equity needs from now through the end of 2022 are only $2.4 billion.

We will continue to be thoughtful and strategic as we fulfill these needs.

Now for an update on third quarter earnings results. As you can see from the materials we released this morning, we've reported earnings for the third quarter of 2018 of $1.14 per share compared with earnings of $1.07 per share for the third quarter of 2017.

For the 9 months ended September 30, 2018, we reported earnings of $1.92 per share compared with earnings of $0.35 a share for the same period in 2017.

Excluding the charges associated with construction projects, wholesale services earnings and other items described in our earnings call material, earnings for the third quarter of 2018 and the 9-month period ending September 2018 were $1.14 and $2.83 per share respectively.

These results compared with adjusted earnings of $1.12 and $2.51 per share for the same period since 2017.

We note the excluded items in our earnings call materials, which include acquisitions, dispositions and integration impacts as well. Major earnings drivers to our adjusted results for the third quarter and year-to-date 2018 include the positive effects of constructive regulatory outcomes and weather at our state-regulated utilities, somewhat offset by increased depreciation and amortization and interest expense.

We have also been successful in holding our O&M expense flat year-over-year at our state-regulated utilities as we continue to work each day to operate more efficiently.

Our generation system load was 4% higher in the third quarter of 2018 compared to the third quarter of 2017, primarily due to warmer than normal temperatures in September and despite the impacts of Hurricane Irma -- or including the impacts of Hurricane Irma in September of 2017.

The third quarter of 2018 also represented a record high for gas generation and the lowest level of coal generation in more than 15 years.

Year-to-date, 2018 gas generation represented 48% of the generating mix with a high of 52% in September 2018.

This represents the highest monthly level of natural gas generation in our history.

At recent gas price levels, our natural gas units are displacing virtually all of our coal units in the dispatch curve.

Moving now to the economic review of the third quarter, the Southeast economy continues to expand at an attractive base. Our combined business territory continues to see slightly faster population growth than the nation, boosted by a net in-migration, particularly in Georgia.

Job growth in Southern Company's electric business territory of 1.8% is also outpacing the national average. The key driver of our sales growth in this quarter is our strong residential customer growth for both electric and gas at a rate of 1% with Georgia leading the way.

Manufacturing activity in the Southeast electric footprint remains solid and most of our large industrial customers continue to report increases in new orders in production.

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Absent maintenance-related outages at some pulp and paper production manufacturing, which utilize on-site cogeneration, we saw positive trends and momentum in industrial consumption broadly across the top 10 industrial categories that we follow, which include segments like chemicals and primary metals.

The economic development pipeline in Southern Company's business territory remains robust, despite a modest decline in the total number of active projects.

So far this year, we've seen a decline in the number of jobs announced down 8% versus this time last year, but a very solid increase in business investment, which is up 29% compared with last year and in line with national trends.

Before I turn the call back over to Tom, I want to provide our outlook for the remainder of 2018. We estimate that Southern Company will earn $0.23 per share in the fourth quarter, which would result in full year performance at the very top of our revised adjusted EPS guidance range.

Remember, we increased our guidance on the second quarter call to $2.95 to $3.05 per share. Our original adjusted EPS guidance range for 2018 was $2.80 to $2.95 per share.

Our current year-end guidance implies an adjusted result that is 6% above the midpoint of our original guidance range, driven primarily by cost control, weather and constructive regulatory outcomes in our state-regulated businesses.

Our projected long-term EPS growth trajectory of 4% to 6% remains unchanged. This growth trajectory is based off the midpoint of our original 2018 guidance range of $2.87 per share. Tom, I'll now turn the call back over to you for some closing remarks.

Thomas A. Fanning
Chairman, President & CEO

Thanks, Drew. As you can see from today's results, we continue to execute across our businesses, and we're well positioned to deliver on our goals for 2018 and beyond. We demonstrated the constructive nature of our state regulatory environments earlier this year as we delivered significant benefits to customers resulting from tax reform, while at the same time maintaining the credit metrics of our state-regulated businesses.

For the incremental equity required to meet these plans, we executed in an outstanding manner through earnings accretive asset sales.

Additionally, the economy within our service territories remain strong with in-migrations and employment driving customer growth.

As always, it is our customer-focused business model with emphasis on outstanding reliability, best-in-class customer service and rates well below the national average that remains the cornerstone of our company, and a key driver of long-term value to Southern Company's shareholders.

Our commitment to delivering energy and energy solutions to customers includes conserving and protecting the environment for today and for future generations.

This progress is evidenced by our successful reduction of greenhouse gas emissions by over 35% since 2007. We understand the importance of engaging with all of our stakeholders in a productive transparent conversation about how we safely manage risk while delivering shareholder value and growth.

Our goal of low to no carbon future will continue to inform our planning processes in the near future. We also continue to seek ways to improve our interim benchmarks as we progress towards our objective of a low to no carbon future.

Southern Power also continues to execute on its plan to deploy capital into value accretive carbon free-renewable projects. The 150-megawatt Cactus Flats Wind Facility in Texas reached commercial operation in July of 2018. The output from this facility is fully contracted through long-term purchase power agreements with General Mills and General Motors.

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Additionally, Southern Power recently announced the 200-megawatt Reading Wind facility in Kansas, with a 12-year power purchase agreement with Royal Caribbean Cruise lines.

Let's now move on to the midterm elections. We watched last night's election results with much interest. No matter who is in office, we share a strong sense of purpose to our shared constituents all over the United States by providing clean, safe, reliable and affordable energy to the customers we are privileged to serve, we provide an unassailable advantage in a globally competitive worldwide economy.
We remain focused on demonstrating superior performance across all our businesses. As we look ahead to our fourth quarter call in February, in addition to sharing our 2019 annual EPS guidance and an update on Vogtle 3 and 4, we will also update our 5-year capital forecast, including expected ash pond closure cost and capital initiatives at our state-regulated utilities to improve service and lower operating costs.
We certainly appreciate your continued interest in Southern Company and are now ready to take your questions. Operator, we'll now take the first question.

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Question and Answer

Operator

[Operator Instructions] And our first question comes from the line of Greg Gordon.

