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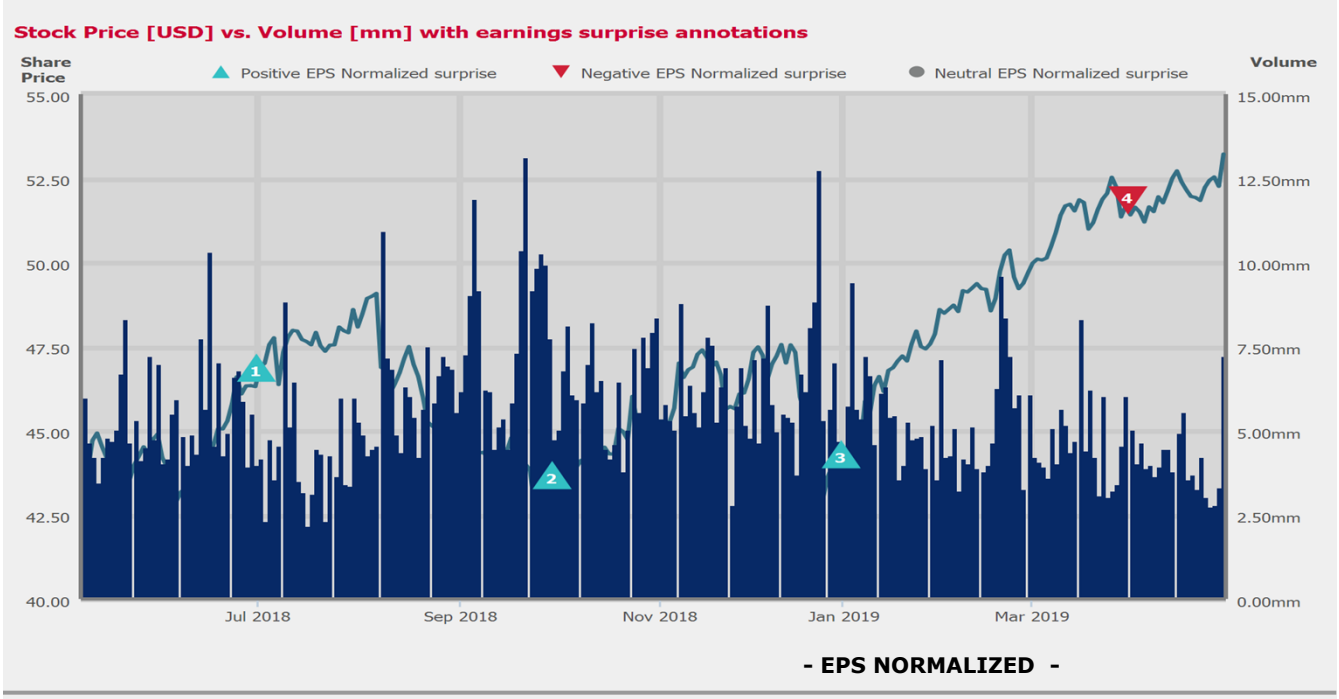
FQ1 2019 Earnings Call Transcripts

Wednesday, May 01, 2019 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2019-			-FQ2 2019-	-FY 2019-	-FY 2020-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.72	0.70	▼ (2.78 %)	0.72	3.03	3.15
Revenue (mm)	5658.19	5412.00	▼ (4.35 %)	5386.97	22409.03	22799.43

Currency: USD
Consensus as of Apr-30-2019 4:30 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2018	0.69	0.80	▲1 15.94 %
FQ3 2018	1.07	1.14	▲2 6.54 %
FQ4 2018	0.23	0.25	▲3 8.70 %
FQ1 2019	0.72	0.70	▼4 (2.78 %)

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Presentation

Operator

Good morning. 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 First Quarter 2019 Earnings Call. [Operator Instructions] Please note that today's conference is being recorded, Tuesday, May 1, 2019.

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

Thanks, Bridget. Good morning and welcome to Southern Company's First Quarter 2019 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, Form 10-Q 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, which are both available 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 morning, and thank you all for joining us. This morning, we reported earnings per share of $0.70 on an adjusted basis for the first quarter, consistent with our estimate despite significantly warmer-than-normal weather across our southeast service territory. I am extremely pleased with our performance year-to-date and believe we are well positioned to achieve our financial targets for 2019.

In addition to solid financial performance, during the first quarter, we have executed on several strategic initiatives. Earlier this month, we announced the pending sale of the Nacogdoches generating facility to Austin Energy for $460 million. Additionally, we still expect to close the $650 million sale of the Mankato facility midyear. But probably the biggest issue to report on this call is the completion of our planned Vogtle 3 and 4 rebaselining effort.

Late yesterday, Georgia Power filed the rebaseline report with the Georgia Public Service Commission. That report confirms the regulatory approved in-service dates of November 2021 and November 2022 for Unit 3 and Unit 4, respectively. Additionally, there is no change in our total estimated cost to complete.

The rebaselining process has been valuable and has increased our confidence in meeting the regulatory approved in-service dates. The resulting weekly work plan has been recalibrated and supports our strategy of working to an aggressive weekly plan on site, which is currently expected to provide a 6-month margin to the regulatory approved in-service dates. We now estimate that we would need to average about 100,000 weekly earned hours through the start of Unit 3 hot functional testing, that's essentially the completion of the construction phase of the unit, to meet the regulatory approved schedule. Each week, we perform above that level should provide margin to the November in-service dates.

