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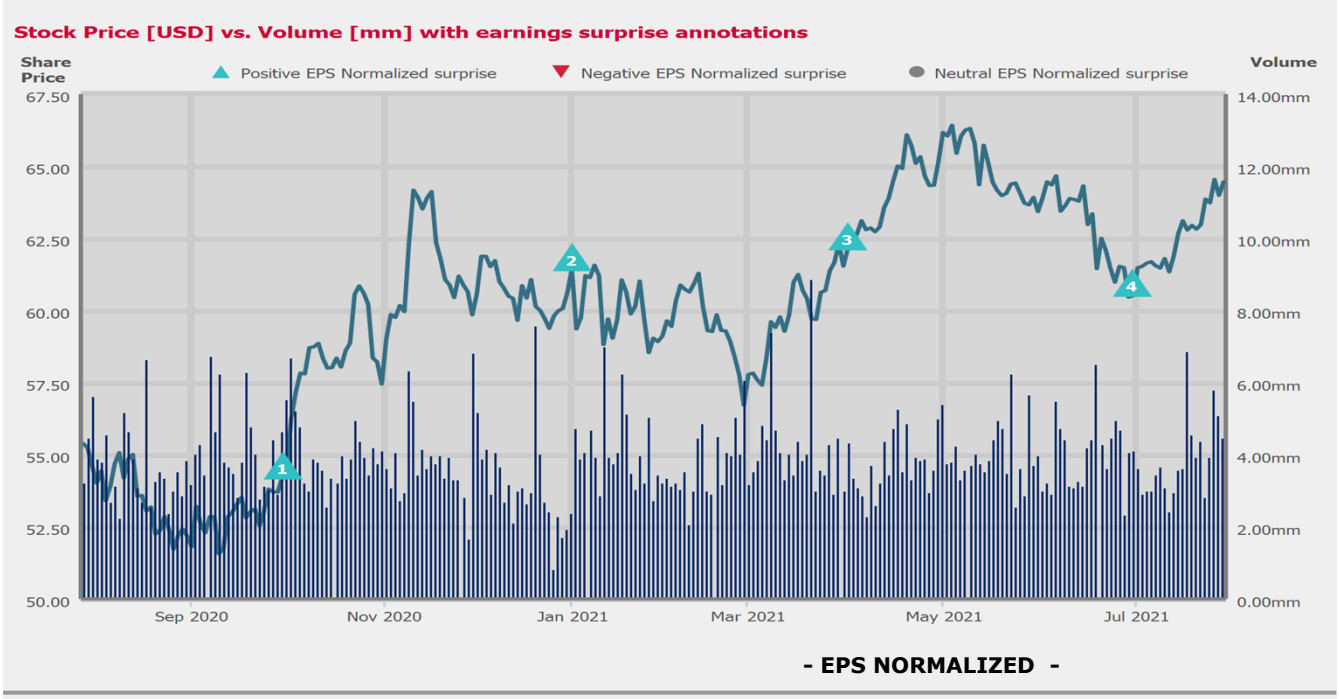
FQ2 2021 Earnings Call Transcripts

Thursday, July 29, 2021 5:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2021-			-FQ3 2021-	-FY 2021-	-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.79	0.84	6.33	1.23	3.33	3.55
Revenue (mm)	5013.72	5198.00	3.68	6351.75	22076.07	22916.21

Currency: USD
Consensus as of Jul-29-2021 1:12 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2020	1.21	1.22	1 0.83 %
FQ4 2020	0.42	0.47	2 11.90 %
FQ1 2021	0.83	0.98	3 18.07 %
FQ2 2021	0.79	0.84	4 6.33 %

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Presentation

Operator

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

Scott Gammill
Director of Investor Relations

Thank you, Rita. Good afternoon, and welcome to Southern Company's Second 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 that we will 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-Qs 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

Thank you, Scott. Good afternoon, and thank you all for joining us today. Drew and I will cover our usual business updates in a few moments, but first, let me provide an update on Vogtle Units 3 and 4. Unit 3 hot functional testing is complete. Through testing, we have validated the operation of critical primary and secondary systems at full temperature and pressure and demonstrated that the design basis is sound.

The completion of hot functional testing marks the last major milestone before fuel load and represents a significant step towards placing Unit 3 in service. Though the duration of high functional testing was longer than we originally anticipated, we remain committed to getting it right for all aspects of the project.