Gregory Harmon Gordon
Evercore ISI Institutional Equities, Research Division

So is it right that Chuck Eaton and Tricia Pridemore won the election last night? I'm looking online and it says they were ahead, but I didn't see that there were any firm figures in yet.

Thomas A. Fanning
Chairman, President & CEO

Yes. There's still some ballots to be counted. In order to avoid a runoff, they've got to be above 50%. Right now, I believe, Tricia Pridemore is above 50%. Chuck Eaton, I think the latest tally has him very slightly below 50%. But still with absentee ballots uncounted. We'll just have to see how that turns out. If there is a runoff, it would be, I think, December 4.

Gregory Harmon Gordon
Evercore ISI Institutional Equities, Research Division

My second quarter is on a completely different subject, on Vogtle. Based on the current construction schedule, when does the packed construction spending and intensity of labor demand at the site actually peak in terms of time horizon and you start to see declining spending and declining levels of employment at the site? When are we at peak construction?

Thomas A. Fanning
Chairman, President & CEO

Yes, I want to say we are adding about 100 people per month through, what, February?

Andrew William Evans
Executive VP & CFO

Right.

Thomas A. Fanning
Chairman, President & CEO

And then it lasts about a year. There's kind of big plateau up there. And then it will ramp down starting in February of 2020.

Operator

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

Jonathan P. Arnold
Deutsche Bank AG, Research Division

Just picking up on what you just said to Greg. I'm looking back at what you said last quarter, I think you said your schedule was to hit peak labor in November. So are you now sort of -- is that target now a little more like spring of next year? And if that is a shift, can you just explain how that sort of fits within the broader Vogtle schedule discussion?

Thomas A. Fanning
Chairman, President & CEO

A number of factors in play. And one of the first things you should recognize is that kind of the optimal staffing curve is always a little bit of a moving target. Witness the productivity increase that we got on

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site moving from kind of pre-stand-down 80,000 hours a week. We've actually achieved 120,000 hours achieved the last week with actually fewer personnel.

So we're able to manage kind of how much increased staffing we'll need by what our productivity assumption may be. Further, there's a whole host of other things at play. I think we mentioned this helping hands idea.

A lot of what's going on right now involves kind of setting up cable trays and pulling cable on-site. Ultimately, you have to connect that cable. One of the things we've thought about is the original projections assume that electricians would handle most of that work. Through the helping hands initiative, we can we resegregate -- resegment the work, so that other craft labor can participate in that activity. That obviously has an impact on how many electricians you will need. Ultimately, we do need more electricians on site, and we have aggressive plans in place. We continue to work with the Department of Labor. We continue to think about different ways to reduce absenteeism and attract new labor from around the region.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

So can you give some specifics on how many new people you need versus what you've done so far or just some numbers around that?

Thomas A. Fanning
Chairman, President & CEO

Yes, sure. I think since -- if I remember this right, we had probably May through June 4,100 direct craft. Post the reset, we actually reduced the number of craft on-site. That went down to about 3,700 right, and we've been adding some people now here lately. I think last week we added 40 people.

Right now we have 3,850 on-site. And what we would like to do by February to March is have somewhere in the 4,500 region. So if you add 100 per craft, that gets you to that kind of number.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

So about 650 up from where you are today is the rough number.

Thomas A. Fanning
Chairman, President & CEO

Sure. And like I said, there's going to be a little.

[Audio Gap]

bit of a moving target there, but that's right.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

Okay, just from memory that's probably similar [deficit].

Thomas A. Fanning
Chairman, President & CEO

Similar, yes, I wouldn't quibble about that.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

And just one final thing, there was a number earlier in the year. I think it may have been the independent monitor's number that you needed to -- at some point you'd need to get to 140,000 hours a week. And

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it's obviously good to see you getting within shot of that. But is that a number that was -- is that your number? Or was that more staff number and you've got the right targets?

Thomas A. Fanning
Chairman, President & CEO

Yes, yes, you got a great memory. So let's just kind of go through the numbers. So if we hit 120,000 kind of for duration, we believe we'll be able to satisfy the schedule at November. Of course, we'll use up a lot of our scheduled contingency, essentially getting above 120,000 to 140,000. Or if we could do it even better than 140,000 to 150,000 or even 160,000. What that does is increase our schedule margin, and that's something we're pursuing with great haste. But those numbers you're remembering are correct.

Andrew William Evans
Executive VP & CFO

Yes, just to emphasize that the 140,000 was related to the accelerated schedule, which would put us in service and preserve margin. But it's the April time frame as opposed to the November commitment that we've made statewide.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

From what I'm hearing that's probably the type of number we should focus on perhaps more than headcount, for example.

Thomas A. Fanning
Chairman, President & CEO

Yes. That's exactly right. So here's the thing, we're very gratified with the improvement in productivity that allowed us, with fewer people, to increase our hours up to 120,000. I must say, and we push our people around a lot in our meetings, it's -- I think the ability with that level of staffing to get more productivity, starts to get a little limited. Our key to success in getting more margin now will be getting more people. You're right to focus on the numbers of hours because that's ultimately what matters; getting work done on the site. We do think we need more people on-site now.

Andrew William Evans
Executive VP & CFO

More people, but in absolute terms, I don't know that we include as a part of our 3 cornered hat. We do still believe that CPI and SPI, which measured the productivity and the cost of that labor -- the cost of that labor being produced, probably are better measures for us in aggregate.

Thomas A. Fanning
Chairman, President & CEO

That's right because all that matters is hours worked. I'm just saying at least productivity levels -- at these productivity levels, we need more people.

Andrew William Evans
Executive VP & CFO

Yes.

Operator

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

Steven Isaac Fleishman
Wolfe Research, LLC

So just one question just on the guidance. So if you basically just take the 287 days that you mentioned and grow at the 4% to 6% in 2019, you'd be back to essentially what you're earning in 2018 at the high

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end. So just is that mainly explained that the 2018 upside has mainly been the favorable weather? Or how should I think about that?

Andrew William Evans
Executive VP & CFO

Yes, Steve, I would say that partially. So if we compare weather, it's about $0.08 improvement relative to what our normal expectation would be. But I think the balance of your math is correct. A good portion of our benefit is still coming from productive state regulatory reform and usage in customer growth.