Again, we continue to employ a strategy that maintains an aggressive work plan on site with an objective of providing margin to the regulatory approved schedule. We have balanced the relationship between cost

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and schedule, and we have 3 resequenced parts of the construction plans. That, plus the expected gives and takes of reestimating the remaining work and the hours required to complete it, have changed the shape of our production effort. Our revised work plan requires a productivity ramp targeting an average of 160,000 weekly earned hours for 8 months between the late summer of 2019 and the spring of 2020. To execute this aggressive work plan, we expect to increase craft levels and support resources in a measured fashion similar to what we have accomplished over the last 6 months.

Remember, this work plan currently provides 6 months of margin in support of our primary objective of successful completion of Unites 3 and 4 on or before November '21 and November 2022, respectively.

Progress has continued on the site as we have accomplished all of the project's key stated objectives for the first quarter of 2019, which included setting the top head for Unit 3 containment vessel. Overall, including engineering, procurement and initial test plan, the project is approximately 77% complete. For Unit 3 direct construction is 66% complete, with a target approaching 90% complete by year-end. Since beginning of the year, we've averaged approximately 130,000 earned hours per week with 4 weeks at or above 140,000 hours, meeting our expected year-to-date total earned hours.

In our slide deck for this call, we provided the most recent scheduled performance index, cost performance index and present complete metrics for your reference. These are all construction-centric metrics based on the site's aggressive work plan.

As we have discussed previously, perhaps now the clearest indicator of success will be our progress in meeting key milestones related to system turnover and testing within a reasonable margin to the site work plan. For 2019, the 3 key project milestones for Unit 3 are: initial energization, the start of integrated flush and testing of the main control room. We expect to complete initial energization on schedule in the next few weeks, the start of integrated flush is expected during the third quarter, and the main control room should be ready for testing around the end of the year with Unit 3 hot functional testing expected just over a year away. We will continue to optimize the schedule and work plan at the site, and we are committed to keeping our stakeholders informed.

I'll turn the call now over to Drew to cover our quarterly performance in greater detail.

Andrew William Evans
Executive VP & CFO

Thanks, Tom, and good morning, everyone. As Tom mentioned, in the first quarter of 2019, we achieved earnings per share of $0.70 on an adjusted basis, which was in line with the expectation that we provided on our last call. This compares to $0.88 on an adjusted basis for the first quarter of 2018. The primary drivers of the change were $0.11 related to earnings from divested assets and $0.07 of negative weather year-over-year.

When thinking about the reduction associated with recent divestitures, keep in mind that we expect the transition -- the transactions to be EPS-accretive on a full year basis after taking into account avoided equity issuance related to increased equity ratios at our regulated utilities last year. And to put the weather impact into context for you, while some areas of the country saw colder-than-normal temperatures during the quarter, temperatures across our Southeast service territory were 25% warmer than normal, representing the second-warmest first quarter in the last 20 years. We were able to overcome this weather impact through diligent focus on controlling cost during the quarter. A detailed reconciliation of our reported and adjusted results is included in the morning's release and the earnings package.

Taking a look at customer growth, we added 12,000 residential electric and over 7,000 residential natural gas customers across our regulated utilities, which is slightly higher than total residential customer additions for the same period in 2018. This customer growth is driven primarily by job and population growth in our Southeast service territory that outpaces the national average.

Weather-adjusted electric customer usage was down approximately 1% year-over-year during the first quarter due to a combination of factors, including continued energy efficiency and technology advancements across all customer segments, a slowing pace of new commercial customer additions and

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weakness in industrial sales due largely to several temporary plant outages in our territory. Looking ahead, we continue to expect combined growth and usage for retail electric sales to be flat to 1% for the year.

While we see some signs of modest economic cooling across the commercial and industrial classes, economic development activity in the Southeast remained strong. During the first quarter, major companies like Airbus, CarMax and U.S. Steel announced new projects in our service territories, expected to create over 8,000 new jobs.

Taking into account our first quarter performance, economic indicators and our forecast for the remainder of the year, we still expect to achieve our adjusted full year EPS guidance of $2.98 to $3.10 per share and our estimate for the second quarter of 2019 is $0.71 per share.

As Tom mentioned earlier this month, Southern Power announced the pending sale of its 115 megawatts Nacogdoches generating facility to Austin Energy for $460 million. In this transaction, we are divesting of the only biomass facility in Southern Power's portfolio, yet another example of our ongoing commitment to simplify the business. The Nacogdoches sale is expected to close in mid-2019.

In aggregate, our 2018 and 2019 divestitures have proven to be an efficient source of equity with a substantially lower cost of capital when issuing new common shares. These transactions have also enabled us to significantly strengthen Southern Company's balance sheet as evidenced by the $4 billion or over 25% reduction in holding company debt year-over-year.

We have consistently demonstrated tremendous discipline as both a buyer and seller of assets. We will maintain this disciplined approach as we continue to be thoughtful and a strategic and seeking to further improve our state regulated utilities-centric growth profile.

On the financing front, I'd also like to highlight the $1.67 billion additional Department of Energy loan guarantee program that was closed in March for Vogtle Units 3 and 4. This brings our total authorized DOE financing capacity for Vogtle 3 and 4 to $5.13 billion, of which we have drawn approximately $3.5 billion to date.

As always, customers are at the center of everything we do and when compared to traditional financing methods, we estimate this program saves our Georgia customers over $500 million. We appreciate the continued partnership of the DOE as we work to bring Vogtle Units 3 and 4 online.

I'd now like to call your attention to our recent dividend increase. At its last meeting, the Southern Company Board of Directors approved an $0.08 per share increase on our common dividend, raising our annualized rate to $2.48 per share. This is our 18th consecutive annual increase and for 71 years, dating back to 1948, Southern Company has paid a dividend that was equal to or greater than the previous year. The board's decision to increase the dividend reinforces the strength and sustainability of Southern Company's businesses -- business and supports our objective of providing superior risk-adjusted total shareholder return to investors over the long term.