Taking into account the length of hot functional testing for Unit 3, the remaining activities for both units and recent productivity trends, we now project placing Unit 3 in service during the second quarter of 2022, and Unit 4 in service during the first quarter of 2023.

From a cost perspective, Georgia Power's share of the total project capital cost forecast increased by $460 million, largely driven by our updated schedule, recent productivity trends and replenishment of contingency to fund expected future risks. As a result, Georgia Power recorded an after-tax charge of $343 million during the second quarter.

With Unit 3 hot functional testing complete, our next and final major milestone for Unit 3 is fuel load. We project fuel load to occur sometime near year-end 2021 or early in 2022. As we approach fuel load, our commitment to get it right remains our top priority. As the operator of these units, safety is our paramount objective and we strive to meet first-time quality standards prior to significant testing and operations activities. We will not sacrifice those commitments to meet schedule or milestone dates.

The scope and time required for the work remain to prior to fuel load includes: one, completion of the nuclear fuel systems and the associated documentation, or paper, as I referred to it in the past. Two, completion of remediation work and additional work identified during hot functional testing. Three,

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completion of the work necessary to implement our plant support systems. And four, a reduction in productivity levels consistent with recent site performance.

The Unit 3 ITAAC's middle and review process is ongoing and continues to follow our construction and testing activities on site. To date, 208 ITAAC have been submitted to the NRC. We will submit the remaining 191 as we approach fuel load. Recently, the Nuclear Regulatory Commission conducted a special inspection of electrical quality issues that we had identified earlier this year and the remediation efforts that are underway. The on-site inspection is complete, and we expect the NRC's report to be published within a couple of months, though that exact timing will, of course, be determined by the NRC.

Turning to Unit 4. Direct construction is now approximately 84% complete, and we achieved initial energization in May. Our revised construction productivity assumptions are consistent with recent trends. And as I mentioned, we now project an in-service date during the first quarter of 2023 for Unit 4. Our updated time line for Unit 4 is reflective of several factors.

First, Unit 4 has experienced a slower-than-expected recovery from our COVID-19-related staffing reductions in early 2020. Recall, at the time the staffing reduction disproportionately impacted Unit 4 as we shifted our focus to Unit 3 critical path work front. Recall, we reduced the density of personnel on the site and effectively moved people from Unit 4 to Unit 3.

Second, Unit 3's time line leading up to enduring hot functional testing delayed our plans to transition resources to Unit 4. More recently, we have staffed Unit 4 independently as work on Unit 3 continues.

And third, over the past 3 months, the growing economy and demand for skilled labor has impacted our ability to attract and retain electricians. And as a result, we experienced higher-than-expected attrition. Attaining the necessary levels of craft labor to meet construction milestones for Unit 4 has been more challenging than expected. In recent weeks, we have seen positive staffing trends, driven in part by offering the enhanced electrician compensation, which has helped to mitigate further schedule impacts.

Construction completion for Unit 4 has averaged 1.4% per month since the start of this year. To achieve in November 2022 in-service, we estimate Unit 4 would need to average 1.9% construction completion per month. And to support a first quarter 2023 in-service, Unit 4 would need to average construction completion of approximately 1.3% per month for the rest of this year.

Looking now at costs, the $460 million pretax charge recorded during the second quarter reflects the scheduled updates for both units including updated assumptions for construction activity and support resources as well as replenishing the contingency for potential cost risk associated with completing both units.

In conclusion, while the timing of Unit 3 hot functional testing took longer than originally expected, I am encouraged by the success of the test. Even so, with completion of this enormous milestone, we still have a lot of important work ahead of us to get to fuel load.

For Unit 4, we are focused on progressing through the next several milestones while continuing to navigate through the COVID-19 pandemic and broader economic recovery efforts that have impacted productivity at both sites.

As a company and a management team, we remain focused on bringing Vogtle Units 3 and 4 safely online to provide Georgia with a reliable, carbon-free energy resource for the next 60 to 80 years. As always, I want to thank our employees, contractors, co-owners and community partners for their unwavering dedication to this important statewide 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 all are well. First, I want to touch on the financial impacts of today's Vogtle update. We continue to be very committed to credit quality for both Georgia

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Power and Southern Company. Therefore, Southern Company will contribute capital down to Georgia Power to maintain its target capital structure and credit profile.