Thomas A. Fanning
Chairman, President & CEO

And recall when we went out with that original guidance, a lot of that was on the basis of 7 million shares associated with preserving the credit metrics with tax reform. What we've been able to do through these asset sales is essentially avoid now over 4 million shares. So the shares avoided certainly has a pickup in '18 relative to what our original estimate was.

Andrew William Evans
Executive VP & CFO

Steve, I'd say to do your math -- more directly -- to answer your question more directly, if we take the $3.05 and back out about $0.08, we're still significantly above the top end of our initial guidance range, and it's because of the factors we talked about.

Thomas A. Fanning
Chairman, President & CEO

And O&M, we've done a really good job keeping O&M flat.

Andrew William Evans
Executive VP & CFO

That's right.

Steven Isaac Fleishman
Wolfe Research, LLC

Okay, so just the obvious question then is, why does that not imply better than 4% to 6% after that? Or why are you going back to the same base of 287 for your growth rate?

Thomas A. Fanning
Chairman, President & CEO

Well, recall you got the regulatory structure at Georgia. So as we go through 2019 and '20 moving to in-service of '21, we have effects there through the earnings rate, which we've always kind of talked about, that it would kind of be flattish a little bit, but within our 4% to 6% growth off of 287.

The other thing we have is when we think about the effects of selling Gulf Power or Florida City Gas or Elizabethtown or Mankato, we have a net effect. We had originally planned for taking some of the 7 million shares in the form of something like [convert]. Well, we kind of planned that in 2019 and we may do that similar thing, but it's a less of an effect in 2019. All the positive accretion we see from those deals will likely start to show in 2020 and 2021. I think we're going to see all -- the lion's share of the accretion in those 2 years particularly.

Andrew William Evans
Executive VP & CFO

Plus a little bit of added retention for credit quality related to a couple of [branches].

Thomas A. Fanning
Chairman, President & CEO

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Yes.

Steven Isaac Fleishman
Wolfe Research, LLC

Okay, that all makes sense. Just a couple of other quick ones. On Mankato, I recall you bought that for like $400 million, and then you've had to finish the expansion. So what's the $650 million relative to your investment?

Andrew William Evans
Executive VP & CFO

So couple of hundred millions invested in the expansion to Mankato, the total invested today is about $580 million.

Steven Isaac Fleishman
Wolfe Research, LLC

And when it's fully done, is it going to be about that $650 million or is that...

Andrew William Evans
Executive VP & CFO

The $580 million.

Steven Isaac Fleishman
Wolfe Research, LLC

About $580 million is fully done. Okay. And then just one other question in terms of kind of investor-friendly actions like Mankato. What's the sense that maybe there might be more of those to do over time? Or over the, let's say, the coming year? Or have you kind of exhausted them, you think?

Thomas A. Fanning
Chairman, President & CEO

No, no. There's plenty of opportunities to do more. We try to be very judicious and strategic in how we exercise these things. But there's certainly more on the pallet of opportunities.

Operator

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

Khanh L. Nguyen
Crédit Suisse AG, Research Division

Actually, this is Khanh for Michael. So just following up on Steve's question there. You say there's a lot more opportunities there. But is there a level of earnings contribution from Southern Power that you'd target or you'd be comfortable with going forward? Given all the sale of Gulf Power.

Thomas A. Fanning
Chairman, President & CEO

Say that again, I'm sorry, your question?

Khanh L. Nguyen
Crédit Suisse AG, Research Division

The level of earnings contribution from Southern Power to the overall EPS?

Thomas A. Fanning
Chairman, President & CEO

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Yes, sure. A variety of things here. We have been in the low-300s for some time at Southern Power. As we think about the difference, we have remixed. So a lot of that earnings in the past, I don't know, 2 to 3 years was ITC related from solar. And so you got these big pops. We've intentionally, and I think we have some information in our slide material, transitioned from the kind of single year -- people are shaking their heads at me on that on the slide material. But we've transitioned away from kind of the onetime pops to more the 10-year production tax credit associated with wind.

So here is kind of where we think Southern Power ends up. And that is earnings in kind of the low-200s, growing at 5% to 10%.

And we really think also that's a function of the market. When we saw tax reform occur, and we started hinting at this some last year, we really refocused growing a lot of earnings outside the state-regulated utility franchises, both electric and gas.

And right now what we see is, when you think about Southern's earnings, something like 95% of Southern's earnings come from our state-regulated electric and gas franchises. That's where we think the best opportunity to grow the business is, and we think it's a very attractive risk return proposition.

Khanh L. Nguyen
Crédit Suisse AG, Research Division

Yes, that's great. And also, I'll follow up on the smaller topic, the PowerSecure. At this point, do you have any thoughts or comments on Bloom's ability to execute on their projects and permits?

Thomas A. Fanning
Chairman, President & CEO

I won't execute -- I won't comment on Bloom broadly. I'll say this, we've had a terrific relationship with Bloom. And where we have deployed the Bloom technology, along with our own proprietary storage and switchgear, we've had a terrific experience and the customers love it.

More broadly about PowerSecure, I think -- I haven't seen the final numbers on Michael. But for Irma and a variety of other of these storms, PowerSecure customers have been able to maintain operability during these worst of times, at like a 98% availability level.

It's been a terrific business, and you know what I say frequently on the stump is, Southern has been such an iconic company for so long, and we have such great franchises and such a great customer base. It is, however, I think, this kind of inexorable change where because technology enables it, and because customers requiring it, I think this old 100-year old model of make, move and sell at a central station, asset concentrated level, may in fact start to dissipate over time. And that's why we did the acquisition of PowerSecure. And I think what also was notable, if you look at the recent business of Southern Power, we grew up on selling the IOUs and munis and co-ops. And lately we've been selling long-term renewables to people like General Mills, General Motors and Carnival Cruise lines. So what we're seeing is an intersection of interest, particularly in the commercial and industrial sectors, between what Southern Power is now doing, and what PowerSecure is doing. Add to that our fuel management capabilities at places like sequin, we think that we not only can play well but in fact influence how distributive infrastructure may occur in America. So it's a very exciting -- it's a very small bet, we've always said that but it's a very exciting option that we've made.