Before I turn it back over to Tom, I'd like to give you a brief update on our regulatory calendar for the remainder of the year. We plan to file base-rate cases with the Georgia Public Service Commission for both Atlanta Gas Light and Georgia Power midsummer. We expect these Georgia proceedings as well as the pending rate case for Nicor Gas in Illinois to conclude in late 2019. Mississippi Power is scheduled to file a base-rate case with the Mississippi PSC in the fourth quarter of 2019, and in addition, we expect the Georgia PSC's review of the Georgia Power Integrated Resource Plan to be completed in July.

Tom, I'll turn the call back over to you.

Thomas A. Fanning
Chairman, President & CEO

Thank you. I will now touch on some early progress on our carbon-reduction initiatives, and then we'll take your questions.

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Last summer, we announced a goal to achieve a 50% reduction in greenhouse gas emissions by 2030 with the transition below-to-no carbon by 2050. Looking at our energy supply during the first quarter, 30% of electric generation was from carbon-free resources. So nuclear, hydro, wind and solar.

Generation from coal declined from 27% in the first quarter of 2018 to 23% for the first quarter in 2019, and the balance was generated by natural gas. The decline in coal generation was due mainly to low natural gas prices and higher hydro generation in the first quarter. In addition, continued low natural gas prices coupled with higher operating cost led to the recent announcement to retire 2,000 megawatts of older coal units across the system. The transition of our generation fleet delivers to our customers an optimized portfolio of clean, safe, reliable and affordable energy.

In closing, I'd like to highlight that Southern Company recently ranked #14 on Forbes Magazine's 2019 list of America's best employers. Of the 500 large employers ranked, Southern Company was #1 among industry peers and #1 in Georgia. This is the second consecutive year that Southern Company ranked in the top 20.

A key to successfully building the future of energy is acquiring and developing top talent, recognition at the Forbes ranking is a positive affirmation that we are indeed creating a culture that furthers this goal.

Again, we're very pleased with our start to the year from both a financial and operational perspective. We remain keenly focused on the progress of Vogtle 3 and 4 and are committed to keeping you informed as we reach key milestones on this important project.
Thank you for joining us this morning. Operator, we are now ready to take questions.

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Question and Answer

Operator

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

Gregory Harmon Gordon
Evercore ISI Institutional Equities, Research Division

Congratulations on the update. I only have one question. But as Rodney Dangerfield said, it's in 27 parts.

Thomas A. Fanning
Chairman, President & CEO

Yes, feel free. Fire it all away, my friend.

Gregory Harmon Gordon
Evercore ISI Institutional Equities, Research Division

So 2 questions. One is how often, just so we can level set expectations, do you expect to give us updates now that you've rebaselined the schedule on where you stand in terms of optimization of performance at the site and where you are inside that May to November time frame? Will we get it quarterly, will we get it semiannually? How are you going to keep us updated on how things are trending?

Thomas A. Fanning
Chairman, President & CEO

Well, certainly, you'll get it via filing of the Georgia Public Service Commission. You'll get it on the earnings calls for sure. So it's really, whatever happens at the Georgia Public Service Commission augmented by these calls. Look, when we look at the rebaseline, we're very pleased with the result of it. It confirmed what we thought we knew and actually gave us greater certainty to the November in-service dates. We talked a lot about would we do more rebaselining. I'm just guessing right now, so this is not factual, this my judgment. We won't do another rebase on 3. We'll look at 4, but we feel pretty good about the results, and that's the decision we would make in a year or so. The other thing everybody should just realize is every week we reoptimize, we try to rebounce, we try to improve our current state. This rebaselining though was a big tiring effort that required a lot of manpower. My sense is if I had to guess, probably no more rebaselining through the project, but we'll reassess that, particularly for Unit 4, in a year or so.

Gregory Harmon Gordon
Evercore ISI Institutional Equities, Research Division

Okay. And my second question is with regard to the increase in the 5-year CapEx for cash. At the same time, you've raised more capital through asset sales. So what's the current assumed common equity need when you net out the success you've had with asset sales offset by the opportunity now and the necessity to deploy more capital into the core utility businesses, and could that be reduced by even further paring down of the asset base?

Andrew William Evans
Executive VP & CFO

Greg, this is Drew. So the total plan is for us to invest about $38 billion over the planned period. And we were purposeful in construction of that plan and meeting a number of our goals, the largest of which is make sure that we can grow earnings per share at about 4% to 6% over the time period. What that plan told us in its last generation or what we described was a need to issue about $500 million worth of equity in each year of the plan or about 2.5 -- little more than $2.5 billion in aggregate. Mankato was certainly a transaction that we had included in the plan and Nacogdoches not as a place holder, but was a little more resident in our thinking. And so I wouldn't say that these 2 transactions were looked to reduce that need for $2.5 billion worth of equity. But we will evaluate options over time. We will look at our liquidity and

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how it evolves over that 5-year period to really establish when we might be able to turn the -- really, the principally the dividend reinvestment program off.

Operator

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

Agnieszka Anna Storozynski
Macquarie Research

So 2 questions. One is can you give us a sense how the pump issue at Hammond is -- or might be impacting Vogtle? And secondly, the experts accompany that the staff at Georgia Power has hired to oversee the Vogtle site, do you have any sense of what their take will be or is on the COD of Unit 3 and 4?

