S&P Global
Market Intelligence

# The Southern Company NYSE:SO

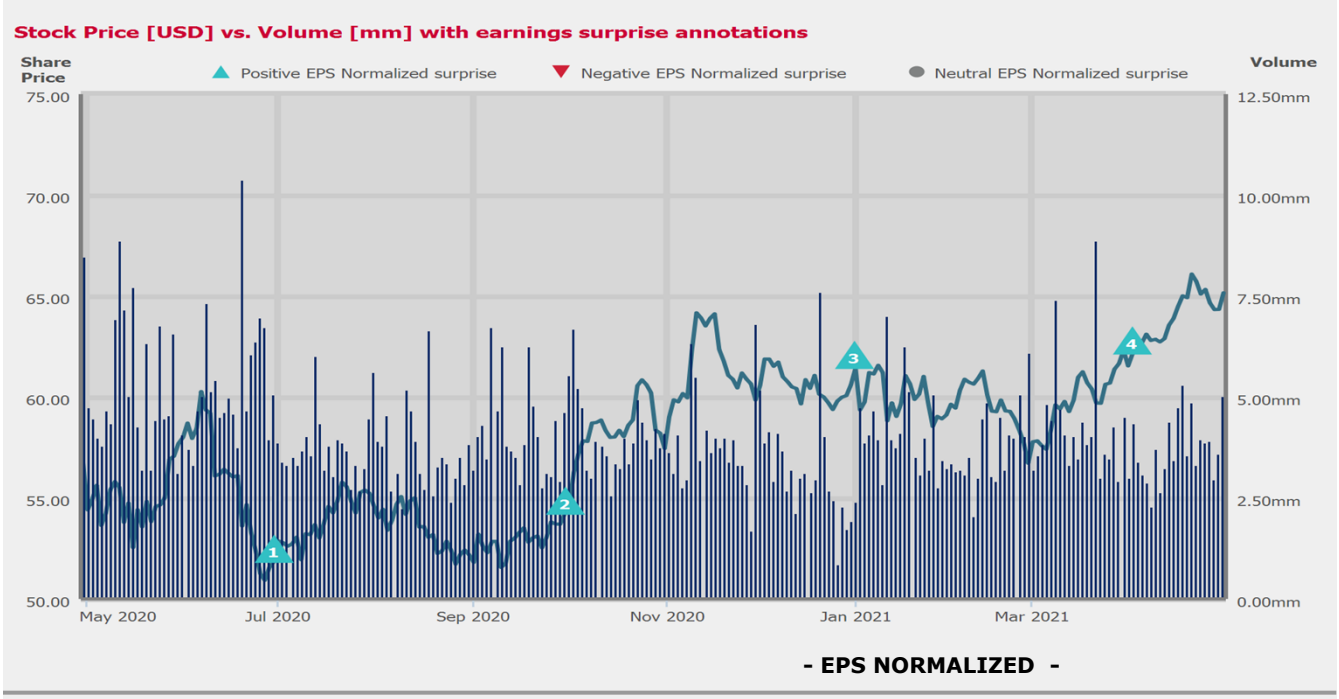
# FQ1 2021 Earnings Call Transcripts

## Thursday, April 29, 2021 5:00 PM GMT

## S&P Global Market Intelligence Estimates

| | -FQ1 2021- | | | -FQ2 2021- | -FY 2021- | -FY 2022- |
|---|---|---|---|---|---|---|
| | CONSENSUS | ACTUAL | SURPRISE | CONSENSUS | CONSENSUS | CONSENSUS |
| **EPS Normalized** | 0.83 | 0.98 | 18.07 | 0.76 | 3.31 | 3.56 |
| **Revenue (mm)** | 5533.67 | 5910.00 | 6.80 | 5020.21 | 21932.45 | 22857.50 |

Currency: USD
Consensus as of Apr-26-2021 3:45 PM GMT




**- EPS NORMALIZED -**

| | CONSENSUS | ACTUAL | SURPRISE |
|---|---|---|---|
| **FQ2 2020** | 0.67 | 0.78 | 1 16.42 % |
| **FQ3 2020** | 1.21 | 1.22 | 2 0.83 % |
| **FQ4 2020** | 0.42 | 0.47 | 3 11.90 % |
| **FQ1 2021** | 0.83 | 0.98 | 4 18.07 % |

COPYRIGHT © 2021 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved

# Table of Contents

Call Participants ..... 3
Presentation ..... 4
Question and Answer ..... 9

COPYRIGHT © 2021 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved

Attachment to STF-238-7

# Call Participants

## EXECUTIVES

**Andrew William Evans**
*Executive VP & CFO*

**Scott Gammill**
*Director of Investor Relations*

**Thomas A. Fanning**
*Chairman, President & CEO*

## ANALYSTS

**Agnieszka Anna Storozynski**
*Seaport Global Securities LLC, Research Division*

**Andrew Levi**
*Hite Hedge Asset Management LLC*

**Andrew Marc Weisel**
*Scotiabank Global Banking and Markets, Research Division*

**Unknown Analyst**

**Durgesh Chopra**
*Evercore ISI Institutional Equities, Research Division*

**Julien Patrick Dumoulin-Smith**
*BofA Securities, Research Division*

**Michael Weinstein**
*Crédit Suisse AG, Research Division*

**Michael Jay Lapides**
*Goldman Sachs Group, Inc., Research Division*

**Paul Basch Michael Fremont**
*Mizuho Securities USA LLC, Research Division*

**Steven Isaac Fleishman**
*Wolfe Research, LLC*

Copyright © 2021 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

# Presentation

**Operator**

Good afternoon. My name is Dimitra, and I will be your conference operator today. At this time, I would like to welcome everyone to The Southern Company First Quarter 2021 Earnings Call. [Operator Instructions] As a reminder, this conference is being recorded Thursday, April 29, 2021. I would now like to turn the conference over to Scott Gammill, Investor Relations Director. Please go ahead, sir.

**Scott Gammill**
*Director of Investor Relations*

Thank you, Dimitra. Good afternoon, and welcome to The Southern Company's First Quarter 2021 Earnings Call. Joining me today 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 our 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*

Well, good afternoon, and thank you all for joining us. As you can see from the materials we released this morning, we reported a strong start to the year with adjusted earnings per share for the first quarter of 2021 ahead of our estimate. The economies in our service territories are starting to recover from the COVID-19 pandemic, and though customer demand remains mildly lower than prepandemic levels during the first quarter, it exceeded our expectation.

Importantly, many of the programs we implemented to keep customers connected during the pandemic have proven to be very effective. We have reliably provided energy to our customers and facilitated alternative payment arrangements for those in need. I continue to be proud of our employees and the ways we have partnered with our communities throughout this pandemic. This past February, parts of our nation were contending with the effects of devastating winter weather that crippled generating units and power grids in Texas and beyond.

At Southern Company, each of our businesses, including those with our operations in Texas and the Southwest region performed well during this event. Our regulated electric and gas utilities did not experience any operational issues or related service disruptions.

Southern Power was minimally impacted due to its highly contracted business model. Our wholesale gas services subsidiary, Sequent Energy effectively served customers in need, utilizing, in large part, natural gas held in storage.

And microgrids provided by PowerSecure had a 98 run time reliability, producing over 2,260 megawatt hours of reliable energy for customers during the storm. The winter season's atypical temperatures have also caused utilities across the country to evaluate their own system resilience under similar conditions. For Southern Company, our vertically integrated structure and integrated resource planning processes we utilize across our Southeast electric utilities have beneficial for years in allowing us, along with our regulators, to carefully consider, plan for and invest in, infrastructure needed to address a range of extreme circumstances and improve resilience. We will continue to leverage the rigorous analysis and

Copyright © 2021 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

stakeholder input provided by these proceedings as we evaluate the potential for additional system enhancements across our footprint. Let's turn now to an update on plant Vogtle Units 3 and 4.

Unit 3 hot functional testing started on April 25, marking the last milestone in a series of major tests. Hot functional testing is conducted to verify the successful operation of reactor components and systems together and to confirm that the reactor is ready for fuel load.