Operator

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

Julien Patrick Dumoulin-Smith
BofA Merrill Lynch, Research Division

I wanted to follow up a little bit on Southern Power just to clarify a couple of things. What's the implied P/E multiple on the latest sale? And how do you think about again like the accretive equity? I mean, just to come back a little bit to Steve's question, how much could you cumulatively, if you think about eligible assets, kind of displace of that remaining equity need, if you think that what's on the table here?

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Andrew William Evans
Executive VP & CFO

So Julien, this is Drew. I would start by saying, there's not really a good multiple that I could describe to you because it's not a plant in service, and so you're probably better triangulating it off of something like dollars per kilowatt. And we think it's a very fair market transaction and something that would be good for Northern States power. Your second part -- second part of your question was really what else resides in the portfolio, and I think we've got to take a look at each of the individual assets one-by-one; assess their importance to the Southern portfolio to our business partners that are municipal and corporative load aggregators within the state, and we'll just continue to look at them one-by-one. And we have -- I think we've shown a strong preference for being -- for participating in the construction of wind and solar assets. We want to continue to do that. We've probably optimized from a tax perspective against those 2 asset classes and that's why you see movement now on something like Mankato, which is out of the gas portfolio.

Thomas A. Fanning
Chairman, President & CEO

Yes. And we try to be very kind of dogmatic about M&A. I know I have been answering M&A question since even when I was CFO, but we try to have as much discipline about buying as we do selling. And a lot of times when you think about M&A, in the asset space, as Drew mentioned, it's who's the best owner. Who can think about deriving synergies to improve their bottom line, or who can blend that operation into their business to reduce risk. Those are kind of the ways we create value here. We think there's plenty more opportunities, and we'll see how they turn out.

Andrew William Evans
Executive VP & CFO

Just a little follow-on, as I thought more about the wind portfolio, I think the current tax equity transaction represents sort of 8 of the facilities within the portfolio, and we will have continued construction and some other assets that would qualify under a very similar construct. And so those will also be avenues for us for capital raise without disposition of asset.

Operator

Our next question comes from the line of Anthony Crowdell of KeyBanc.

Anthony Christopher Crowdell
KeyBanc Capital Markets Inc., Research Division

Hopefully 2 easy questions. One is just a housekeeping item. The $0.10 you took for tax reform in this quarter, is that a timing issue that backs out the fourth quarter? Or we shouldn't see a reversal of that?

Thomas A. Fanning
Chairman, President & CEO

No, you won't see a reverse. That's an ongoing matter. And remember, just broadly too, when we saw tax reform, essentially -- and I got that question also on -- or I guess, I created the question on the CNBC this morning -- it showed that our revenues missed, even though our bottom line was way up, our revenues was off by 0.7%.

We think that's a function of tax reform. In other words, what we did was reduce rates. And about the rough math was about 2/3 of the benefit went into rate reductions, 1/3 of the benefit was captured to support higher equity ratios, which in fact preserved our credit quality, our debt coverage ratios.

So if I had to kind of think about it, it's an ongoing benefit of 2/3 of any dollar of tax reform benefit go to customers.

Andrew William Evans
Executive VP & CFO

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And I think in this particular circumstance, there -- $0.10 but that nets from $0.22 worth of benefit. And so it is something that -- that is the functioning of how it will be forever.

Anthony Christopher Crowdell
KeyBanc Capital Markets Inc., Research Division

Great. And then it's probably just more of a primer on the 2 indexes you're using for Vogtle on Slide 31. So when you talk about an SPI of 1.02, does that mean you're getting 2% more hours done than what you planned? Is -- I'm just trying to understand, how should I look at SPI and CPI?

Thomas A. Fanning
Chairman, President & CEO

Yes. That's wonderful stuff. So in general, what you should look for on schedule, the SPI, is essentially 1 equals April. And what is it 1.2 or so equals November, somewhere around there.

Anthony Christopher Crowdell
KeyBanc Capital Markets Inc., Research Division

So does that mean that you're ahead of schedule?

Thomas A. Fanning
Chairman, President & CEO

It means, I think, we are on pace for our April kind of aggressive schedule. Now the real key to that, Anthony, is thinking about how we're able to keep pace on staffing at the site. Let me just review that again, at about the 120,000 level, 120,000 hours per week, what we are able to do we think is hit the November schedule, okay?

But we would do that without margin. So what we're trying to do is increase hours worked per week above 120,000. And I think it was Jonathan that remembered the 140,000, we could go 150,000, 160,000. But anything we do above that level increases our margin and enables us to better hit a more accelerated schedule, which right now we're planning for April, not November.

Anthony Christopher Crowdell
KeyBanc Capital Markets Inc., Research Division

And that accelerated schedule we should see the SPI rise like 1.05? Or is that a fair understanding of it?

Thomas A. Fanning
Chairman, President & CEO

No, sir. If we are not able to keep pace on getting staffing up to 140,000 by, I don't know, February, something like that, then we'll have less margin. The 1.0 would be April. So maybe instead of kind of April, you would end up with May or June or something like that. A lower number on SPI is better, okay? And the whole staffing and the whole hours worked per week is all an objective to increase margin against the regulatory schedule of November.

Operator

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

Paul Basch Michael Fremont
Mizuho Securities USA LLC, Research Division

I guess, my first question is relates to sort of Mankato. I'm still trying to understand the difference between the cash that you're getting through the door and the reduction in your equity need. Why wouldn't the reduction in your equity need be at least the $580 million, which is your cost basis in the plant?

Andrew William Evans
Executive VP & CFO

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So if you remember, it's capital based asset, so we've acquired a couple of years ago. There is some depreciation associated with that asset and so the delta is really just reflects what the current tax basis is.

Paul Basch Michael Fremont
Mizuho Securities USA LLC, Research Division

Okay. So the difference is -- the difference between $650 million and the $400 million is all tax driven?

Andrew William Evans
Executive VP & CFO

That and we also rebalanced our capital structure so that we meet our FFO to debt targets. And so a portion of the proceeds will be used to pay down debt.

We try to do all of this -- try to couch all of our sales based on equity reduction knowing that some point that the proceeds will be used for both purposes, repayment of debt and reduction of equity needs.

Thomas A. Fanning
Chairman, President & CEO

And recall the whole $7 billion that we've been targeting is really at a thicker equity ratio for the company in general, which gets us back to the coverage ratios at the Southern level.