Thomas A. Fanning
Chairman, President & CEO

Yes, sure. Yes, absolutely. So with respect to the RCP, I think we have people on site there and Chinese investing out have been really good in allowing our folks insight as to what is happening on the site for all issues. Of course, with respect to the RCP that was announced publicly, I guess, in March, you should know that there are 16 of these pumps between the 2 plants. 15 of the 16 are doing fine. The one piece of equipment that failed on this one pump is really a fastener of the pump. It's not an internal to the pump, and it's a very small piece of circular metal, I don't know, looks like a ring of Saturn or something. They're doing a root cause analysis, and we'll see what happened. We don't believe there's any systemic problem. The rest of the plants are operating fine. And when you start up a plant like this, it's not surprising you have this kind of issue. So how does it impact Vogtle 3 and 4? Certainly, we are keenly interested. We continue to learn from this issue and any other issue on Sanmen and Haiyang. And so we evaluate kind of plans that may arise here at Vogtle 3 and 4. For example, under the leadership of [Steve Krasinski] and [Glenn Chuck] on site. When we first heard about this RCP, we created a tiger team of engineers and construction people to go in and evaluate, well, what if there was a problem that did impact us, what would we do? So we actually have now contingency plans in place to be able to manage any of the problems. Right now, we don't foresee any problems in Vogtle 3 and 4. And I can go further if you want. But right now, it appears to be limited to 1 pump, 15 to 16 are fine. It doesn't appear to be a systemic or design issue. The other issue you raised is really kind of an interesting issue. One of the things I do know, the independent monitor, Dr. Jacobs, is a terrifically smart guy. And I know in his background, one of his particular areas of expertise is this notion of turnover from construction to start-up. So that testing process. And Angie, that's why we try to draw people's attention now to the milestones and really now focus on -- of course, we're focused on the rest of construction. But moving from construction to start-up, I think, now becomes a critical area of focus. I know Dr. Jacobs is all over that as well. So we share his interest in that.

Operator

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

Steven Isaac Fleishman
Wolfe Research, LLC

So I guess just -- I kind of had the same question, was just -- would you given that this is now a schedule with Bechtel, further rebaselined, et cetera, do you feel like the staff report this time will be a little more kind of aligned with your update, whereas in the past, it's been a little bit more skeptical? And just as we kind of prep to see what they say in July?

Thomas A. Fanning
Chairman, President & CEO

I never want to get ahead of the staff and what they're going to say to us. I think everybody -- having everybody is a little bit of a broad statement. Most people would be very pleased with our progress on construction and productive hours worked per week. And our ability to hit milestones has been really good since we've taken over the project, really since last July anyway. So I think that kind of is uniform. I think

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now people are really focused. As I just said with Angie, that this notion of milestone achievement and turnover from construction to start-up is a big issue. That's why, in fact, in the materials we provided you guys, the slides, et cetera, we really did put more out there about what we expect, what the margins are for these major milestones. I think that is probably going to be where you get a lot of conversation.

Steven Isaac Fleishman
Wolfe Research, LLC

On that topic, just how well prepared is the NRC for that kind of stage?

Thomas A. Fanning
Chairman, President & CEO

I think, really good. In fact, I can give a report. In the past, we have always -- not always, but in Bechtel the past, we've talked a lot about ITAAC, remember that's the integrated tests that once achieved, will allow us to move to fuel load. So that's really critical stuff. And we've really worked constructively with the NRC to get the right testing regime in place to enable us to go hard on site. I can just tell you our progress there is good. I used to hold that out as one of the issues we were particularly worried about. I haven't talked a lot about it so much lately because I feel like we're just making a lot of good progress. Just so you know, let's say, as of year-end, we will have 200 ITAAC left for 3. You remember, we started at around 850. We moved that number down cooperatively with the NRC to 450. And we're moving through issues this year. So by the end of this year, we'll think we'll have everything but about 200 left for Unit 3. I visited with each of the NRC commissioners personally along with our team here. I think everybody realizes, everybody at the federal government level, whether it's the United States cabinet, Congress, the NRC, how strategically important this is to the United States of America to succeed. So we're getting all the resource and corporation we need in order to be successful.

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

So maybe then to just continue with the focus of on Vogtle here if I can. Can you elaborate a little bit more on the high ramping up to 160,000 as you talk about? I just want to get a little bit more of a sense of, again, where we are getting the workers? Is this in Canada? And how do you see that today given all the talk and focus on worker ramp that we've had in the last year? Maybe we'll start there.

Thomas A. Fanning
Chairman, President & CEO

You bet. A problem that we were intensely focused on, say, last year seems to be getting under control. And that was, we talked a lot last year about the ability for us to resource skilled electrical workers particularly, pipe fitters, secondly on site. You may remember, we move to top decile compensation. We've had terrific compensation from the building trades, and we have more than accomplished all of the resource requirements we need. And in fact in the last earnings call, we essentially have a waiting list, a backlog of people that want to come work to the site. So that's how we achieved. If you remember, we set the target of hitting 140,000 hours per week, kind of, end of March into April. Well sure enough, we did it sooner. We've talked about that a bit. We feel very comfortable, and we did all that without Canada, okay? We feel very comfortable on our position right now. When we reevaluated the cost and schedule relationship and the baseline effort and this move to 160,000, we did so with confidence, that we could hit the staffing levels. And secondly, now we're going to need to add more supervisory personnel. I know a question that would come to your mind and has been in our mind is, oh, well, you're adding people, you're going to be less efficient. You should know that most of these additions now to move from the 140,000s up to 160,000 on the average over this smaller 8-month period will be done largely on the second shift. If you look at work deployment so far, we've earned hours roughly 70% on the first shift, 30% on the second shift. We're going to tilt more into the second shift. So we'll go -- instead of 70:30, it will be 60:40, 55:45. And of course, it will vary for some weeks. And this is, recall also, a ramp-up in to say, August-September

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time frame. So we have the ability to bring people on site in a very kind of prudent way, train them, and we'll have the right folks in place. I guess the good news is that we've gained a lot of confidence in our ability to resource personnel and to manage the work. We feel very confident about moving to the 160,000. And that gave us the ability to think about resequencing some work and doing some other things that provided us with this new rebaseline schedule.