As part of the testing, the site team will run Unit 3 plant systems without nuclear fuel and advance through the testing process to reach normal operating pressure and temperature. Starting hot functional testing represents a significant step towards the operation of Unit 3 and ultimately, providing customers with a reliable, carbon-free energy source for the next 60 to 80 years.

The site's work plan now targets fuel load in the third quarter and late December 2021 in-service date for Unit 3. Of course, any delays could result in a first quarter 2022 Unit 3 in-service date. Now as we have stated in prior calls, an important step in the system turnover process is to assure that the as-built state of the plant aligns with the design basis and to resolve any differences.

Before we close systems, declare them ready for testing and submit ITAAC, we are committed to the notion of getting it right. In recent months, Southern Nuclear identified certain construction remediation work, primarily electrical in nature, that was necessary to ensure that quality and design standards were met prior to the start of hot functional testing.

We reviewed the project's construction quality programs prior to hot functional testing, we implemented improvement plans, and we believe Southern Nuclear's construction quality program is effective.

Furthermore, the improvement plans we are implementing are designed to help drive successful completion of Unit 3 and improve performance for Unit 4. As the operator of these units, we are committed to getting it right, striving to ensure that our safety and quality standards are met prior to significant testing and operations activities.

We will not sacrifice that commitment to meet schedule our milestone dates. With Unit 3 direct construction nearing completion and hot functional testing in progress, our primary system focus include going forward: one, successful completion of hot functional testing; two, completion of the remaining construction, system turnovers and testing leading to fuel load; and three, an orderly transition from fuel load to an efficient start-up of the unit.

The ITAAC submittal and review process is expected to accelerate as we move into and beyond the hot functional test sequence. To date, 188 ITAAC have been submitted to the NRC. We will submit the remaining 211 during hot functional testing as we approach fuel load.

Turning to Unit 4. Direct construction is now approximately 80% complete, and the current site work plan targets completion in the third quarter of 2022, which would provide margin to the regulatory approved November 22 in-service date. Earlier this week, the site team placed the water tank on top of the Unit 4 containment vessel and shield building roof, representing the last major crane lift at the project site.

Integrated flush is in progress, and initial energization is expected in the coming weeks. The site is focused on increasing craft labor resources and electrical productivity. We will continue adding incremental resources while also shifting resources from Unit 3 to Unit 4, which is expected to increase our current pace of construction completion.

Construction completion has averaged 1.5% per month since the start of the year. In order to achieve the November 22 regulatory approved in-service dates, we estimate we would need to average construction completion of approximately 2% per month through the end of this year.

And as a reference point, Unit 3 averaged approximately 2% during the second half of 2019 and through the first half of 2020, which did include periods heavily impacted by COVID-19.

Looking now at cost. During the first quarter, Georgia Power allocated $84 million of contingency into the base capital forecast related to extending the schedule for Unit 3, performing construction remediation work and increasing support resources across both units.

Copyright © 2021 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

As a result, Georgia Power replenished its contingency by $48 million, recording an after-tax charge of $36 million at the end of the first quarter. While there was contingency remaining prior to this increase, we believe providing this additional amount of contingency is appropriate when considering the extended time necessary to reach the start of Unit 3 hot functional testing and the potential cost risk remaining as we complete both units.

The major risks that remain to our cost estimate are similar to those for schedule, namely: one, our ability to increase earned hours and improve productivity or CPI at Unit 4; successful completion of the Unit 3 hot functional testing; and three, completion of the system turnovers and subsequent testing leaded to the Unit 3 fuel load.

Notably, at this time last year, the onset of COVID-19 led to many uncertainties at the project site. The site team has responded in exemplary fashion, maintaining safety and progress toward completion of both units during what has been an unprecedented year.

With effective COVID protocols in place and now the broader availability of vaccines, the impact on the site has decreased in recent months, as active cases and isolation rates are trending significantly lower.

We are very pleased that Unit 3 hot functional testing is underway. We've consistently said that both the commencement and successful completion of this testing sequence will reduce risk for the project.

And as always, I want to thank our employees, contractors, co-owners and community partners for their unwavering dedication to this important project.

Drew, I'll turn it over to you now for an update on the financials.

**Andrew William Evans**
*Executive VP & CFO*

Thanks, Tom, and good afternoon, everyone. I hope you're all safe and well. As Tom mentioned, we had a very strong start to the year. Our adjusted EPS for the first quarter of 2021 was $0.98, $0.20 higher than last year and $0.14 above our estimate.

The primary drivers compared to last year was strong performance at our state-regulated utilities despite a comparative quarter that had very limited COVID-19 impacts. The lessons we learned during COVID-19 allowed us to maintain a relatively static cost structure as we saw withdrawal of COVID-19 impacts from their peak.

We saw a year-over-year benefit of $0.06 from weather due to the extremely mild first quarter we experienced in 2020. Further, retail electric revenues increased in aggregate due to strong customer growth in the Southeast and constructive state regulatory actions.

When looking at an adjusted EPS as compared to our estimate for the quarter, the main drivers of the positive variance were continued expense discipline, retail sales impacts from COVID-19 that were nearly 60% better than our forecast across all customer classes and significantly lower than their peak and residential customer growth that has continued to exceed our expectation by almost 50%. We added nearly 60,000 customers last year.

A detailed reconciliation of our reported and adjusted quarterly results as compared to 2020 is included in today's release and the earnings package. Looking more closely at sales in the first quarter, weather normal retail sales were only approximately 1.5% lower than last year's largely unaffected quarter. This decrease was driven by the continued trends of higher residential sales, offset by lower commercial and industrial sales compared to normal times. While residential sales remained elevated, commercial and industrial sales continue to be depressed by about 3%. As you would expect, the commercial subsectors most impacted by the pandemic continue to be office, restaurant and education. These are meaningful declines, and we expect recovery to be very gradual even with improving economic conditions. For industrial sales during the quarter, supply chain constraints appear to be affecting the automotive sector with primary metals and chemicals also down, but construction and lumber, in particular, are demonstrating early strength.

Copyright © 2021 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

In general, all industrial segments have moved stronger since the COVID-19 peak. The economies in our service territory are showing strong signs of recovery, with retail sales exceeding our expectations in the first quarter by roughly 3 percentage points. A recent analysis produced by IHS Markit estimates that most southeastern states, including Georgia, Alabama and Mississippi are predicted to return to their pre-pandemic peak employment levels by 2022 while other states may not return to these levels until 2025 and beyond.

We have certainly learned that the COVID-19 pandemic and its impacts are unpredictable, but the potential for more near-term recovery is encouraging. We mentioned on our last call that economic development trends are strong in our region, particularly in Georgia. And in fact, in the first quarter of 2021 alone, economic development announcements in Southern Company's retail electric service territory included the addition of over 3,600 new jobs and investments of more than $2.2 billion.

We saw strong activity in both nonmanufacturing and manufacturing segments with new project announcements across a variety of industries, including warehousing, distribution, scientific and transportation equipment, among others.

For the second quarter of 2021, our estimated EPS -- our adjusted EPS estimate is $0.78. I would also 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 in our common dividend raising our annualized rate to $2.64 per share.

This action marks our 20th consecutive annual increase and for 73 years, dating back to 1948, Southern Company has paid a dividend that was equal to or greater than that of the previous year. The Board's decision to increase the dividend reinforces the strength and sustainability of Southern Company's business.

This dedication to continuing our dividend increases, combined with our projected long-term EPS growth rate of 5% to 7% supports our objective of providing superior, risk-adjusted total shareholder return to investors over the long term.

Before I turn the call back to Tom, I'd like to spend a few minutes providing an update on some of our strategic priorities. On our ESG efforts, recall in January, Southern Company became the first major U.S. utility to publish a sustainability financing -- sustainable financing framework.

Our first issuance was a green bond related to Southern Power's Renewable Investments, further solidifying Southern Power as one of the largest green bond issuers in The United States. In February, we issued our inaugural sustainable bond at Georgia Power with net proceeds to be used for sustainable projects such as our spending with diverse and small business suppliers and our investment in renewable energy projects.