Paul Basch Michael Fremont
Mizuho Securities USA LLC, Research Division

Okay, so it also relates to your attempting to hit some target of FFO to debt, which I assume is in the 15% range?

Thomas A. Fanning
Chairman, President & CEO

That's correct. $650 million.

Paul Basch Michael Fremont
Mizuho Securities USA LLC, Research Division

And then how much -- what was the weather year-to-date relative to normal?

Thomas A. Fanning
Chairman, President & CEO

About $0.08 in total.

Paul Basch Michael Fremont
Mizuho Securities USA LLC, Research Division

Okay. And then at Southern Power, in order to grow the 5% to 10%, how much of that sort of -- I think you've identified up to $500 million of incremental investment that's not in your CapEx numbers. How much of that do you need to do? Or is all of the growth coming from tax equity transactions, which are not affecting your cash outlays?

Thomas A. Fanning
Chairman, President & CEO

Yes, let's review the bidding there. In the kind of the prior numbers we gave you, was a $1.5 billion a year, is what we're looking at it. And we've ratcheted that back to about $500 million a year. When you look at the 2 ranges we just gave you growing at 5% and growing at 10%, the $500 million a year will get us to the 10% number, kind of no growth keeps us -- no incremental growth gets us at the long-term 5% earnings flow.

Paul Basch Michael Fremont
Mizuho Securities USA LLC, Research Division

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So that's no incremental capital gets you to the 5%?

Thomas A. Fanning
Chairman, President & CEO

Right. That's it.

Paul Basch Michael Fremont
Mizuho Securities USA LLC, Research Division

And does that incorporate some assumption of transactions that you're doing on the tax equity basis or not?

Thomas A. Fanning
Chairman, President & CEO

It assumes what we've announced, in other words, the solar, the wind but nothing further. We'll evaluate tax equity going forward. We're eating pretty dramatically into any kind of carry forward position we have. And so we'll assess going forward whether we want to do tax equity or just carry the production tax credits ourselves.

Paul Basch Michael Fremont
Mizuho Securities USA LLC, Research Division

And then last question for me, the -- you indicated that you're done with respect to equity for the year. So can we use the ending share count at the end of the third quarter as the ending share count for the year?

Andrew William Evans
Executive VP & CFO

No, I don't think that's probably fair. We have drip and dribble that still continue through balance of year. The ATM is the one that we would -- may modulate based on our expectations and our success really in raising capital in these methods. But we still have to preserve all the options that we've got through the balance of the year.

Thomas A. Fanning
Chairman, President & CEO

Yes, and it's really not just the balance of the year, it's everything. Because we'll look at other investor-friendly options, et cetera. So we'll balance all that together.

Operator

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

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Tom, Andrew, just wanted to clarify a few points. One on Mankato, just to be clear, when the plant is fully running with the expansion complete, et cetera, what's sort of the annual net income that would go away now that otherwise would have been flowing through the Southern numbers?

Thomas A. Fanning
Chairman, President & CEO

Ali, I'd just have to get back to you on it. I don't recall with the projection was. I should probably know it but don't. Something we can talk to you about in the post call.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Okay, but to be clear, when you all talk about Southern Power's base of below $200 million number, that includes both the tax equity transaction as well as Mankato? Or is that requiring further adjustments?

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Thomas A. Fanning
Chairman, President & CEO

No, it includes all of those effects.

Andrew William Evans
Executive VP & CFO

Ali, the only thing I'd say is that the Mankato sale is generally accretive to us.

About $0.01, and so that's the other way to triangulate his answer to the first question you asked.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

And then secondly, if I recall correctly, you folks have been budgeting your outlook overall at a flattish sort of low-growth profile. And as you've been pointing out you're running at about 1%. Does that change your outlook? And if I recall, 1% pickup, all else being equal, is about an incremental $0.06 of annual earnings. Is that a fair way to think about this?

Thomas A. Fanning
Chairman, President & CEO

Yes. I don't know whether you saw my little appearance on the TV this morning. Look, the numbers we're showing this quarter are really at the top of what we've been talking about for some years now, 1.4% of growth quarter-over-quarter in retail sales, 2.4% in industrial, 1% growth in customers. Look, these are all really good numbers. I would just throw a wee bit of caution on all that optimism. With my work at the Fed and everything else and our own analysis, we do look at something that I call momentum numbers. And I'm seeing momentum that looks kind of flat. That is you still may be positive quarter-over-quarter, but if you're less positive, I call that a negative.

The momentum numbers would indicate that there is a bit of a pause in the economy and absent any positive action, we could see those numbers go back down a bit.

What could unleash it? I think what we're seeing in the good numbers is the effect of tax reform and lower regulation, and so people are investing in their businesses. But they're doing it largely in their current sites or expanding a current site. I think there is another wave, but that wave is being suppressed right now through kind of long-term concern about the tax war, skirmish, whatever phrase you want to use. If we could resolve some of that uncertainly in the worldwide economic market, I think there is another breath to take on continued economic expansion, which would really help those numbers. That's kind of what I'm seeing right now. But boy, if you look at our manufacturing numbers for example, Drew, virtually all of them are positive.

Andrew William Evans
Executive VP & CFO

Certainly, on the industrial side too, strong segments across all 10 segments.

Thomas A. Fanning
Chairman, President & CEO

And because job -- our job growth is great, unemployment rate is still low, people will come to the Southeast to get jobs, and we've continued to deliver jobs to the public. It's a really good dynamic right now. I just want to throw just a little bit of caution on it.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Understood. And then one last one. If I recall correctly from your prior equity plans, I believe the goal was to raise about $1.4 billion of equity in 2018, I know you've done about $1 billion through October. Is that still the target we should be assuming, $1.4 million for the year?

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Andrew William Evans
Executive VP & CFO

It really does move through time and the goal is through 2022. I think we've done some very proactive things now with the sale of Mankato and being able to get $1 billion sort of equity off. We will -- I want to be able to preserve our options for the balance of the year. The dividend reinvestment plan will still be functioning and the ATM is still open. But I don't know if I'm answering your question directly. I think we will continue to issue shares at least in some form through the balance of the year.