We expect to fund the cash need at the parent company as it is incurred by reinstating new issuances under our internal equity plans, primarily the dividend reinvestment plan. which is expected to produce approximately $400 million over the next year. Importantly, with this financing strategy, we expect to maintain Southern Company's credit profile with consolidated credit metrics above current downgrade thresholds. This has a de minimis impact on earnings given our size, and we continue to see our long-term EPS growth rate in the 5% to 7% range, and we are also reiterating our 2024 projected EPS range of $4 to $4.30.

Turning now to earnings. We had strong performance in the second quarter of 2021 with adjusted earnings per share of $0.84, $0.06 higher than both last year's second quarter and our estimate. Recall in the second quarter of last year, we were experiencing the peak impacts of the COVID-19 pandemic on our kilowatt hour sales. This peak was primarily related to shelter-in-place mandates in working remote.

And in response, we implemented significant cost savings initiatives. Therefore, it is no surprise that the primary drivers of our quarterly earnings this year as compared to last year, were increased customer usage at our state-regulated utilities, coupled with strong customer growth in the Southeast as well as constructive state regulatory actions. As you would expect, with rising kilowatt hour sales versus last year, our nonfuel O&M was higher due to increased maintenance and planned outages that are generating units. Weather impacts for the quarter were negligible year-over-year.

When looking at adjusted EPS as compared to our estimates for the quarter, the main drivers of the increased earnings were customer growth that remains higher than our expectation, new connects are exceeding forecast by 25% and continued expense discipline.

Year-to-date through June 2021, adjusted EPS is higher by $0.26 compared to the first 6 months of last year. Drivers are similar to those for the second quarter, increased usage, stronger customer growth, constructive state regulatory actions and are partially offset by higher nonfuel O&M. Year-to-date, weather impacts were $0.08 favorable compared to the prior year and $0.05 unfavorable as compared to normal. A detailed reconciliation of these reported an adjusted quarterly and year-to-date results as compared to 2020 are included in today's release and the earnings package.

Turning to the economies in our service territory. We continue to see significant improvement from the lows we were experiencing at this time last year related to the pandemic. In the second quarter, weather-normal retail sales in aggregate were up by 6% compared to last year, with commercial and industrial segments up sharply and modest declines in residential sales. We have been analyzing retail sales compared to pre-COVID levels to assess recovery relative to historical norms, and early data indicate that, in aggregate, our retail sales have recovered to between 97% and 98% of 2019 pre-pandemic levels. Sales in the residential segment remained elevated due to continued hybrid working while industrial and commercial sales remain slightly below the 2019 comparable, something like 97% of the 2019 level.

In the industrial segment, we are seeing strong momentum across nearly all subsegments. Commercial sales are also improving, though sales may be -- may take longer to reach historical norms. As the COVID-19 Delta variant becomes more widespread in the service territories, we will closely monitor for any signs of change but have yet to see any material impacts.

Underpinning these positive sales trends is a strong labor market, evidenced by shrinking unemployment rates that are below 4% in both Georgia and Alabama. In addition, customer growth remains robust with new connects significantly outpacing our expectations across the electric utilities, reflecting construction new homes as well as new commercial businesses and continued in-net migration.

Economic development continues to be very active in the Southeast. In Georgia alone, there are over 200 active projects with the potential to bring over 30,000 jobs in the coming years. Capital investment and job announcements are far outpacing what we experienced even before the pandemic. These are positive signals for continued improvement in both customer growth and sales.

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With our solid adjusted results through the first half of the year, we are well positioned as we head into the peak electric load season. Our estimate for the third quarter of 2021 is $1.22 per share on an adjusted basis, and consistent with historical practice, we will address earnings for the year relative to this EPS guidance after the third quarter. With that, Tom, I'll turn it back to you.

Thomas A. Fanning
Chairman, President & CEO

Thanks, Drew. We understand that Vogtle news often dominates our earnings calls, but I think it's important that we also focus on the terrific performance we see across our businesses. As Drew highlighted, our adjusted financial results through the first half are outstanding. And operationally, we are performing well. We have already endured a tropical storm in Georgia earlier this summer, and our system has demonstrated resilience during the extreme temperatures experienced throughout this week in the Southeast.