One other thing you just should know, I think it's an important frame of reference, we actually argued here about whether we should put this in the script or not. So we gave you a baseline -- a bookend that said if we hit 100,000 hours per week, we can hit kind of our November schedule in the 160,000 allows us to hit the aggressive schedule. If you want another number, it is a reasonably linear relationship working about 130,000 hours per week. That's kind of what we've done this year so far, allows us to achieve kind of a July, maybe August, schedule. So we're feeling pretty good right now. Of course, there is a boatload of work to do, a ton of attention that needs to be paid, continued focus on efficiency, but we're feeling pretty good. November, in service.

Julien Patrick Dumoulin-Smith
BofA Merrill Lynch, Research Division

Got it. Right, so the July-August is relative to November in service, right? That's what you're saying?

Thomas A. Fanning
Chairman, President & CEO

Yes. Always compare everything to November. That is our target. So if we beat November, there will be tick-or-take parades.

Julien Patrick Dumoulin-Smith
BofA Merrill Lynch, Research Division

Excellent. And then just a quick clarification on your commentary earlier for what you said to Greg, are there any other asset sales assumed in the plan relative to the $2.5 billion of equity? And then secondly, if you can, just on electric sales. I know that you commented a little bit on weather-adjusted trends. Is -- that doesn't change anything around earnings expectations for the year, does it?

Thomas A. Fanning
Chairman, President & CEO

Well, yes. I'll do the first shot, and Drew is going to follow up here. Look, there's nothing substantive in terms of asset sales for the rest of the year. We would only do that on an opportunistic basis. I think both of these deals have been great. Between those 2 deals is, what, $1.1 billion?

Andrew William Evans
Executive VP & CFO

That's right.

Thomas A. Fanning
Chairman, President & CEO

So all of that helps. We've been -- all that helps with respect to kind of where we're sourcing equity and everything else.

Andrew William Evans
Executive VP & CFO

I think, well, you've described it exactly right. Nacogdoches in itself was not particularly in our plan. It does have a general downward bias in our equity needs. Think that both -- remember that both of these transactions are effectively used to repay indebtedness in total and then ultimately reduce what we have to draw in terms of shares in the drip. And so we're always going to look for opportunities to shorten the length of the drip program. But nothing is planned in the -- nothing is within the plan today that would require additional sale of assets. The other question, Julien, that you asked was related to sales. It was a

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rather warm quarter down here, and so second warmest in 20 years. We had good cost control over the period that allowed us to meet the estimate that we provided to you and for budgets that we provided to ourselves internally. There are certainly limits to the ability to reduce expenses. We are certainly still sensitive to weather. And so we'll just have to sort of stand by to see how the summer goes. But I don't think that these 2 things are necessarily or naturally correlated. And so I don't have any discomfort with our ability to meet our guidance range for the year.

Thomas A. Fanning
Chairman, President & CEO

Drew, wasn't it about $0.08 compared to normal on weather?

Andrew William Evans
Executive VP & CFO

That's right.

Thomas A. Fanning
Chairman, President & CEO

So you think about it, we hit the estimate that we gave you last time with $0.08 of headwinds. So I feel pretty good about it also.

Operator

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

Michael Weinstein
Crédit Suisse AG, Research Division

My question is about Unit 4. I think you said that earlier that Unit 4, there might -- you might be considering a rebaselining at some point. I'm wondering if that's your -- if you're kind of indicating that you might be willing or contemplating pulling workers off Unit 4 to ramp up on Unit 3 if necessary?

Thomas A. Fanning
Chairman, President & CEO

Yes. Thank you for that question. I didn't say I was considering it. Somebody asked me, would -- I guess I was filling out the question, what will we thinking about going forward. Unit 3 feels pretty good. This rebaseline should be good for Unit 3. We'll evaluate Unit 4. Our general thrust is that Unit 4 is a year behind Unit 3, and that's staged on a variety of metrics and the best way to employ personnel on a site and a variety of other things. In my opinion, Unit 4 should be a carbon copy of Unit 3. And what we have consistently found is that when we learn on Unit 3, it accrues to the benefit of Unit 4. And so in general, I can't promise this, I am not promising this, but in general, our experience has been Unit 4 performance is better than Unit 3. So there might even be a chance to improve the schedule on 4. I'm not promising that, I'm just telling you, that's a potential.

Michael Weinstein
Crédit Suisse AG, Research Division

Got you. Is part of the plan to ramp up on -- to 160,000 that you might pull people off for Unit 4 in order to make sure that Unit 3 comes in on time?

Thomas A. Fanning
Chairman, President & CEO

You shouldn't think of that at that way. We are optimizing Unit 3, and we are optimizing Unit 4. It is exactly a 12 month difference between the 2. We're not going to cannibalize, if that's the kind of characterization you want to make between the 2 units. But you should know, again, as we reoptimize every week, for heaven sake, we always evaluate the best resource, the best allocation of personnel. If

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there was a short-term issue that arise, sure, we could take advantage of it. But in general, both units are going fine.

Andrew William Evans
Executive VP & CFO

And I hope it's clear that both hours worked per week represents total production -- total construction at the site. And so 160,000 is both Units 3 and 4.

Thomas A. Fanning
Chairman, President & CEO

And Unit 4. That's right. But here's the thing. We are so focused on getting Unit 3 to completion and getting Unit 3 to fuel up. And I think our metrics show that we can do that. We are working like dogs and make sure it happens. And making sure you understood, the rebaseline effort did include both unit, right?

Operator

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

Praful Mehta
Citigroup Inc, Research Division

I guess first question was on testing. And just wanted to understand how much testing has been done so far in terms of the equipment that's lying there. And what have been the most recent results around the testing phase that would give us any color around how you think the process is going?