The Georgia Power issuance aligns with our ongoing commitments to the community and the continued growth of Georgia Power's solar portfolio. We look forward to leveraging our sustainable financing framework for future financings by all of our issuers as appropriate.

Also, I'd mention that Southern Power has been very active over the last few years, establishing itself as one of the nation's largest renewable generation owners with a total renewable portfolio of nearly 5,000 megawatts in operation or under construction.

Within the last month, Southern Power announced the acquisition of the 300-megawatt Deuel Harvest wind facility located in South Dakota and the 118-megawatt Glass Sands wind facility located in Oklahoma. With these acquisitions, Southern Power now owns 15 wind projects and approximately 2,500 megawatts of solar across the U.S., along with approximately 160 megawatts of battery storage.

The existing generation fleet comprised of both renewables and natural gas is over 90% contracted for the next 10 years. Finally, over the past 3 years, we have strategically simplified our business in order to focus our time and investments in our core operations.

Copyright © 2021 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

As another example of that commitment, yesterday, we entered into an agreement to sell our wholesale gas trading and services business comprised of Sequent Energy Management and Sequent Energy in Canada, and we expect to complete the transaction in the third quarter of 2021. We do not expect a material gain or loss on the sale of the business, though it will provide a return of the associated working capital and the elimination of certain credit supports of approximately $1 billion. As a reminder, we have always excluded Sequent's earnings from our adjusted results due to its quarterly variability. So the sale of this business both reduces risk and has no impact on our adjusted EPS expectations for the remainder of the year.

I'd like to personally thank the team at Sequent for their years of dedication and service to the company. I can tell you that it's been my pleasure working with all of those individuals at Sequent for more than 20 years, and I really look forward to their continued success.

Tom, with that, I'll turn it back over to you.

**Thomas A. Fanning**
*Chairman, President & CEO*

Thanks, Drew. As I noted last quarter, we achieved a 50% reduction in GHG emissions in 2020, beating our 2030 goal by a decade. Earlier this month, we filed an integrated resource plan in Mississippi that includes the retirement of Mississippi's last coal unit in 2027. Both Alabama Power and Georgia Power will work with their respective regulators over the next year in responding to the effluent limitation guideline rules, which they will reflect in their next integrated resource plans.

We will also continue to work with all stakeholders in developing these strategies. Another note. We have historically worked in partnership with municipalities and co-ops in our region. We work hard on mutual respect and constructive collaboration. As an example of the wisdom of this approach, Alabama Power recently signed a long-term agreement with PowerSouth, a valued customer in Alabama, which is expected to create energy savings and enhanced system reliability from coordinated planning and operations.

As a part of this agreement, Alabama Power has the right to participate in a portion of PowerSouth's future incremental load growth. In closing, our strong first quarter positions us well to deliver on the financial objectives for the year. With the summer months and storm season ahead, our operating companies are well prepared to support the needs of our customers. And of course, all eyes remain on progress at Vogtle. And we look forward to providing continued updates as we approach fuel load and in-service for Unit 3. Thank you for joining us this afternoon. Operator, we are now ready to take questions.

Copyright © 2021 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

# Question and Answer

**Operator**

[Operator Instructions] Our first question comes from the line of Julien Dumoulin-Smith with Bank of America.

**Julien Patrick Dumoulin-Smith**
*BofA Securities, Research Division*

So if I can -- if we can chat here, I mean, you pointed out several factors that contributed to the progress on the project, right? But clearly, productivity is your focus area, it seems like from your prepared comments here.

Can you talk about your plans there to turn around productivity? It sounds like it's more so at Unit 4 than Unit 3. But just altogether, where do we stand more specifically numerically on productivity? Where does that set you up? And what do you think you can do to improve that specifically?

**Thomas A. Fanning**
*Chairman, President & CEO*

Yes. Well, look, number one, we're basically modeling forward experience on 3 for 4. So let's think about it. Do you remember last year, it really started about the last 6 months of '19 through the first 6 months of '20. Remember when we were staffing up effectively, that's what we're doing now on 4. We've delayed that, and we've accounted for all this in the revised estimates, [indiscernible] and everything else because we didn't want to release all these people to 4 until effectively we finished 3.

So what we have done is just estimated that we can hit November with experience similar to last year, we'll get CPI up to, I don't know, about [indiscernible] [ 1.65 ] for the remainder of the project. We'll be completing at least 2%.

Now here's where I think we have room for improvement. Remember the period I just told you, last 6 months of '19, first 6 months of '20. Included in that, were 3 waves of COVID. Now who knows what's going to happen with COVID. But we have some reason for optimism, given that we've expanded vaccines. It appears that the waves have gotten smaller, certainly, our experience right now is way less than it has been.

And so our view is productivity should rise. And so we have some level of optimism. Obviously, we can't guarantee it that we'll at least meet or beat what we did on Unit 3 with Unit 4. One last thing. There are always lessons learned on Unit 3. And some of the quality measures we just talked about going into hot functional tests, we're applying all of those lessons to Unit 4 so that we won't have to repeat them there.

In fact, our good friends from Vogtle came to our last board meeting and reiterated the notion that we should see better performance on 4 than 3. All we're saying is right now, Julien, that even if we did just what we did on Unit 3, we can hit November. We frankly believe and expect we'll do better.

**Julien Patrick Dumoulin-Smith**
*BofA Securities, Research Division*

Got it. But we won't see that uptick in replacing a personnel until after fuel load, just discuss [indiscernible]

**Thomas A. Fanning**
*Chairman, President & CEO*

I would say -- so let's go through the big risk factors going forward on 3. I guess the predicate is you got to have a successful HFT, right? I think the biggest risk factor, however, going forward is after HFT to fuel load, there's 2 segments of work left that we still have to do and do well.

Copyright © 2021 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

One is completing the work that really is related to nuclear fuel, right? HFT means that we're going to use the effluent heat of the reactor coolant pumps to heat up the project. So it would be things related to nuclear fuel like the systems required to remove the fuel from the fuel pool and move it over to the reactor core.

It would include systems like finishing up the rad waste facility. The second segment would relate to what I would call broadly support systems, recall that we're going to have about 800 permanent employees at the site. So support systems for those folks.

So let's think about HVAC, communications, but a lot of the water, things like that, that will support the people that are going to be working at the plant. And just to give you one more frame of reference, it's taken a lot to get to HFT, something like the latest work we've been doing, 60% of those systems are what we would call safety related.

And by that, you should hear complexity. The amount of work to be done in between HFT completion and fuel load is significantly less, maybe 60% of that work and only about 10% or less of those systems are safety related. So I will say this to you. I believe that, that's the next riskiest thing we have to do. But it's not as big a deal as it has been getting to HFT.

And then the third final thing is having a successful run from fuel load in service. We feel pretty confident about that.

Last point. So I think, Julien, that you were starting to see people move now, frankly, from Unit 3 to Unit 4. Certainly, that will get accelerated into the summer. Probably, it will start to max out around June, and then we'll hit our numbers at Unit 4.

**Operator**

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

**Steven Isaac Fleishman**
*Wolfe Research, LLC*

So just first on the -- I guess one question on Vogtle. Just the quality issues that you -- quality control issues you identified on the, I guess, the release during March.

I assume you feel like those have been remediated. And maybe just give some color on kind of what was done to make sure you're kind of on the right track there.

**Thomas A. Fanning**
*Chairman, President & CEO*

You bet. So let's back up for several calls. And I use this vernacular, but I always caution you, it's just vernacular, paper. But effectively, that involved assuring that there was in the evaluation of the as-built site -- as-built condition of the plan as compared to the design basis of the plant that was harmonized. And where there were differences that we made adjustments. Some of that was work that needed to be remediated. When we saw this starting to delay beyond what we thought, recall, that we were calling for a last 2 weeks in March kind of start of HFT.

We decided to really stop and take a good look at the system. It appears that while there were some issues elsewhere in the plant, the concentration of issues really dealt with the electrical systems. And then when you think about what it takes to turn over a system, effectively, when we saw these problems start to manifest itself, we caught it ultimately with our quality control program.