I would like to mention one more topic before we take your questions. Five years ago this month, we closed on our acquisition of AGL Resources, now known as Southern Company Gas. Our objective with the transaction was to deliver even greater customer and shareholder value by continuing to invest in high-quality, predominantly state-regulated utility assets. And we have done just that. We bolstered investment at the regulated gas utilities, continued to strengthen the position of our retail natural gas franchise in Georgia and divested nonregulated assets.

Over the past 5 years, Southern Company Gas has, one, increased its J.D. Power customer satisfaction scores; two, increased its regulated business mix to 90%; three, increased its authorized equity ratios to 55%; four, increase our annual growth in-rate base by 14% -- by an average of 14% annually; fifth, raised $3 billion from the sale of nonstrategic assets, some at all-time high PE multiples and reduce risk by selling assets like the Atlantic Coast Pipeline and the Sequent asset management business; and then seven, all while increasing opportunities for talented leaders to take on new and important roles across the Southern Company enterprise. A great example of that is sitting right next to me, Drew Evans, our Chief Financial Officer, is doing a terrific job, and his breadth of experience and engaging thought process has helped us all.

In summary, the acquisition has far exceeded our own expectations. The positive results at our gas business are indicative of the approach we take across all of our businesses and to the 9 million customers and communities we are privileged to serve. This approach best positions our state regulated utility-centric business model for the future as we seek to maximize our return to shareholders on a risk-adjusted basis. Once again, I want to thank everyone for being with us this afternoon.
Operator, we'll go ahead and open the floor for questions.

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Question and Answer

Operator

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

Kody Clark
BofA Securities, Research Division

Hey. This is actually Kody Clark on for Julian. So maybe first, if we can talk about how functional testing -- I'm wondering how you're thinking about the post test analysis that you're kind of working through right now. You took temperature back down to ambient. And I'm wondering if you're assuming that you have all the data now that you can kind of proceed? Or is there still the potential risk for additional remediation work there?

Thomas A. Fanning
Chairman, President & CEO

So let me call a couple of things out that's interesting, I think. Number one is everything is progressing right now as we said it would. In other words, now that we've completed HFT, effectively, we take the car and lift the hood and look at the engine and see what happened.

The experience in China show that there shouldn't be any big things happen. That's our experience in China. But certainly, that's an important part of work. The other thing I just want to point out because I know this has been a topic on prior calls. I just want to raise this.

If you recall, I want to say it was the first unit that went through HFT in China actually had to reperform their HFT because they had significant operational issues concerning vibrations and a variety of other things. And that took over 6 months. We have passed through those issues. We learned from them. And for the issues they experienced, our plant worked great.

So we are as we thought we would be. And of course, between now and fuel load, as we called out in the script, there are certainly 4 big areas we do have to work on. I love Page 5, I think, Slide 5 on the information we've given you guys this morning. You see Vogtle Unit 3's cooling tower actually have water vapor coming out of it. That was such a wonderful site to see. I was on-site, frankly, when that was going on.

But look, we got -- it was heated with affluent heat from the reactor cooler pumps who performed beautifully during the test. Now we're going to heat it with nuclear fuel. So we got to put all the systems necessary to get nuclear fuel in there and use that as the heat source. Secondly, as we went through the process of starting HFT and then through HFT, we found some things we can do better to improve the long-term operation of the plant. We will do those things.

And then I called this out on the last call. We call them plant support systems. But this is essentially bounce of plant activities, HVAC, potable water, some signage, things like that, that are necessary to support an operating workforce as the plant goes live.

And then finally, we made an adjustment. We reduced actually our estimate of productivity of the workforce on site to more closely match our recent experience. But that's what's left to get to fuel load. All of these things represent a significant effort. But I will say that the biggest risk was getting to HFT and completing HFT in an excellent manner, and we did that.

Kody Clark
BofA Securities, Research Division

Got it. Understood.

Thomas A. Fanning

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Chairman, President & CEO

And to be specific, one more thing. We have seen no data so far that gives us any concern, if that was part of your question.

Kody Clark
BofA Securities, Research Division

Got it. No, that's helpful. That's helpful. So can you give us a little bit more color on attrition at the site? And I know that was brought up in some of the staff CM testimony. What are you assuming in the new schedule, and especially considering the enhanced pay that you mentioned?

Thomas A. Fanning
Chairman, President & CEO

Yes. So we went through a period there. So we were really focused on getting HFT, getting into it and going through it and all that. And so we weren't planning on doing a lot. Further, some of the quality issues we recognize, we want to make sure that we fully understood the scope of everything that we were finding so that we didn't repeat those mistakes on Unit 4, which I think we've done.