Thomas A. Fanning
Chairman, President & CEO

But we're hold on the ATM.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Right, and just to clarify, Drew, your annual capacity to generate equity through the internal programs is how much? And how much has been done through the 9 months?

Andrew William Evans
Executive VP & CFO

$500 million or $600 million per annum through all programs really, options and dividend reinvestment.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Right, and how much have you done so far?

Andrew William Evans
Executive VP & CFO

This year?

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Yes.

Andrew William Evans
Executive VP & CFO

3/4 of that amount. It's a pretty straight line to those 2 programs. The only options really are variable, and we can't control the exercise of. But reinvestment really is the principal one, and so the next -- that happens as dividends are declared and paid.

Operator

Our next question comes from the line of Andrew Weisel of Scotia Howard Weil.

Andrew Marc Weisel
Scotia Howard Weil, Research Division

You covered just about everything. I guess maybe just one last one I want to ask about, the O&Ms. I believe you said you've been happy with what you've been doing year-to-date, and that's been driving the upside to this year's numbers. My question is how do you think about the cost savings you've seen as being structural and recurring in the future years versus sort of onetime savings that might not repeat in 2019 and beyond?

Thomas A. Fanning
Chairman, President & CEO

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No, these are structural. Look, we've been working on something called modernization here. And the whole idea is we're making investments in our business largely technology driven, I would say otherwise kind of environmental driven, the ash pond work, a variety of other things. And what we're able to do is, for example, through technology provide customers, which -- with like a 4x greater point of presence, while reducing the fixed assets in the field through investments in local towns and a variety of other things. So we've actually been able to improve customer service and create structural reductions in O&M. Georgia Power clearly has been a leader in that, and we think those things are sustainable around the clock here at Southern and there's more to go. So we'll keep working on it.

Andrew Marc Weisel
Scotia Howard Weil, Research Division

It's probably fair to say that the results will vary by franchise, and we are in different states of maturity in each. But the goal really is to grind inflation ultimately out of the business in aggregate, and see if we can't do more of that from the parent, and then really as an offset to a lot of capital that needs to be invested into rate based into the franchises?

Thomas A. Fanning
Chairman, President & CEO

And some of that sounds kind of ominous. But if you look at Georgia Power by reducing kind of capital in the field and investing in technology in this multiplication point of presence, they were actually voted the most trusted electric utility in the United States last year. We can improve customer service and at the same time take costs out of the business.

Andrew Marc Weisel
Scotia Howard Weil, Research Division

But just to clarify in that, you talked on the last call about finding income generating CapEx opportunities. Should we think of these as being a net increase or decrease to CapEx? I know we'll get more details in the next call. But directionally, how does that get out?

Thomas A. Fanning
Chairman, President & CEO

No, it's an increase in CapEx. The objective will be take O&M down, increase CapEx, keeping rates constant, all other things being equal.

Andrew Marc Weisel
Scotia Howard Weil, Research Division

Got it. Okay, then lastly the 4% to 6%, what does that assume for O&M over the long-term period?

Thomas A. Fanning
Chairman, President & CEO

It assumes a regular growth rate of like 3%. But as Drew said, we're not going to be satisfied with growing O&M at 3%. We're going to grind it away to 0, is what we're hoping for.

Operator

And our next question comes from the line of Michael Lapides of Goldman Sachs.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Real quick, when you look at your generation fleet across the different subsidiaries, where do you think the greatest opportunity is for fleet transformation? Meaning the potential for incremental coal retirements, the potential for significant growth in either solar or gas-fired generation or a combination of both.

Thomas A. Fanning

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Chairman, President & CEO

Yes, sure. We're selling our -- I think it's our most heavy coal generator is Gulf Power. NextEra is buying them. We have been -- Georgia Power has been a leader in United States. In fact remember, they were voted the #1 investor-owned utility by the solar industry. They have the largest voluntary solar program in the United States. My sense is solar will continue to be in favor in the portfolio with Georgia. And even Alabama, we now see wind, we see some solar and we continue to rethink opportunities in gas. So Mississippi is really pretty small. But when you think about our whole portfolio now, what you see is a growing trend as we complete Vogtle, maintaining nuclear, growing gas with the influence of coal over time dissipating. That's the trend you should see.

Much more renewables. Before I got here we were 0 on renewables. Now across our fleet, including Southern Power, we are around 10%. That's for a company that produces as much energy as the nation of Australia, roundabout. That's a pretty big move.

Operator

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

Praful Mehta
Citigroup Inc, Research Division

So maybe first touch on the way you're measuring EPS accretion as you talk about these different transactions. What is the baseline for that? Is it assuming a baseline with some equity issuances? Or just so I understand, what is the basic issuance against which EPS accretion is being measured?

Andrew William Evans
Executive VP & CFO

Yes, that's effectively it. So we're looking at our -- the projection for net income for the underlying asset, the effects for us on EPS a share, earnings per share. We're really looking at the income relative to the cost of avoiding issuance of new equity.

Thomas A. Fanning
Chairman, President & CEO

Yes. So you lose net income, but you don't have the shares. And if the sales price is beneficial, you've got accretion.

Andrew William Evans
Executive VP & CFO

The simplest form of this is sort of the after-tax proceeds on a per share basis relative to our own share price, although that varies with tax position and basis in the underlying asset. But it's -- that's the calculation.

Praful Mehta
Citigroup Inc, Research Division

I got you. So the -- some assumption that went into what price at which you would issue the equity kind of drives a little bit of the analysis as well.

Thomas A. Fanning
Chairman, President & CEO

It does, it does.

Praful Mehta
Citigroup Inc, Research Division

Got you. All right. And then maybe just want to touch on one of the points you made earlier, which was on the tax equity side. The points you made was I think you want to hold off of doing too much more

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tax equity. I didn't really understand the reason why. If you could just clarify why. Is there's any kind of constraint on doing more tax equity or not?

Thomas A. Fanning
Chairman, President & CEO

Oh, no, no constraint at all. The issue is, we just look on a case-by-case basis. When you think about the Florida transaction we just did, we had an enormous kind of carry forward position. That's a taxable transaction. That takes away -- all these asset sales that are taxable eats away at that carry forward position. We're now in a position where we can think kind of on a case-by-case basis whether we want to carry the tax credits and PTCs ITCs, whatever they are, or whether we'd rather sell the tax benefits to somebody else. It's really a pretty straightforward calculation as to the time value with cash, whether we're better having it or whether somebody else is.