And so in effect, we had -- we sat back and looked at it and said, no, our quality control program does work. We have identified the systems, we have remediated them in order to start HFT. There are some things that we did catch that will continue to be remediated from the finish of HFT to fuel load. But we've sketched all that out, and we're pretty confident that everything that we know we're dealing with. All of this is a part of our current cost and schedule estimates.

Copyright © 2021 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

I would say, too, that and Vogtle would agree with this. We talked about this with our Board that for what we have found, we think we are making adjustments to Unit 4 so that we will not -- we should not repeat any of these issues going forward. That gives us more confidence in schedule and cost.

**Steven Isaac Fleishman**
*Wolfe Research, LLC*

Great. Different topic. Just the Sequent transaction and sale. Did you name who the buyer was? And just can better understand. So effectively, are you freeing up $1 billion of effective balance sheet through this sale, even if there is not a direct payment? Is that how to think about it or...

**Andrew William Evans**
*Executive VP & CFO*

Steve, it is. We have not announced the buyer because it's something that they will likely announce on their earnings call that will come in future days. It is somebody very credible and respected in this space. And so we just think we found a better owner for Sequent than ourselves.

We probably tie up something on average like $200 million worth of working capital. So we have to provision for that within our credit facilities. And then because of the gross revenue or gross sales associated with that business in forward positions, probably something like another $800 million worth of parental support. And so these things will be freed up after some transition. We don't expect the transaction to close until the beginning of the third quarter, but we'll alert you as things progress.

**Thomas A. Fanning**
*Chairman, President & CEO*

I always love to say, value is a function of risk and return. And when you look at it, we've never included any earnings from Sequent in our return. We've always exed them out as extraordinary items. They're just too variable, and it's fascinating. I just have some quick data to show how variable we are.

If you look at Sequent even prior to when Southern made the acquisitions, say, from 2010 forward, they've averaged about $40 million in net income. They had 2 years. One was $260 million, and one was $163 million, where they really blew out earnings.

Other than that, the earnings were near 0. If you exclude those big years, so over 9 years, they averaged about $4 million of net income. And since we've owned Sequent, there's been 1 big year, the $163 million in 2019 and then this year. And then otherwise, the earnings were around $23 million in net income.

And so if you step back and look at it, number one, we ex any earnings. Number two, because of the balance sheet we are bringing up $1 billion, that reduces our risk profile. So net-net to corporation value, we think this is a clear winner.

I think one more thing I just ought to point out. Sequent had a really good earnings year in the first quarter. Thankfully, they had gas and storage which supported the needs of the state of Texas primarily. Remember, there were constrained gas flow. Sequent was able to step into the breach and sell a lot of gas in storage and made a lot -- made some profits off of the volumes that they were able to provide, thank goodness to Texas' customers. That produced net income of around $200 million. In recognition of our commitment to communities, we took $75 million or so of that $200 million and put it into our foundation. That is going to get reploughed back into communities.

So you'll see net income for Sequent in the first quarter of around $133 million or so. So look, we had a good year. I do think that the buyer is, as Drew said, a better owner. And I've said that for years. A lot of M&A is all about who's the best owner of any particular asset. And I think for what we bought and what we've sold, I think we've demonstrated our ability to bring value to shareholders every time.

**Steven Isaac Fleishman**
*Wolfe Research, LLC*

Copyright © 2021 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

Okay. And then last question is just on the renewables acquisitions in the wind. I'm just curious kind of what returns are you seeing there? Because I recall there was a period of time where you had been saying that returns didn't really look good for these transactions, and then you've been ramping them up more recently.

So I assume maybe that you started to see them improve again. Could you just give some color on that?

**Thomas A. Fanning**
*Chairman, President & CEO*

Yes. We think it's really a tough business. We continue to believe that. And Steve, I've talked about that in the dimensions of kind of the duration of the contracts, the terms and conditions of the contracts. And so it's just been harder. There's a lot of deals out there. I would say that our share of new deals has just been lower than historical because there's too much money chasing too many deals. We keep the same thresholds in place. And rather than comment on any specific deal, in general, what we look for is significant contract coverage.

So in this case, 90% over 10 years, we look for those things. And we generally get profits that are, say, ROEs, plus $150 million over our regulated business. That would be our general threshold rather than commenting on particular deals. But these deals that we just mentioned, that Drew just mentioned, fit that profile.

**Operator**

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

**Michael Weinstein**
*Crédit Suisse AG, Research Division*

Just a follow-up on that last discussion. Could you comment on your commitment to business like PowerSecure also providing services out there? Is that -- how is that different than Sequent? What ways are you seeing more value there?

**Thomas A. Fanning**
*Chairman, President & CEO*

It's completely different. So we've talked, in fact, about a Venn diagram in the past, the 3 circles of a Venn diagram, in this case, would have been Southern Power, PowerSecure and Sequent. Now let's think about that for a minute. Sequent -- no, let's start with PowerSecure. PowerSecure has really been focused on kind of mostly the retail side of the business, particularly commercial and industrial customers where resilience is particularly important.

And in keeping with this 100-year-old model of central station, make, move and sell projects at scale, PowerSecure essentially represents the idea of miniaturizing that century old business model and putting the make, move and sell premise at the customer premises. So when you think about some of our major customers who do value resilience at an exceptional level, we can put microgrid.

We are by far the largest share of microgrids in The United States through PowerSecure. We can put distributed generation there. We can put proprietary switchgear and storage. And so this has been a wonderful kind of window on the world. Add to the Venn diagram, what we've seen lately at Southern Power. Southern Power grew up selling to other utilities or other co-ops or other munis. And lately, a great kind of target zone for Southern Power has been companies desiring green attributes. So General Mills, General Motors, Carnival Cruise Lines, people like that, that want to have renewables as part of their generation portfolio, so to speak.

The union of what we're seeing at Southern Power in respect of that business, that market, with the market that is served primarily by PowerSecure, there's great overlap and great mutual synergy. Now we used to have Sequent as part of that Venn diagram, where we would, in fact, take over fuel management for some of the distributed generation at all serviced by our customers. We feel we can do that ourselves

Copyright © 2021 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

now and selling Sequent doesn't impact to a significant degree our ability to serve that need of our customers. And if we can't do it, we'll find somebody that can.

So -- and look at the -- and one last thing I just want to leave you with. Look at the data over the past few earnings calls we've done, through hurricanes, winter storm Uri and others. Sequent -- I mean PowerSecure is able to provide reliability in excess of 98% in general terms across these very devastating storms.

This idea does work. I will say PowerSecure remains kind of a peanut to our earnings. We don't talk about PowerSecure in terms of being a contributor to earnings even though it is earning a little bit of money. I think the bigger value we see is as an option to what may be happening in the future, and that is because of technology, because of changing customer requirements, it gives us a window on the world that allows us not only to learn about this new market, but also to influence how it emerges, and to position our franchise businesses optimally.

**Andrew William Evans**
*Executive VP & CFO*

I'd just add. You described it as a window on the world. It's sort of antenna into what the needs of the customer base is. It really looks like people are focused on an extra 9 of reliability, but the assets can be used either to meet that reliability or it can be dispatched.

I think our best example most recently is that we'll do constructions at the Atlanta airport to produce the kind of reliability that's required there. But in terms of distributed generation, I think it demonstrates that folks are not really all that interested in prime power, but more interested in the kinds of backup and a surety that you can get out of the PowerSecure product line.

**Thomas A. Fanning**
*Chairman, President & CEO*

And regardless, the phrase I would use is distributed infrastructure, which includes beyond generation, microgrids, storage, switchgear, et cetera. I think it's a small thing, but it really helps us.

**Andrew William Evans**
*Executive VP & CFO*

Yes.

**Michael Weinstein**
*Crédit Suisse AG, Research Division*

All right. More of a future look keeping your finger on the pulse of where the technology is going?

**Andrew William Evans**
*Executive VP & CFO*

That's right. That's right.

**Michael Weinstein**
*Crédit Suisse AG, Research Division*

Yes. Along those lines, one more question on this subject, and that's battery storage. You have in the deck a couple of big battery storage projects stand-alone, I believe. Is that something that you see more stand-alone battery projects like that getting built maybe as much as much as we're currently seeing in our renewable projects? Is that enough incomer? Is that something with higher returns than wind and solar, something that may replace that?