At one point, during our meetings with co-owners and the NRC and the PSC staff and Dr. Jacobs and everybody that we deal with, we were seeing greater-than-expected attrition. And we really lay that out to, I think, the improving economy in the Southeast, particularly big data centers that were attracting electricians. So we actually did 2 stages of compensation increases that really arrested that.

So I want to say, 1 week we hired 25 electricians and we lost like 72. And when we saw that, we were going, oh man, we got to fix that. And I think now we have. Recent experience would say that since the adjustment in June -- so this would be maybe 4 weeks of activity, we've net added now. So these are net adds, 350 people.

So we have about 1,000 now, and we'd like to get to 1,200. So there's still some hiring activity going forward for Unit 4, but we feel good about our ability to do that. And the other important point here is Unit 4 now is on an independent track from Unit 3, okay? And we used to -- and in fact, in prior earnings calls, we talked about, oh, an optimal relationship is 9 months and 12 months. And we have stopped the idea. It no longer is applicable. So think about the track for Unit 3, Unit 4 is now on an independent path from Unit 3.

Kody Clark
BofA Securities, Research Division

Got it. And then just one more, if I can. Just wondering what the impact of the Delta variant is on staff and if you're assuming any impacts from this in the current schedule?

Thomas A. Fanning
Chairman, President & CEO

Yes, absolutely. So what we have been -- we went through a period where there was just a handful of positive tests, and they are up a little bit. Let's see, I guess our -- we've had something like since the start of the pandemic, something like 2,600 people impacted. Right now, we have somewhere around 65, okay? That would be our latest data. That's an increase probably a week or 2 ago, it was 25. And about a week before that, it might have been 10.

So yes, it is picking up. The other thing we're seeing is that for those that are impacted, the severity of the illness associated with the virus has been less significant, okay? One other thing I do want to say, I don't think we have a slide here that shows the progression of HFT. It took us a while to get to full temperature, full pressure. But once we got there, the plant is running like a champion. It really has been stable. So lots of little things along the way, we fixed them. And once we got there, it's been very stable.

Operator

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

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Ryan John Karnish
JPMorgan Chase & Co, Research Division

It's actually Ryan on for Jeremy. I guess I just wanted to ask one on any expectations that you kind of have heading into this kind of NRC kind of report? And then very explicit about the Unit 4 time line, if there's any kind of -- anything kind of baked in there for Unit 4 regarding what might come out of that report? Any kind of additional remediation or adjustments that might be required?

Thomas A. Fanning
Chairman, President & CEO

Yes. But I mean, this doesn't go necessarily to the NRC report, but rather it goes to -- it is really was involved in the time it took to get to HFT and the remediation plans we put in place to satisfy the kind of quality issues we saw in the paper. And remember, paper is shorthand for turning over from construction to system testing to documentation necessary of the nuclear quality necessary to submit an ITAAC, okay?

So when I say paper, it's actually a big deal, and I've said that in the past 3 or 4 calls, what a big deal it was, and it has been a big deal. So we put in processes in place to improve that effort. And our new schedule does include the effect of those processes, okay? The only other thing I want to say about the NRC is this is their report. And it's in their hands.

So I certainly -- as I wouldn't speak for a state regulator in any of our jurisdictions, I'm not going to speak the NRC. I will say as we have been completely transparent in all of our site meetings, with all the co-owners, all everybody there, the NRC is fully aware of what we found and they are fully aware of our remediation practices. And that's about all I want to say about that. Let the NRC speak for themselves beyond that.

Ryan John Karnish
JPMorgan Chase & Co, Research Division

Understood. Totally understand. And then I guess just, I know you guys mentioned the kind of the internal equity program that's going to come in. Just kind of want to get a sense on the timing there. Does it sound like just over the next year of the $400 million in trip, or will it kind of maybe take longer as the kind of plant potentially come online? Just kind of want to make sure I have the -- understood the message there.

Andrew William Evans
Executive VP & CFO

Yes. Maybe I can give you a couple of -- sort of boundaries on this. I understand that what we'll experience or what we just reported in terms of increased cost, we won't actually experience until we start to move later into construction. So these are incremental to budgets that really begin sometime next April. The sum total of those things led to the write-down that we reported today of $343 million.