Thomas A. Fanning
Chairman, President & CEO

Yes. So what's interesting is, by year-end -- so some testing has been occurred. And I think I even suggested in prior calls that the turnover of some of the very first systems, the first 2 or 3 that we did, were not done the way we wanted them to be done. We haven't really focused on the right process in place and everything else. And so we've really turned our focus now, of course, we're focused on schedule. But this idea of moving from construction to in-service and the testing regimes in place, we've really kind of tightened the screws on that. Lately, we've had good experience. By year-end, we expect to have 45 of the 95 total systems per Unit 3 complete. Right now, when you think about both systems, both Unit 3 and Unit 4, we're about 12% of our testing is complete. So we already have started. So what you're seeing right now is that, whatever you want to call it, the waterfall curve, the ramp-up, whatever. And that's why we're giving a lot of emphasis to these milestones. This is, I think, one of the big focus areas for you and us for '19 and '20, as we move to completion of construction and fuel-up in this whole turnover and testing system.

Praful Mehta
Citigroup Inc, Research Division

Got you. And so in your mind, as you look at this testing phase, where are the areas where you think testing could show up with issues or concerns, or which other sites or which other, I think, testing spots that, I guess, are critical path from your perspective? Any particular ones that we should be looking out for?

Thomas A. Fanning
Chairman, President & CEO

Yes, sir. On the slides that we've provided you, I guess that's Page 7 in the slides, we've given you -- and we've really argued a lot about how to do this most effectively. But there are 7 big milestones remaining, okay? We did this just for Unit 3. If you want to go to Unit 4, take these dates and add 12 months, okay? So interestingly, initial energization was a milestone that's really important. But it was established back in June of '18. And sure enough, we did it. We haven't it, but we're right on schedule. We feel good. That's why it has a star. And energy move forward, the start of the integrated flush, we had a time frame there,

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kind of summer into fall, when we want to start that effort. That's going to be moving water through the pipe systems and cleaning out everything. So the plan is as good a shape as it needs to be when we turn it over for testing. Once we get then the main control room ready, okay? So that now we've connected all the wires. That sounds like a simple thing. But if you could imagine, a lot of the electrical work that we are dealing with involves connecting A to B in the plan, when I push a button or throw a switch, that it has an effect elsewhere in the plan. Getting the main control room ready settings, we've done all the electrical work we need to do to basically run the plant from the control room. Big deal. Then we moved -- and I should say, for these first 3 milestones, of course, we've already done initial energization. But for milestones 2 and 3, we've had some flexibility in how to move those through time. Now let's go to the other big 3. Start cold hydro testing is a big deal. The hot functional testing is essentially signifying that construction is substantially complete. You will see the hours worked from our Bechtel partners, really fall off once we complete our hot functional tests. What's remaining there are essentially all of the final testing items, ITAAC completion, everything else that leads to fuel load. Once we get to fuel load, man, we have gone hard on the system. We have 6 months allowed between fuel load and in-service. Frankly, China did it in less than 6 months. We think we could probably beat that or do it or better or whatever. But we're still allowing, in the schedule, 6 months and then in-service. Those are the 7. We think within those 7, there are, frankly, 100s of start-up tests that we will be doing. But identifying in these major milestone components, we thought, was the most effective way to communicate with you, and frankly, with our regulator.

Operator

And our next question comes from the line of Ali Agha of SunTrust.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Listen, first question, I just wanted to clarify. So as on Vogtle. As you're looking at these milestones and going through your targeted productivities, et cetera, what's the biggest bottleneck right now that you see out there?

Thomas A. Fanning
Chairman, President & CEO

That's a wonderful question. Look, I would go to something that we always see. Now we've been good at it so far. Because we've been good at it, I don't want to say it's a walkover. But getting people on site, getting them trained and getting them productive on the workplace, and we're going to put most of these people on the second shift, as I suggested moving from a relationship of 70:30 to 60:40, 55:45 is a big deal. When you think about rebaselining, we were very gratified with kind of actually a small reduction in hours on the electrical work. Still, I would argue, the electrical work to be performed in these confined spaces is the most challenging work we do.

So that is kind of the issue. It remains our critical path. And I think the -- one of the reasons why we felt more confidence now finishing rebaselining about November is that our critical path actually got improved a little bit as a result of the rebaselining. But it remains critical path. One other point. Even though we -- when you add people, we worry about so many people being crowded in the containment area and all that and loss of productivity, well, we're going to move in the second shift, so you should lessen that problem a bit, we're going to need to bring more supervisory personnel. Now those are Bechtel people. Like I say, I communicate with my friend, Brendan Bechtel, roughly every 2 weeks. Jack Futcher, one of their great leaders, has been on site so much. Barb, Brian, all the people on that team do a hell of a job working with us in a great partnership to get this stuff done. I will say, however, executing effective supervisory oversight of more people is not a slamdunk. So we should just continue to have intense focus on that. So if I had to say, it's just this last thing: wingspan. We're increasing our bandwidth. I don't know however you want to call it. Moving from the 140s, we just did, I think, 143 last week. Moving from the 140 to 160 on the average in an 8-month time frame, we think is doable. But it will require more resources. It will require more effective supervision to stay productive. That probably is a big deal.

Ali Agha

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SunTrust Robinson Humphrey, Inc., Research Division

I got you. Very helpful. Second question, I wanted to also clarify on when you all talk about quarterly outlook, you tend to give us single-point estimates like you just did for the second quarter, you gave us for the first quarter as well. But for the year, you've got a range out there. So when you're looking at the single-point estimates, I just wanted to be clear, does that sort of target the middle point of the range or the high end? What's the relationship between those single-point quarterly estimates and the full year guidance you lay out for us?