**Andrew William Evans**
*Executive VP & CFO*

I don't know about -- it will be interesting to see whether the returns are higher. I think it's an absolute requirement. We'll build a couple hundred megawatts of battery if you include what's in the Tranquility and

Copyright © 2021 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

Garland packages, but also what we'll be doing within the state of Georgia. We're building the 2 facilities we named as part of -- as complements to our existing solar facilities in California.

But storage itself is probably the single biggest complication with the transition to renewables over the next couple of decades, whether it's going to be lithium ion, which is relatively short duration, if you think about how our system operates today or something more complex like compressed air energy or liquid air or liquid metal. Pump hydro is probably another great example.

We're going to have to find ways for long duration storage to complement the kinds of assets that we're talking about on the renewable side. One of the nice arrangements that we have within Alabama Power -- with power source is that they actually operate today a case facility that can deliver battery power for 26 hours. It's been operating for almost 20 years. These are great experiments and understanding things for us to learn. I do think that battery will be an increasing area of investment for us. We just have to figure out what technology is most pertinent for the circumstance.

**Thomas A. Fanning**
*Chairman, President & CEO*

And I'll just add, gosh, I think somebody is going to probably ask this later, so I'll just do it now. But when we think about CapEx going forward, we think about transitioning the fleet going forward. It's very clear to us that storage in some form, whether it's short duration, intermediate, seasonal, that's going to become important to support the intermittent profile of renewables. Gosh, I think to achieve net zero for us, we're going to need about 50% penetration, mostly of solar. And so on that cold winter peak day, you're going to need a whole lot more megawatts to be able to meet those needs. Some storage, some CTs, some CTs with CCS, you name it. So hydrogen is important in that regard. So these are important projects, too, that's helping us understand better how to meet the aspirations of this administration.

And just a little more [indiscernible]. So we're supportive of the bipartisan policy center and I'm a member of the net zero business alliance. We've had a session already with some other CEOs from Tyson Foods, Occidental Petroleum, United Airlines warehouse and ConocoPhillips. We're meeting again Tuesday with Gina McCarthy.

And so part of our whole premise here is engaging constructively with the administration with the concept of yes hand that is we're going to need to support, we're going to need the administration in the boat with us to achieve that aspiration, assuming we have a supply chain availability, assuming we have labor available. The big issue for us to hit these kinds of numbers is that over the next 15 years, we will triple the amount of generation we will put on the ground as compared to any other 15-year period in our corporate history. It is a big list. Assuming we get the support, can we do it? Yes, I think so. There are lots of policy choices along the way that make this a very complex decision.

**Operator**

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

**Agnieszka Anna Storozynski**
*Seaport Global Securities LLC, Research Division*

So I'm just wondering, look, I've never heard about Sequent before, I'm going to be honest. I've never heard about Pivotal either. So do you guys have any other like businesses we've never heard of that can either bring a lot of money for the purchase -- for the sales price or like relieve some balance sheet capacity?

**Thomas A. Fanning**
*Chairman, President & CEO*

Not really. We're working very hard to clean those things up. And we do have cats and dogs around the place, but southern investments, right?

**Andrew William Evans**
*Executive VP & CFO*

Copyright © 2021 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

Southern Holdings. So I think we've divested up a number of assets over the last couple of years, but this is -- Angie, I think our focus is just reduce business complexity, focus investment on the things that we think we were rewarded around, and this is just sort of evidence of it. Are there large pockets of these things? Not a lot, but [indiscernible] is a little bit less.

**Thomas A. Fanning**
*Chairman, President & CEO*

The last step we talked about in the past had been legacy stuff from [indiscernible] going way back there. We had -- they had a leasing business. They didn't have the tax appetite. So that came over with us. We've been dealing with that. Choctaw has been a part of that. We've talked about that in the past.

**Andrew William Evans**
*Executive VP & CFO*

Sold all of the gas-fired assets outside of our general service territory, but really just trying to focus on our core infrastructure.

**Thomas A. Fanning**
*Chairman, President & CEO*

Yes. That's right.

**Agnieszka Anna Storozynski**
*Seaport Global Securities LLC, Research Division*

But the $200 million you mentioned that the business made in the first quarter, that stays with you guys, right? So I understand that there's some adjustment.

**Thomas A. Fanning**
*Chairman, President & CEO*

That's right.

**Agnieszka Anna Storozynski**
*Seaport Global Securities LLC, Research Division*

Okay. Cool. And then...

**Thomas A. Fanning**
*Chairman, President & CEO*

Angie, wait a minute. $200 million, we put $75 million of that in a charitable foundation to help communities. So it kind of netted out at $133 million or so. But that was a decision we made.

**Agnieszka Anna Storozynski**
*Seaport Global Securities LLC, Research Division*

Okay. And then on Vogtle, and sorry for simplifying it this way. But I always thought about hot functional testing at the end of the construction stage of Vogtle 3. Now the past -- post hot functional seems to include a lot of construction it seems.

So is it that you guys have delayed a portion of that construction that was still needed to be done before the fuel load in order to, in a sense, start hot functional? What I'm saying is just -- again, it feels to me that there's still more construction to come even though I thought hot functional, the start of it is the end of the construction cycle?

**Thomas A. Fanning**
*Chairman, President & CEO*

Yes. We adjust the construction schedule all the time to optimize cost and schedule. We try to do that. In fact, we do it every week, to be honest with you.

Copyright © 2021 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

In 2020, we did but this goes back to 2020. We did make an adjustment to push some of the nuclear-related construction. Like I mentioned, rad waste facility, like I mentioned, the equipment necessary to move the fuel from the storage pool over to the reactor, that was moved past HFT.

The systems related to support the personnel at the site have kind of always been there, I think. That was the last move, but that was kind of a year ago. And like I say, for the amount of construction left, only -- I don't know, it's 10% or less. We got into an argument about what's complex and safety related, but it's a smallish amount of that work that is in that vein left to do.

So it was nothing that was tactically decided, in my view, to do anything with HFT. This was a decision we made back mostly in 2020 except that we make adjustments every week.

**Agnieszka Anna Storozynski**
*Seaport Global Securities LLC, Research Division*

Okay. And so just one follow-up. So is it fair to say that what's left to be done -- and granted that it's probably somewhat depends on what the hot functional testing uncovers. But is it fair to say at this point, you think what's left to be done on the construction side is something pretty straightforward? And so it shouldn't be prone to delays that we've seen in the past?

**Thomas A. Fanning**
*Chairman, President & CEO*

Yes, I wish. I mean, Angie, you've lived with us for a number of years here. I mean there's nothing that's easy. Every day, I've described out there as a dog fight, but it certainly is less complex than what we've been doing to get to HFT.

**Operator**

Our next question comes from the line of Jeremy Tonet with JPMorgan.

**Unknown Analyst**

Ryan on for Jeremy. [indiscernible] Just wanted to start kind of some of what you're hearing at the federal level as kind of the infrastructure plan. Maybe just regarding nuclear and kind of general federal support you're seeing at the moment for kind of just the nuclear generation in general.

**Thomas A. Fanning**
*Chairman, President & CEO*

So this is an excellent question. Here's my view. And let me speak broadly. The administration, if they're going to hit their aspiration of 80% removal by 2030 and 100% net zero by 2035 and then move the whole economy to net zero by 2050. This is an important and awfully complex and difficult undertaking. And we are ready to support them however we can. And this is part of the conversations we've been having on an ongoing basis with this administration. As I mentioned, talked with Gina McCarthy before on a different level. We'll be talking -- I'll be talking with her again next Tuesday.

I think the administration gets it that there needs to be a whole different level of public-private cooperation and collaboration, carrots and sticks in order to get this done. I will say, talking the book of nuclear that it's important for the United States to keep nuclear as a priority. And so anything they can do to help to keep the nuclear assets alive really helps the United States broadly with their long-term goal. And that not only includes projects like ours, current nuclear assets in operation that are at risk because of an imperfect market design, but also providing R&D support for the so-called Gen 4 reactors, that may appear in the 2030 time frame. All of this is an important part to achieving net zero for the economy by 2050.