We are incredibly focused on credit and felt like there was a necessity to fulfill commitments that we've made to the rating agencies related to our coverage ratios in particular. And so the simplest thing for us to do is to turn on the DRIP plan, whether that's temporary or permanent, we'll just sort of monitor as we continue to monitor construction. The intent is for it to be quite temporary.

But a single year of that program generates about $400 million, which I think what we've just described to you as a divot by this expectation that's only 3/4 of what we could issue under those plans in a particular year. But I would say that our single biggest purpose for this is that we have made commitments to rating agencies and to bondholders to maintain credit through construction, and that is our singular intent.

Thomas A. Fanning
Chairman, President & CEO

And I think you said it in the script, too, Drew, but with respect to the plan, the financial plans we put in place, the guidance that we did forward, the 5% to 7% around 4 to 4.30, the impact of turning on for some time, the DRIP is de minimis.

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Operator

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

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

One on Vogtle and really one on Georgia. And specifically in Georgia, how do you envision 2 regulatory processes playing from here. First of all, the time line for kind of how you think about getting Vogtle 3 in the rates and kind of really the proceeding for that or the docket for that? And then the second question is, with Vogtle moving around and schedule a little bit, how you think about the rate case that you're supposed to file next year and whether you'll just kind of push that off and try and do all of this in one big docket?

Thomas A. Fanning
Chairman, President & CEO

Yes. So to my admonition before, we certainly will not front-run anything with the regulators or really kind of the plans that we have. I mean, you Michael, you've been around forever and you follow us and do a great job with that. We've already laid out a framework to address cost recovery and prudence. And in fact, the Unit 3 rate proceeding right before the commission is currently one of those early steps.

So let's leave it there, that there's a whole lot of moving pieces in the constructive way really since I was involved in putting in place this an accounting order methodology back in 1995, we've been able to manage really complex situations in a constructive way. And my sense here is with all the moving pieces here, we have a tough regulator, but I think they'll do a fair constructive job with it as we move forward.

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

Got it. And then a question about the jurisdiction. No one ever talks about, no one ever asked, but obviously, one of the better places to be a utility. How are you thinking about Alabama in terms of how continued change in the generation fleet may play out as well as kind of how the pace of grid investment may change over the next 3 to 5 years?

Thomas A. Fanning
Chairman, President & CEO

So grid investment is an interesting question, and that's a much bigger than Alabama question, right? When we look at California and we look at [indiscernible] and we look at the dysfunction in the so-called operating -- the so-called organized markets. It is very clear that all of our jurisdictions, Mississippi, Alabama, Georgia, have a very well-founded and orderly way of evaluating a transition to a generating fleet and the integration importantly, of transmission into the overall integrated resource plan.

So we have processes in place. All of our companies have embraced to some degree, the idea of renewables. Recall in the past, Georgia Power was cited as the Investor-Owned Utility of the Year by the solar industry. Recently, Alabama Power has embraced the idea of solar being part of their mix. Everybody has a different way to approach the problem.

But I would say all of our utilities have a very constructive, effective way of addressing the problem. And in a way where we're accountable, whether it's fuel procurement, generation, transmission, distribution, sales, we are accountable, and we work with the commission to develop optimal answers for our customers. That is the best market structure, and we've been able to do it for years, my sense, it will continue.

Operator

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

Paul Patterson
Glenrock Associates LLC

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So just -- this question just came up, I think, in when I heard somebody else ask about COVID. I'm just curious, how many people -- what percentage of your workforce is vaccinated? Do you have a number on that?

Thomas A. Fanning
Chairman, President & CEO

So we don't know, but I would argue it's somewhere between 35 and low 40s.

Andrew William Evans
Executive VP & CFO

Probably not materially different than what we see in the general population in the Southeast, would be...

Thomas A. Fanning
Chairman, President & CEO

We're not requiring people to disclose it, for example, we are requiring certain behaviors in the workforce. But if you're not vaccinated, you wear a mask, you'll socially distant, et cetera, et cetera.

Paul Patterson
Glenrock Associates LLC

Okay. Great. And then with respect to sales growth and COVID, just -- I'm just wondering, as we've gotten further along just sort of if there's any change, what your outlook is post pandemic, post-pandemic effects? When we're back to normal, is there a new normal in terms of what your expectations for total retail sales might be? Or how is that -- what's your thought, I guess?