Andrew William Evans
Executive VP & CFO

And we've come close to optimization with the current portfolio. That -- what Tom described is absolutely true for future construction. We will also have assets that mature enough so that this becomes a possibility even within the existing portfolio. But we will look at it against share issuance at every point.

Praful Mehta
Citigroup Inc, Research Division

Understood. And so where does your current cash tax position stand? As in when do you expect to be cash taxpayers again, given all these earning gains that you've had through these asset sales?

Thomas A. Fanning
Chairman, President & CEO

So yes, the numbers move over time, but kind of '23, '24.

Praful Mehta
Citigroup Inc, Research Division

Got you, understood. And then finally just quickly on Vogtle. The labor need that you're saying you're hoping to go above 120,000, is there a particular market, like the Canadian market, in terms of what you're looking to tap to get more workers? Or how should we think about where those additional workers come from at this point?

Thomas A. Fanning
Chairman, President & CEO

We have been working with the Department of Labor to source labor from Canada, yes, we have. But there are other ways to get that labor, too. And remember, this helping hands things is a new strategy I don't know how long is it, probably 4 to 6 months old, something like that. But it's a way to resegment the work so that we need fewer electricians, and we're going to get other craft labor take big segments of work, like pulling cable through cable trays.

Ultimately, you have to connect the cable so you need electricians. Plus other ideas we have about sourcing through reducing attrition on the site, reducing absenteeism on the site and increasing productivity. We're very thoughtful about a variety of ways. Even if we don't get labor from Canada, we may be able to source enough personnel to accomplish the work we need and get the margins we want. One other big factor we haven't spent a lot of time on, we continually work on the site with lessons learned from China and working with our prime contractor Bechtel, to resequence work, optimize work processes, and we've achieved a much better productivity, witness the latest numbers, as a result of those good efforts.

I personally call or we speak, Brendan Bechtel and I, once every 2 weeks or so. Steve Kuczynski, head of our nuclear group, is on site all the time. We are working with the executives of Bechtel and Southern

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Nuclear to always optimize the workflow, and we've been able to improve productivity as a result of that. That also goes to the need and timing of new personnel on site. That was something else I alluded to but wasn't as direct as I am now.

Operator

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

Paul Patterson
Glenrock Associates LLC

Just a sort of -- almost everything has been asked and answered. But just back to the helping hands, is there sort of any limitation -- I mean this sort of sounds like sort of -- sounds like it opens up all sorts of opportunity. I mean, is there any limit, I guess, in terms of how much that could be employed? Or how should think about that? I mean, it just seems like it's just...

Thomas A. Fanning
Chairman, President & CEO

Well, sure there are limits. The kind of obvious limit I just said was, ultimately, we'll need electricians to connect the cables. We think kind of right now, we've displaced 150 people through this helping hands thing. But I think you're right, I think -- but here again, let me give kudos to the labor unions here. We've always had a great relationship with folks like Sean McGarvey and others. It's a real partnership on site between management, Bechtel and the unions, everybody wants this site to be successful. And the unions have been super cooperative and creative and thoughtful in how we deploy personnel here and get them to work together. They've really been terrific.

Paul Patterson
Glenrock Associates LLC

Okay. And then I guess just to sort of -- there were a lot of numbers in terms of productivity, et cetera, and how things have started changing. You spoke to Jonathan Arnold and Greg about this. So just sort of want to -- just to make things clear, you guys are still very confident and you feel that you're on track to meet those productivity numbers. They are just going to be -- the productivity levels -- is this going to be a little bit later than you thought it was going to be? Is that how we should think about it?

Thomas A. Fanning
Chairman, President & CEO

Yes. I mean, we've been 110,000, we just got 120,000. In order to get -- and we think kind of at the 120,000 level we can hit in November. Now we'll use up all of our margin. So the objective right now based on this kind of ambitious schedule that we've laid out is to do the best we can to improve margin, to get back to kind of an April in service. In order to do that we need to continuously evaluate, continuously monitor but otherwise get new people to the site and get the hours worked per week up. That is how we improve margin.

Paul Patterson
Glenrock Associates LLC

Okay, and do you feel that you're going to -- that's very achievable, right? I just want to make sure I understand how confident you guys are in being able to do that.

Thomas A. Fanning
Chairman, President & CEO

We certainly are confident of our ability to attract more people to the site, and therefore, improve margin. We certainly are confident, and this remains unchanged, of our ability to hit November. What we're about now is improving the margin to November. And recall the on-site schedule is one where we are aiming at April.

Operator

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And our next question comes from the line of Kit Konolige of Bloomberg Intelligence.

Kit Konolige
Bloomberg Intelligence

I wanted in a little bit different arena to ask about the sales numbers. So year-to-date, you're showing positive weather adjusted sales, looks like pretty well spread across most of the customer classes. Can you give us some color on how confident you are that, that's a realistic ongoing sales growth number? And does it have more to do with customer usage or increase in customers? Just any sense of how much that can be projected into the future.

Andrew William Evans
Executive VP & CFO

So I think all good questions related to sales. Our retail sales growth year-to-date weather normalizes up about 1.1%. That's pretty broad-based. If you look at residential it's [0.8%] , commercial is about [0.6%] and industrial is up almost 2% year-to-date. If I look at weather in the year, about $0.05 benefit occurred in the first half, and about $0.03 of it occurred in this last quarter. It certainly was a very strong third quarter for generation. Customer usage is generally flat. That's maybe a little bit better than what we had initially anticipated. Efficiency will be a persistent trend and one that we certainly aren't here to buck. The efficiency of underlying equipment has improved materially from its original placement. And so we really will rely on in-migration into our states. It's good manufacturing and good industrial demand, and I think retail will plug right along, but we will be partially offset, certainly by efficiency.