**Unknown Analyst**

And then maybe just one more kind of at the federal level, just high level thoughts. I mean, we've seen, I think, some companies in early stages talking about kind of carbon sequestration, some focus on maybe

Copyright © 2021 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

improving some of the tax credits on that side. I don't know if there's anything that's on your radar? Or kind of how far away you see that technology at this point?

**Thomas A. Fanning**
*Chairman, President & CEO*

So let me just say this. I think the Wyden's bill that's kind of floating around right now is pretty supportive to kind of a long-term objective. So I would take a look at that piece of proposed legislation and see what it has. That's a pretty good start. There could be lots of other things. It's interesting. I did some media this morning, and people were asking me kind of specific ideas.

At this point, there's more ideas than there are solutions. But we're going to need to work together, carrots and sticks. And you know what, at the end of the day, the objective function is not just carbon. For the American economy, and this goes back to my work with the Fed, it is so important to the fabric of our economic health as a nation.

We got to get this right. And in getting it right, we've got to balance the notions of clean, safe, reliable and affordable. So all of these must work in balance to achieve a good result for this nation.

**Operator**

Our next question comes from the line of Andrew Weisel with Scotiabank.

**Andrew Marc Weisel**
*Scotiabank Global Banking and Markets, Research Division*

I've got a quick one on the balance sheet. It looks like you dropped the expected debt financing plan for the next 3 years by over $2 billion. I imagine a bulk of that is the $1 billion of freed up working capital and parent credit support related to Sequent. Does that also include cash proceeds from the sale? And are there other noteworthy factors there?

**Thomas A. Fanning**
*Chairman, President & CEO*

Wait a minute. I'm going to turn this over to Drew. The broad conclusion of your question is no. None of this has anything to do with Sequent at this point.

**Andrew William Evans**
*Executive VP & CFO*

Andrew, I'd just say the reason it dropped is because we did the long-term debt issuance of $2 billion. Sequent really only changes what we would provision for short-term working capital. So that would come out of bank revolvers and the like. But I would say if you aggregate what we actually issued in the first half, you come up with a number that's almost exactly the same as what we had projected when we met with you last. But we can -- we're happy to walk you through the table. I think it's Page 19 or something like that in the earnings packet.

**Andrew Marc Weisel**
*Scotiabank Global Banking and Markets, Research Division*

Okay. My mistake. I think I just misread that table then. Sorry about that too. But [indiscernible] Sequent would be incremental or no?

**Andrew William Evans**
*Executive VP & CFO*

No. So we will -- the sale will occur at or around book value, plus or minus. That's a relatively small number. It won't have major implications for cash generation. We'll then be able to reduce revolvers because we're getting a return of working capital.

Copyright © 2021 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

These numbers are in order of magnitude smaller than what you're looking at on Slide 19. Other $800 million generally takes the form of parent guarantees or assurances for the underlying transactions that Sequent has entered into. Those aren't denominated on the balance sheet. They're sort of off-balance sheet assurances from parent. So we will leave it at that.

**Andrew Marc Weisel**
*Scotiabank Global Banking and Markets, Research Division*

Okay Understood. Then just one quick one on COVID. Are you able to provide some numbers around active cases of COVID and absenteeism on the construction site? Tom, I think you said they're trending lower, but are you able to quantify that? And without getting into sensitive information, do you have any sense of vaccination rates among workers on the site?

**Thomas A. Fanning**
*Chairman, President & CEO*

I don't on vaccination rates. I know they're up, I saw a report recently that another 500 got vaccinated. I do know that. I can't tell you what percent of the workforce is vaccinated. That may violate HIPAA rules and all sorts of things.

But right now, I mean, I'll just tell you the current report card, only 20 people are tested positive for COVID on the site. At other times, we've had hundreds in that vein. The total positives since the project has begun is 2,500. We've had nearly 10,000 people tested. We only have 75 people in isolation right now. And that number, I think, in one reported period was 500. So it's way down.

**Andrew Marc Weisel**
*Scotiabank Global Banking and Markets, Research Division*

[indiscernible] ebb and flows.

**Thomas A. Fanning**
*Chairman, President & CEO*

Yes, it is great to hear. I just don't know what's going to happen with these new variants and everything else. We are hopeful that the worst is behind us.

**Andrew Marc Weisel**
*Scotiabank Global Banking and Markets, Research Division*

Agreed. Fingers crossed.

**Operator**

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

**Michael Jay Lapides**
*Goldman Sachs Group, Inc., Research Division*

Easy question for you. It's just been a while you all had previously, I think, disclosed what your potential coal ash remediation liabilities were. I think it's been a couple of years. Can you talk about what that number is in dollar billions, and the time line you think you have to meet those requirements for the plants that are still operating?

And to be honest, how material are the coal ash and CCR regs to not just your coal fleet, but the entire region's coal fleet?

**Thomas A. Fanning**
*Chairman, President & CEO*

I'll turn this over to Drew. It's $10 billion over 10 years.

**Andrew William Evans**

Copyright © 2021 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

*Executive VP & CFO*

Yes. And Michael, I think you can probably find all of that. We do a pretty decent detail of it in the 10-K every year.

And so you can take a look at how that has modulated. As Tom said, it's about $10 billion over 10 years. If I think about what's in our 5-year plan, probably 30 -- maybe at most, 40% of it is contained within that 5-year period, and then the balance hangs out over the end of that.

**Michael Jay Lapides**
*Goldman Sachs Group, Inc., Research Division*

But for operating -- I'm just trying to get my arms around how important of a factor this is in the retired, not retired decision for existing plants -- for operating plants?

**Thomas A. Fanning**
*Chairman, President & CEO*

It's not important at all. I don't think. I mean I came out one annual meeting and said, we were going to get -- we're going to retire all our ash ponds. And we did that before there was any legislation and all that other stuff.

We were really ahead of the game there. I really think the more important issues going forward are things like the effluent limitation guideline. It's going to be a big deal. What is that -- we got to declare by around October. So for sure, we are working with our regulators and the staff to get our arms around that issue because you kind of have to make a declaration.

And then as we said, I think in the script, that those conclusions would be a central part of our filings in Alabama and in Georgia with respect to the integration -- integrated resource plan.

**Andrew William Evans**
*Executive VP & CFO*

The only thing I'd also point you to maybe is that we will have to make filings against the ELG requirements that's effluent limitation guidelines in October that will require us to specify for each facility that we operate, whether we intend to make investment, to continue its operation, whether we expect to close that facility or whether we'll make some investment to put that facility into a condition that will allow it to operate something like 10% of the year. But I would say that coal -- we are not producing generally wet ash, and it is not part of our investment, for closing decisions on those facilities. Almost everything is based on economics and any other constraint that we might face perhaps at the federal level.

**Thomas A. Fanning**
*Chairman, President & CEO*

And I'm going to reach back to other earnings calls when I remember, I raised myself skepticism about our CapEx that we show. I still think it's thin. And we talked about transmission as a component of its thinness. I believe that as you take all these issues going forward, when you start retiring coal plants, the generation has to come from somewhere.

And when you think about renewables being so important, we need to think about reevaluating our long-term transmission plan in order to hit those kinds of objectives.

And it may be that retired coal plants could be prime areas to locate some of those resources and built by our host companies. But look, this is going to evolve over the next, I don't know, 10 to 12 months. We'll have a lot more information for you later. I do think the Mississippi signal is pretty important.

**Operator**

Our next question comes from the line of Durgesh Chopra with Evercore ISI.

**Durgesh Chopra**

Copyright © 2021 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

*Evercore ISI Institutional Equities, Research Division*

Maybe I'll just start with Drew and then my global question for you. I'll come back to you. Just Drew, on the quarter, the weather was -- looks like a bad guy versus normal.

I'm trying to reconcile sort of the $0.98 to the $0.84 guide. Is that predominantly just better COVID trends?