Obviously, we've had a rebound and what have you. So it's kind of noisy here. But just going forward, assuming let's say, in 2021, I mean, excuse me, at the end of 2021, we're back to normal, let's say, how would you think the sales growth -- is there any change, I guess, in what your sales growth expectations are for retail sales growth now given the pandemic...

Thomas A. Fanning
Chairman, President & CEO

Yes, yes. So Paul, let Drew and I double team this because I think each -- he brings a different perspective than me. But we've given you a part of a chart package, I guess, Page 11. It shows that the pre-pandemic residential is still up.

So here's one of the interesting things to consider. When we evaluate our workforce pre-pandemic, roughly 80% were kind of permanently in the office, with about 20%, maybe 25% mostly virtual, think call centers and things like that. Okay. When we've tried to analyze what the new normal will be, the numbers are changing pretty significantly, and it varies by local location.

It varies by work function, but kind of wrap your head around this. I think we're going to be between 20% and 25% kind of permanently in the office with about round numbers, 50% being hybrid. Sometimes they're in the office, sometimes they're working virtually. And then we'll have that 20%, 25% completely virtually. If the rest of the world starts to follow this idea of a new normal, then I would expect residential sales to be up prior to 2019 levels. Okay.

Industrial appears to me to be racing back to pre-COVID. So we're kind of at 98% there. And the economic development activity that we see, especially -- I mean, I'll give you one, Amazon, I think it's Amazon, is bringing 1,000 jobs and investment of $250 million. That's one. I said, if you guys watch Squawk Box this morning, I told him that in the economic development data, in forward-looking investment now.

So this hasn't happened, but these are announced projects, versus 2020 are up 85% and versus 2019 are up 65%. So there's this burst of activity from investment. And jobs created is somewhere in the mid-20s. So what's happening? Residential may remain elevated. Industrial was going to catch up. Commercial is still a little bit of a question. We'll see. Drew, what would you say to all that?

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Andrew William Evans
Executive VP & CFO

I think you did a nice job of it. The only thing I might add would be around customer count itself. And so we normally add something like 40,000 customers in a given year. This is largely residential. And we've probably added 3/4 of that in just the first half of this year. So net in-migration is a little bit difficult to separate from sort of use per customer, which is kind of what we represent here.

But residential is at 3% higher than what we would have expected pre-pandemic. And I think as you described, that's probably here to stay. Industrial segments, we've had a couple of large industrial customers move in and out of a more global productivity or based on global economics, not a lot based on the region not being a good employer.

And there are a couple of really strong sectors like automotive where there could be huge transitions that really benefit the Southeast. And so as with you, I'm very bullish on residential and industrial, in particular. Commercial is going to take a little bit while -- longer to normalize.

Thomas A. Fanning
Chairman, President & CEO

Yes. Raw data year-over-year, manufacturing industrial is up 11.7%. The only one down there with chemicals. It was really Olin plant, they produced chlorine, plastic, soda stuff like that. And that's really -- they've just taken down their production. Everybody else is up.

We had 3 segments up over 30% year-over-year, primary metals, transportation and pipeline. So fast things up, one last data point, we're just full of this stuff. Georgia looks like it's going to be one of the first states to hit its pre-COVID levels by the end of this year. And Alabama and Mississippi are expected to hit in '22. Those are some of the fastest recovering states in the United States.

Paul Patterson
Glenrock Associates LLC

Okay. Great. And then just turning to Vogtle. The testimony by staff, I don't think you guys filed any rebuttal testimony, which is, I think, sort of the normal course here. But without getting -- not asking you to do rebuttal here or anything, but in terms of the sort of the tension that they brought up about meeting milestones and the quality of work and what have you.

Would you say with this hot functional testing that if they were to look at the situation now after that, given what you guys have found, how the plant performed with hot functional testing that perhaps those issues have -- would probably be diminished? If you follow my question. In other words, you mentioned that it performed very well. And I was just wondering whether or not that sort of may indicate that this quality of work issue that they were bringing up would be -- would it be as a significant issue maybe as we move forward?

Thomas A. Fanning
Chairman, President & CEO

So here's kind of my view on that. I think there have been a number of interesting arguments that follow your question. One that has been a consistent difference we have had with the staff. For example, it has been our dogma in doing this project to fail quickly. And so it was, I think, a big risk mitigator from our standpoint to test early, find problems and fix them before they became a bigger problem later.