Thomas A. Fanning
Chairman, President & CEO

Ali, I'm going to turn it over to Drew. I'll quit talking. But I do want to say, you've hit it exactly right. When we give quarterly estimates, they are, in fact, estimates. It's not new guidance, okay? Guidance for us is the range. So when we give you an estimate, that's just the best of our ability, Drew working with his CFO and working with the operations people and that's all it is, okay? We feel very confident about the range. The range is structured with the midpoint being our expected value. But I can tell you, we have intense efforts here to beat our expected value.

Andrew William Evans
Executive VP & CFO

Not a lot to add. I'd -- when we set estimates for the quarter to come, we're trying to give you an indication of where we think we're going to come out. Based on economic conditions, our goal is to target something that would produce a midrange result for year-end. It's easier for us to provide first and second as we sort of move through it. Third quarter is certainly the largest quarter in contribution to our annual earnings and so probably has the most range around it. But generally, Ali, we're trying to target what would be middle of range. If we get to a point where we think we've been running a little bit higher in the range, as we did in the beginning of the last year, which had a relatively, well, significantly colder start than this year, we are able to move guidance up, I think, quite a bit earlier in the year last year.

Thomas A. Fanning
Chairman, President & CEO

Yes. And other than that institutional knowledge here, the only time, I think, that we have commented on our range and change, it was last year, at least in my experience now, that goes back 20 years in various roles here even as CFO. We typically only readdress guidance at the end of the third quarter, which is our October call. That's because we got through a high revenue quarter this summer. But we push like crazy to get higher in the range. If you look at our track record, we typically do really well within the range. But from an FD standpoint, all we have is a range right now.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Yes, absolutely. Lastly, Tom, just remind us, when does the Georgia Commission look at the cost, overall cost impudency of Vogtle? Is it after Unit 3 comes online, or is it after both unit comes online? Can you just remind us?

Thomas A. Fanning
Chairman, President & CEO

Yes, well, so we have the VCM processes that undergo every 6 months. And then I think a process will begin on Unit 1 -- I mean I'm sorry, on Unit 4 fuel load. So the date that is expected to be on the November schedule is, let me see if I can find it...

Andrew William Evans
Executive VP & CFO

April of 2021?

Thomas A. Fanning

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Chairman, President & CEO

2022. April 2022 would be the kind of initiation on that. Yes, I just want to add, for clarity, these VCMs are very helpful along the way.

Operator

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

Jonathan P. Arnold
Deutsche Bank AG, Research Division

Just a quick question. I -- and I missed some of the call, so apologies if you asked -- answered this already. Has there been any change in the contingency that you're factoring in on Vogtle as part of the rebaseline, or what earnings to report there?

Thomas A. Fanning
Chairman, President & CEO

No. The contingency remains, I think, from 100% dollars, around $800 million, and we had not used any of it to date.

Operator

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

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

I want to change the topic a little bit. You touched some on 2 gigawatts of cohort retirements. Can you talk about: a, when do those units go off-line; and b, how you're looking at the fleet over the next, I don't know, 3 to 5 years, whether you see another, kind of, another round of cohort retirements coming and how you might replace that capacity if you need to replace that capacity?

Thomas A. Fanning
Chairman, President & CEO

Well, so that is a very interesting stuff there. Gosh, even in response to the Clean Power Plan, actually, before the Clean Power Plan was put forth by EPA, we started thinking about, I could remember, we had a daylong meeting in D.C. about this, about we came to call it better way. That is, a way to think about rationally transitioning the generation fleet so that we preserve for the benefit of customers the best balance of clean, safe, reliable, affordable. Essentially, we've been executing on that plan, and the only change I would say is with the continued benefit of the revolution that has been directional, drilling and cheap plant fuel gas pricing, that retirement has been accelerated. So I would say that has been a factor. The other big factor has been greater penetration of renewables in our systems, particularly in Georgia; to a lesser extent, in Alabama. One more factor that's very interesting. Georgia is going through its IRP, and we don't want to front-run that process. So all of the decisions, there may be an overlay of a strategy that carries us through to 2050. And frankly, we have to take into account the diminishment of coal resources. If you're going to keep coal alive, it must have carbon capture technology on it. We continue to invest in the R&D for those solutions. But in general, you need to think about coal going down over time, natural gas staying in its place, more renewables, nuclear being preserved. So this nuclear will complete, Vogtle 3 and 4, will complete one phase of that. Probably in the 2030s to '40s, we'll think about the so-called Gen 4 reactors. I think if we're serious about carbon, we do need, as a nation, to continue to invest in nuclear technology. But for us, that won't be for my administration call. That's going to be for 2 or 3 down the road. But it'll be in the '30s to '40s where I think we need to add more nukes. The other thing that's just kind of interesting here. There could be more acceleration of this transition. I think it's going to be key by the very things that we are working on in a rather unique way. There's so much rhetoric out there about storage, technology and about carbon capture. The only people that are really investing, I wouldn't say only, but in our industry, we by far lead in proprietary, robust, research and development. We're the biggest funder of APRI. Dr. Steven Specker is on our board. Frankly, he's the Lead Director.

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Ernie Moniz is on our board. We are the guys that really are putting our money forward to create these solutions, and we don't rely on just rhetoric to see all this stuff happen. We're trying to invent the future. One last point. There is a change in this 100-year-old business model, where we have created a very small, but very important option, and that is the miniaturization, if you will, of making, moving and selling energy away from central-station approaches to so-called micro grids where on commercial and industrial customers location they may have make, move and sell characteristics. Our subsidiary PowerSecure, now aligning very closely with Southern Power, and perhaps another subsidiary, we have the fuel management Sequent, are really working to advance this idea. We had deployed -- Southern Company has deployed now, with PowerSecure, 85% of the nation's micro grids. So if that kind of different business model starts to take hold, that will have an effect on the transition of the generating fleet in America and may help accelerate it. So sorry for the long-winded answer. Except to say shorthand, we have a big strategy in place. We have an important option on thinking about the change in the business model. We have important investments in items that will have some effect on the speed of that transition. Ultimately, tactically, these are decisions that must be made by our states.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Got it. Tom, one quick follow-up. Do you see potential in the next couple of years, 3 to 5 years, but especially given kind of the PPC, ITC benefits that change overtime for significant renewable rollout in outside of Georgia, meaning maybe Alabama, maybe Mississippi? Or do you think that's more longer-dated?