**Andrew William Evans**
*Executive VP & CFO*

It is. So if you think about what we experienced, we were expecting kind of a sideways COVID relative to what we experienced in fourth quarter and what we actually saw was something that was really just about a 1.5% reduction in total retail sales. If you think about where we were for the year last year, we were down in aggregate, kind of 3% on average and almost 7.5% on peak.

And we're just projecting forward as we think about second quarter, assuming that we don't really see much improvement from where we are today. So a little bit of sideways until we get a better understanding of what's coming down the pike in terms of COVID.

**Thomas A. Fanning**
*Chairman, President & CEO*

And Drew, our COVID estimates were of the vintage of last October, somewhere around there?

**Andrew William Evans**
*Executive VP & CFO*

Sure, for budgeting purposes.

**Thomas A. Fanning**
*Chairman, President & CEO*

And I think it stands we could reevaluate what the effect may be going forward.

**Durgesh Chopra**
*Evercore ISI Institutional Equities, Research Division*

Got it. Okay. I mean, I guess this is just the first quarter, and you have sort of the balance 3 quarters to go. So you'll reevaluate guidance as we move along. But clearly, you had a very strong start and looked like on COVID terms, certainly better than expectations.

**Andrew William Evans**
*Executive VP & CFO*

That's right. We always evaluate our guidance in October after we've gotten through the summer season. If you think about the major factors that influence outcome, weather is always a dominant one that's difficult to predict. COVID, for sure, is difficult to predict.

We want to make sure that we're making the proper investments and making the right expenditures in each of our states. And so we've got a provision for that in the second quarter. And then just know that in terms of total earnings, we would be disappointed if we're not toward the top end of the range this year. But certainly, we have limitations as it relates to earned ROEs and commitments back to customers.

And so those adjustments typically hit in the fourth quarter that tend to modulate earnings into a much tighter range with the primary goal being very little variability in what we report relative to expectations.

**Thomas A. Fanning**
*Chairman, President & CEO*

With respect to those modulating effects, those would be above the top of the range.

**Andrew William Evans**

Copyright © 2021 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

*Executive VP & CFO*

Above the top, right.

**Durgesh Chopra**
*Evercore ISI Institutional Equities, Research Division*

Understood. Very helpful, guys. Maybe just, Tom, on the -- for the next 6 to 8 weeks as you're sort of doing this hot functional testing, can you just maybe elaborate on the specific risks and what remediation actions could you take in responding to those risks?

**Thomas A. Fanning**
*Chairman, President & CEO*

You mean within the test?

**Durgesh Chopra**
*Evercore ISI Institutional Equities, Research Division*

Yes.

**Thomas A. Fanning**
*Chairman, President & CEO*

Okay. Sure. So we're off to a good start with the test, although it is so early. But for whatever it is, 3 or 4 days of getting started here, it's gone well. Recall, the 45-day test is essentially 30 days of ramping up pressure and temperature and then 15 days of ramping down pressure and temperature. Don't get excited if we're different than 45 days. We actually did some work in advance of declaring in-service.

But I would assume it's going to be 45 days. If it's 50 days, it's no big deal, okay? But that's kind of the plan, 45 days. Then we opened the hood up, just like you bought a car and drove it for a month. Now you're going to look at it and see, did everything work like it was supposed to?

So there are stages along the way. As you think about -- I don't have it with me right here, but there is a detailed path of different checkpoints along the way. I think, in fact, it's imminent we're going to raise temperature to 175 degrees. I mean it might happen tonight, it might happen Friday, I mean, but that's the first level.

And then every incremental rise, they start checking system. I think the real thing I'm looking for that goes to risk is really the integration of everything, like, for example, we have tested all of our RCPs, reactor coolant pumps. We've tested them briefly, all 4 of them running together. Now we're going to run together for some period of time. Do all of the support systems work?

So not only do we have primary power in the integration of the plant, we have external backup sources that have to work. So this is the final crews, if you will, before fuel load, that make sure that the integration of all of the pieces we've checked so far do work. The culmination of all this is we're going to raise temperatures up to about 560 degrees, and we will create steam, and we will send it to the turbine, and we will spin the turbine, okay?

So this is kind of big stuff. The only thing that will remain then, finish the construction on some of these support systems and then load fuel.

**Durgesh Chopra**
*Evercore ISI Institutional Equities, Research Division*

Very helpful.

**Operator**

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

**Paul Basch Michael Fremont**

Copyright © 2021 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

*Mizuho Securities USA LLC, Research Division*

Congratulations on the start of hot functional. I want to start off with maybe a follow-up to Angie's question. You talked about a change of schedule, I think, June of last year. I think you added 500,000 construction hours. Can you just tell us, in layman's terms, roughly how many days or weeks that 500,000 hours represents?

**Thomas A. Fanning**
*Chairman, President & CEO*

So for that kind of -- that's an interesting question because I guess if you're talking about the history of Unit 3, it feels like maybe 2 months. But obviously, you got to think about when you're spending that. When I say 2 months, I'm looking over the whole period, there are some months where there was a boat load of hours. And right now, for example, construction is just about done, I think going back to Angie's question. I mean, there's a tiny bit of what I would call construction lift following HFT, and it's for the support systems and the little bit associated with nuclear fuel. So it depends kind of where you are, but these all fit into -- I would think about distributed over the whole curve of construction. So hard to say, my best guess is 2 months, we'll see.

**Paul Basch Michael Fremont**
*Mizuho Securities USA LLC, Research Division*

And then there's obviously remediation work that is now going to be added to that. So instead of 500,000 hours, what would the total amount of construction hours look like, including all of the remediation that you need to do after hot functional testing?

**Thomas A. Fanning**
*Chairman, President & CEO*

So is the question, how many hours remain after hot functional test of fuel load? Is that your question?

**Paul Basch Michael Fremont**
*Mizuho Securities USA LLC, Research Division*

Correct. Construction -- yes, construction hours.

**Thomas A. Fanning**
*Chairman, President & CEO*

Maybe 200,000, something like that. We'll finish most of that in June.

**Paul Basch Michael Fremont**
*Mizuho Securities USA LLC, Research Division*

You are saying 500,000 hours that were budgeted last year is no longer the case? It's not 500,000 hours anymore?

**Thomas A. Fanning**
*Chairman, President & CEO*

It's already been accounted for is the way I would say it. All of that. But you may remember at one time, Paul, we were talking about, gosh, I mean, I can remember, in fact, when we reset the schedule, we thought we might get fuel load by the end of the year.

And then the latest update we gave you all before the 8-K is we thought HFT would begin at the end of March, the last 2 weeks in March. And then when we saw that we had to remediate some of these issues, we pushed into April, that gave rise to the 8-K. And now we've given you new schedule, new cost that account for HFT as of April 25. We say that according to the schedule with 20 days of margin. But according to the schedule, that would give you a very late December in service.

Remember, if it was March, it was November. If it's April, it must be December. And April 25 gives you late December. And as we said, if there's any more delays, it could push you into the first quarter. But --

Copyright © 2021 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

I hope I'm answering you right question because the 500,000 hours has already been incorporated into schedule. It's been incorporated into cost. It's already accounted for. With 200,000 hours left between kind of now and beginning a fuel load, I hope I'm hitting the right -- I hope I'm hitting what you're asking.

**Paul Basch Michael Fremont**
*Mizuho Securities USA LLC, Research Division*

Okay. And then it looks like you have you've got about 53 turnovers remaining out of 159. Is that a fair characterization? And then it also looks like you've averaged about 10.5 turnovers per month from October through April. Is that fair?

**Thomas A. Fanning**
*Chairman, President & CEO*

I wouldn't use that logic. Turnovers are all determined by when systems clear to major tests. So we have about 50 left. But I wouldn't think about them as, oh, will you do x per month? They really are determined by here the presence of HFT. We had to pass a lot of systems to get to HFT. We have 50 more to go, less than 10% of those are what I would call, safety related. The rest are support, et cetera, as I've described.

So don't think about it on per month. Think about it on time to systems and what remains. And we feel that we can do this before fuel load. I mean we've given you the schedule. If you try to -- I'm afraid from your question if you're trying to say, "Oh, well, you've done 4.5 per month and you got 50 left, that says another 10 months. " That's not the right logic. If that was your question. It's not ratable analysis.