Thomas A. Fanning
Chairman, President & CEO

Drew, the other thing that we always kind of laugh with each other about in the group, I think, is weather adjusted numbers. We really do work hard at getting good numbers, but I'm always a little skeptical as to the weather adjustment. For example in '17, we had a hurricane that -- so we had to adjust out the effect of the hurricane year-over-year. Next year, we've had Hurricane Michael in the fourth quarter. We are going to have to adjust all that out. These adjustments we do the best we can. I'm always a little squeamish about them.

Andrew William Evans
Executive VP & CFO

I would say the margin of error -- our margin of error in the net is probably in the tenths of a percent. We had a very abnormal January that was kind of outside of the normal distribution, one of the warmest Septembers and we're really not making any hurricane adjustment. We still had really good consumption, despite having a number of customers off. It was benefited by the fact that was just a very short period of time and had excellent reconstruction effort throughout Florida and Georgia.

Operator

Our next question comes from the line of Charles Fishman of Morningstar Research.

Charles J. Fishman
Morningstar Inc., Research Division

Just on China, it sounds like you still have people there. I wonder if, Tom, if you could say roughly how many? There are still 1 or 2 plants under construction. You got people there, you got people at the 2 operating plants. Do you -- how long are you going to keep them there? If you can just -- no details, just if you can provide a little more color.

Thomas A. Fanning
Chairman, President & CEO

Yes. We've had about couple of dozen people over there. They're now starting to matriculate back to the U.S. So we're not going to have permanent staffing there. We've really been there during the construction,

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so now that these guys are going in service, there's really no need to have them there. We continue to have good exchange with the Chinese about the plants. And the NRC frankly has been very constructive in thinking about how those plants have operated and started up much better than what people expected. We have kept our own estimates on startup constant, but we're very gratified with the experience the Chinese have had.

Operator

And our next question comes from the line of Ashar Khan of Verition Fund Management.

Ashar Khan

Can I just ask where are we with our equity ratios or expect to be by the end of the year versus what is authorized? And my second follow-up question is, how should we use the proceeds? There are going to be like $6.6 billion of proceeds in the first half of 2019 that you're going to accrue from the sales. What should be -- what would be the use of funds for those proceeds?

Andrew William Evans
Executive VP & CFO

So on equity ratios, I think we are at target in the Georgia franchises, which is right at 55%. We've got a longer ramp into Alabama's capitalization and expect for 55% by 2025 there. Your question was around use of proceeds. The entire backlog of equity requirement is there really to meet those equity needs, and so we will fund as we generate.

Ashar Khan

But can I just ask you like the $6.6 billion, right? So can we assume that you don't need equity next year because you'll be getting like $6.6 billion of proceeds coming in, in the first 6 months of '19? Does that imply the rest is used for funding and debt reduction? Or how should I use that $6.6 billion?

Andrew William Evans
Executive VP & CFO

Right. So I think we've got a reconciliation of it in the slides that we've put out with the call. The total need has been reduced to $2.4 billion.

Thomas A. Fanning
Chairman, President & CEO

Over the next 5 years.

Andrew William Evans
Executive VP & CFO

Over the next 5 years.

Thomas A. Fanning
Chairman, President & CEO

And so we can be creative in how we do that, but we'll follow up.

Ashar Khan

That's what I was -- I was trying to get some color on that, is that, do you need to issue equity next year because you're getting so many proceeds in '19?

Andrew William Evans
Executive VP & CFO

Absolutely. So Page 8 is the best place for you to go, and we can certainly follow with you in IR. But even though the asset sale in Florida may represent over $6 billion, we are very cognizant of our credit quality.

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And so that comes with an associated pay down of debt that will help us maintain our FFO to debt ratios and our debt total capitalization.

Thomas A. Fanning
Chairman, President & CEO

So your triangulation there is going to get to a 16% FFO today, and that would imply some level of equity. Now whether we take it there, accelerate or not, we have flexibility to do that.

Operator

And our final question comes from the line of Carl Seligson of Utility Financial Experts.

Carl Seligson

Tom, are you maintaining a list or -- either on paper or in your head or something of people who, because of their interest like Northern States interest, might be interested in future transactions? And have you got a list of future possible transactions? Because you've started being a financial expert, I just wonder where you are going with it.

Thomas A. Fanning
Chairman, President & CEO

I'm sorry, Carl, what was the point of that?

Carl Seligson

I don't know. Is anything more coming down the line in your head, if not actually on paper, as far as asset transactions so that you can give a remark?

Thomas A. Fanning
Chairman, President & CEO

The world of M&A covers assets, it covers companies, it covers everything. And we try and have the same discipline whether we're buying or selling. Particularly, I thought we bought very smartly with AGL Resources. And when you think about some of the PE multiples and implied share prices, therefore, of the sales that we've done, we think we've accreted enormously the shareholder value well over, I don't know, $3 billion or $4 billion here. We're always looking over our hand here, whether we are a buyer or a seller. And you're right, we kind of laugh about it, but like my good friend Ben Fowke up there at Xcel, I did pick up the phone and call Ben and just see what his interest was. We have plenty of opportunities whether to use the phone or bump into each other at a variety of meetings that we have. It's a very interesting environment right now. The good news is it's an option laden environment. I think there's a lot of interest in activity, both on the buying and selling realm for a variety of people. Some of which are conventional, strategic buyers; and some of which are the financial buyers, the nonstrategic. Anyway, there's a very active evaluation going on in the market right now and we're certainly participating in that.

Thomas A. Fanning
Chairman, President & CEO

Best owner is the really strong internal concept and in Northern States of the offtaker for Mankato. It makes a lot of sense for business simplification for both ourselves and for that company. And I think that's a very good reason why they're the best owner of that asset.

Carl Seligson

I think that makes a lot of sense.

Operator

And ladies and gentlemen, that will conclude today's question-and-answer session. Sir, are there any closing remarks?

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Thomas A. Fanning
Chairman, President & CEO

Well, it's been quite a year. It's been a terrific quarter and I think as we suggested, we've got a great foundation to continue to sustain this performance. Very gratified with our progress at Vogtle. We continue to work hard. We know there will always be challenges, but we appreciate your attention on today's call and look forward to chatting with you in the next week or so. See you soon. Thanks, everybody.

Operator
And ladies and gentlemen, that does conclude The Southern Company's Third Quarter 2018 Earnings Call. We thank you for your participation, and you may now disconnect your lines. Thank you, and have a great rest of the day.

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