Thomas A. Fanning
Chairman, President & CEO

Oh, no. I -- listen, I think both in Alabama and in Mississippi, those commissions are actively considering the attractiveness of all sources of generation. They -- if you look back at any of our commissions, they have a terrific track record of being innovative, creative and really doing things for the benefit of customers. It'll get dogmatic on any particular issue of clean, safe, reliable, affordable. I think they do a terrific job of balancing those issues. So certainly, we will consider those things in the next 3 to 5 years. One other area of particular emphasis is the military. You may know that I think -- anyway, I've been appointed to the Solarium Commission. My appointment was put forth by Mitch McConnell. And I think I'm either the 1 or 2 only private citizens that -- I know that's kind of a weired description other than, say, military personnel or congressional personnel, thinking about the next future military doctrine, that DoD will go forward with. Part of that military doctrine is tied up in, how do they think about operating in a digital or cyber environment, okay? Part of that will go to their resilience in their own energy operations. So if there are cyber wars or kinetic wars. How do they think about their own ability to maintain their capability to listen, to learn and to fight back? That has a distinct bearing on the advancement of our thinking of micro grids and distributed infrastructure, certainly in the Southeast and the rest of United States. So we're participating not only in insight currently but in creating military doctrine in the future. You may see the military as an early adopter of some of these concepts.

Operator

And our final question comes from the line of Michael Weinstein.

Michael Weinstein
Crédit Suisse AG, Research Division

Quick follow-up. Back on Vogtle, maybe -- could you just explain how the costs aren't increasing despite the heavy ramp up in workers over the summer and throughout the next 8 months after that.

Thomas A. Fanning
Chairman, President & CEO

I'm sorry, give me a little more there. What are you looking for?

Michael Weinstein

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Crédit Suisse AG, Research Division

Yes, why -- how are you keeping the cost estimates for the project unchanged despite the ramp up in work levels?

Thomas A. Fanning
Chairman, President & CEO

Okay. So remember, ramp up in work levels is designed to accomplish the same amount of work in a different time frame. In other words, so if we say November '21, '22, and we have a schedule that is also associated with, I mean, a cost schedule, a budget, this is with November '21, '22. Just because we're changing workflows, we're not changing the amount of hours, and in fact, from the rebaseline, the amount of the hours actually reduced a bit, little over 500,000 hours in total. The cost estimate is within that. So whether we ramp up from 140,000 to 160,000, I refer to the shape, that is only for an 8-month period and we considered kind of a balance of cost and schedule in creating that shape. I think they are very consistent. There is no -- where you might see a problem in cost is if we try to say, let's go to 300,000 hours per week, where you would flood the people, you would flood the site with people. You would have tremendous inefficiency. But the way we try to get this fuel efficiency concept is with our CPI statistics. So I think the most recent CPI statistics. Last week, we did 143,000 hours at 1.11 I think. I think what we're showing you cumulative CPI is 1.16. What that basically says is it's 1.16 cost to deliver 1 hour of effective performance. We try to give you a baseline to measure that against the total budget. So as long as we stay below 1.4, then we're staying within our total cost estimate. So that's kind of the way you can think about it. So when you said how are we managing costs and increasing in hours, we just changed the shape of the work. The work actually went down a wee bit, and we still think we're able to hit November with some margin right now. Our cost estimates are still well below the 1.4 and therefore, we're still within the total budget for cost.

Michael Weinstein
Crédit Suisse AG, Research Division

So I mean, essentially, what you're saying is, you don't expect that hiring is going to be an issue. The cost of labor is not going to be higher to attract that more workers besides for the second shift?

Thomas A. Fanning
Chairman, President & CEO

Yes. We've already incorporated. If you recall, when we went to top-decile pay, if I remember the numbers correctly, that was an $80 million kind of number. And that's a reasonable estimate. We handled that with other work that we picked up and so we managed that without hitting contingency. We managed that cost element. Within this current estimate, of course, we'll see, but we think were okay. When we reestimated -- I think there's one more point, when we reestimated last July, we took all this into account as well. I hope that you got it but if you didn't please call us back.

Operator

And that will conclude today's question-and-answer session. Mr. Fanning, are there any closing remarks for today?

Thomas A. Fanning
Chairman, President & CEO

Well, as always, you never say thank you enough. And while I thank you all for following Southern Company. This is a nationally important issue when you think about the importance of Vogtle 3 and 4. I really feel compelled with the value of Southern Company right now. When you look at P/E ratios and a variety of other things. As we continue to execute on Vogtle the way we have, and of course, there's a lot of hard work to do. But my sense is the rest of the business, as Vogtle 3 and 4 has been doing great. Thousands of people making thousands of great decisions. We continue to perform over and over and over. As we continue to execute on Vogtle 3 and 4, my sense is on a risk-adjusted basis, this is a terrific

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investment. We appreciate your interest in our company. We'll continue to work as hard as we can to follow through on these big objectives. Thanks, everybody. See you soon.

Operator
Thank you, sir. Ladies and gentlemen, this concludes The Southern Company First Quarter 2019 Earnings Call. You may now disconnect your lines.

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