**Paul Basch Michael Fremont**
*Mizuho Securities USA LLC, Research Division*

Okay. Fair enough. So basically, I think what you're saying is you've got an estimated 200,000 construction hours from the time you come out of hot functional testing until fuel load. Is that reasonable in terms of a conclusion?

**Andrew William Evans**
*Executive VP & CFO*

Yes, I think one way to think about this is that we expected a certain reduction in intensity between hot functional test and fuel load, and we'll just have to maintain intensity for a little bit longer to make sure we meet fuel load on a timely basis.

**Thomas A. Fanning**
*Chairman, President & CEO*

Paul, one more piece of logic. We get these reports all the time in our big meetings. Remember, I've described these meetings where our process are effectively completely transparent. In other words, system independent monitors in there, representatives from the Georgia Public Service Commission staff, co owners, NRC, DOE, everybody is in there, okay?

We do an evaluation. There's this gigantic long chart that maps out all of the systems that need to be complete over time. One of the things I probably haven't said as clearly to you, as I will now. When you think about the remaining systems between, say, hot functional and fuel load, everyone of those remaining 50 systems are over 90% complete. So it's not like we're starting from ground zero. So you're really finishing up what is effectively almost complete construction. Maybe that's helpful.

**Paul Basch Michael Fremont**
*Mizuho Securities USA LLC, Research Division*

Yes. No. Actually, it is. And then my last question is I guess, when you get a root cause analysis on the need for remediation, you concluded that a motivation to credit construction hours as earned drove supervisors to turn over work to Southern Nuclear for testing without first correcting deficiencies in the work.

Copyright © 2021 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

Is it possible that the level of earned hours then would also have been inflated by the fact that they were turning over work before it was actually adequately tacked?

**Thomas A. Fanning**
*Chairman, President & CEO*

Yes. That may have been true. I mean that's possible, but that's all a little bit of bayoneting the dead. In other words, we are where we are right now. And I think that probably did cause the recognition of what was effectively complete as opposed to work that remained that needed to be remediated was not as clear as it could have been. So what we're giving you right now is a completely transparent view as to where we are and what needs to be done in order to complete. I think that analysis was kind of backward looking.

**Paul Basch Michael Fremont**
*Mizuho Securities USA LLC, Research Division*

And then maybe the last question. I think. Oh, I'm sorry, go ahead.

**Thomas A. Fanning**
*Chairman, President & CEO*

No, the only thing I'd just say, they should reappear in Unit 4 because we've taken into account those issues.

**Paul Basch Michael Fremont**
*Mizuho Securities USA LLC, Research Division*

And then I think on the third quarter call, you were talking about 45 days, I think, for hot functional and then another 55 days between the end of hot functional and fuel load. Is that still the schedule that we should be thinking about?

**Thomas A. Fanning**
*Chairman, President & CEO*

Yes. We've added about, I don't know, nearly 2 weeks into that schedule. You remember, Paul, from prior calls, we had, gosh, I want to say a little over a month in the startup from fuel load to in-service.

And we took -- we said this some time ago. We took about 2 weeks and added it into the hot functional test to fuel load. So you should think now that total period is kind of -- well, I don't know, 70 days, okay? We just added contingency in there. We added more margin. And we did that at the same time. So I think this was Angie. We did that at the same time that we pushed some work. That was around 2020, I want to say, somewhere around there, where we push some work beyond HFT into fuel load and also some last quarter.

And thank you for raising all these questions. They're all very important. So Paul, we sure appreciate your clarification here.

**Operator**

Our next question comes from the line of Andrew Levi with Hite Hedge.

**Andrew Levi**
*Hite Hedge Asset Management LLC*

This is off nuclear. So I just kind of have a thought about you guys and about where the industry is going. And Tom, you and I go way back as far as the industry. And back in the '90s when deregulation was starting, it was caused by very, very high electric rates. And there was something called the Super Southeast and those stocks traded at a premium. And then you've had companies like Kentucky Utilities and other companies with lower rates that traded at a premium.

So fast forward to now and fast forward to what the Biden administration is proposing and where the industry is headed. Now you have very high rates in the Northeast, mainly T&D companies that really

Copyright © 2021 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

don't have any levers to reduce their rates or to keep rates flat. But then I look at like Southern Company, again, we've got to get through this nuclear plant build. But once that is done, can you maybe talk about -- and you had at a very high level, but the opportunity to transform your fleet. And obviously, you've talked about that, but maybe the cost savings around that, the opportunity there. And what will happen to your electric rates longer-term relative to other parts of the country, and also basically, what that will do longer term, again, I'm thinking longer term for your growth opportunities?

**Thomas A. Fanning**
*Chairman, President & CEO*

Yes. Andy, it's a very interesting question, but here's the thing. I think the wisdom of the integrated regulated model will bear fruit significantly as we consider some of these issues. In the so-called organized markets, there is very little control as to constructing an optimal portfolio, number one. Number two, when you think about the portfolio, we should consider that it includes transmission. Number three, I think the fact that part of the secret sauce here is reconfiguring the portfolio absent coal. Coal carries with it a whole lot of O&M.

And so not only is there optionality in terms of the generation and transmission we will provide, I think by our planning processes, we can do that in a way that's much more orderly and effective and efficient than the organized market. And then finally, when you consider the O&M that could be freed up, by closing down some of these O&M intensive facilities like coal plants, we have the ability to use that O&M to keep rates lower than you'll find elsewhere in the country certainly even compared to those companies that are just wires only. Their ability to deliver the kind of price shock absorbers doesn't exist because they will be takers of cost from the market.

So I can assure you that we've already been talking about these issues with our regulators, with our stockholders -- I mean, our stakeholders. And I can think that we -- it's my earnings call, but I think we're better positioned in this kind of model in this region than elsewhere in the United States.

**Operator**

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

**Thomas A. Fanning**
*Chairman, President & CEO*

Yes. I just want to maybe end with Andy's comment there. This is a very exciting time for us all. We're making great progress on Vogtle. I think we resolved the delays, and we think we have a clear path. Every month that goes by, we reduce remaining risk in the project. And so I think we continue to progress this thing. And boy, I can tell you the site, for all the work they're putting in is really starting to see the dividends of all their efforts. And so I can tell you, we can see the light at the end of the tunnel. And we are imbued with enthusiasm.

When I think about the days ahead in terms of transitioning the fleet, Southern Company is committed to constructive collaboration, not just cooperation. Collaboration with the United States government to achieve their aspirations. And so we will work together. I love our cards in this regard. I know a lot of people give you a lot of rhetoric about where they say they are and what they have done. I would rather have our cards and almost anybody else's going forward as we address the future. Thanks, everybody, for your attendance today.

I know it went a little long, but I always enjoy interactions, and I know I always get a lot out of the questions you ask. Thanks again. Have a great next quarter, and we'll see you again in July.

**Operator**
Thank you, sir. Ladies and gentlemen, this concludes the Southern Company First Quarter 2021 Earnings Call. You may now disconnect.

Copyright © 2021 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

Copyright © 2021 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

These materials have been prepared solely for information purposes based upon information generally available to the public and from sources believed to be reliable. No content (including index data, ratings, credit-related analyses and data, research, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P Global Market Intelligence or its affiliates (collectively, S&P Global). The Content shall not be used for any unlawful or unauthorized purposes. S&P Global and any third-party providers, (collectively S&P Global Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Global Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON "AS IS" BASIS. S&P GLOBAL PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Global Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages. S&P Global Market Intelligence's opinions, quotes and credit-related and other analyses are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P Global Market Intelligence may provide index data. Direct investment in an index is not possible. Exposure to an asset class represented by an index is available through investable instruments based on that index. S&P Global Market Intelligence assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P Global Market Intelligence does not act as a fiduciary or an investment advisor except where registered as such. S&P Global keeps certain activities of its divisions separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions of S&P Global may have information that is not available to other S&P Global divisions. S&P Global has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P Global may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P Global reserves the right to disseminate its opinions and analyses. S&P Global's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P Global publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.
© 2021 S&P Global Market Intelligence.