And also the alternative to that would have been completely construct a system and only test it kind of when everything is done. I think that would have exacerbated the bow wave of work. The criticism, well, the way you're doing it costs more money. Yes, we would agree. But I would also say, value is a function of risk and return.

For the additional costs we have followed in testing early and failing early, the risk mitigation characteristics overwhelm the value. Remember, it is our posture to get it right. Okay. We found a lot of

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issues going in, not deal killer, not huge issues, but issues we had to deal with going into HFT, we found more during HFT and we finished HFT. We don't think we will repeat those in Unit 4.

And so we'll deal with that. We did go through a very rigorous argument on Unit 4 about whether we should estimate it being completed in the first quarter or the second quarter. And I remember we came back and had another argument about it. And this is like a 2-hour, 3-hour long argument with people on the site, everybody that is involved with the project.

And we landed on the first quarter. Now let's just go through the math. Ultimately, from where we are to in service, we're kind of projecting -- I guess, the fuel load, we're projecting -- no, in-service, we're projecting 16 months, okay? We've added 4 months. So adding 4 months on top of 16 is in round numbers, something like 17 -- I mean 25% or more.

And so my sense is that's a good place to be. If you were to add another quarter, holy smokes, now you're in the -- you're getting near 50% contingency. And to me and the people on site, that felt like too much. So listen, we had good rigorous arguments. I think we've landed in a good spot. One of the things that we're particularly watching is -- so if you say, what is the riskiest thing you're thinking about right now?

So the work ahead of us, the big work is getting the nuclear fuel ready to go to be inserted into the reactor vessel. When we look at the testing of our spent fuel pool, we found greater than acceptable leaks in the pool. We tested Unit 4, and while that testing is still ongoing, we believe the Unit 4 is looking good. So this is not a design problem. We think it is a welding problem frankly, on Unit 3.

And so we're undertaking a complete remake of the bed of the spent fuel pool in order to assure the floor of the pool, to assure that it will work when it's called upon.

That kind of is the biggest thing in my mind right now that I know about, okay? I feel very confident that what we've learned on 3 through the end of HFT and how it works, we'll apply that on 4 in a good way. And I will say this, I'm sorry, I would go on here, but let me just finish with this. We completely respect the staff opinion. And we completely respect Dr. Jacobs. We respect our co-owners, anybody that has an opinion on this, they all have a point of view that is valid.

I'm giving you what we think is the best answer and the best outcome. And the thing that is so beautiful about this process and anybody will talk about it. Everybody sees everything. There are no secrets, there's no smoking gun. Everybody knows everything as we build this plant. I think that transparency has worked so much to our advantage.

Operator

Our next question comes from the line of Stephen Kucinski with Southern Company.

Thomas A. Fanning
Chairman, President & CEO

No, he works for us. I don't think -- yes, that's a mistake. Go to your next question. Sorry about that, everybody.

Operator

Not a problem. And that will conclude today's question-and-answer session. Sir, are there any closing remarks?

Thomas A. Fanning
Chairman, President & CEO

Yes. My question is what was Steve doing on the phone? For those of you who don't know Steve is, he's terrific. He is the CEO of our nuclear business, and he has direct management council oversight for the construction of Vogtle 3 and 4. And of course, there is a staff of people there. Guy named Glen Chick has been a hero of Southern working so hard to make this thing a success.

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Here's the thing I would leave you with. And I think the feedback we're getting from the analyst community is right on point. I think I'm telling you what you already know. But listen, we personally, we all -- sometimes we get frustrated with the tactics of hitting a milestone and a schedule. And the integration of the entire plant and making it work with a heat source that's not nuclear, but still making it work as it did was prolonged and frustrating at times.

But you know what, once we got it solved and once we got the plant at pressure, at temperature, it worked great, and it was very stable. So we fix those things. And we continue to work hard to make sure we don't repeat them on 4. Still a good bit of work ahead between now and fuel load. I think we've outlined that carefully for you.

And so we look forward to getting the fuel load for Unit 3. Unit 4, for the kind of productivity that we have suggested to you, let's just deal with the percent complete per month. So the 1.9 to 1.3 right, 1.9 to 1.3, we have done already at Unit 4, 1.4, and we have done kind of the 1.9 level on Unit 3 for 7 to 9 months at time.

So these are levels we have done in the past. In the estimate we have given you, we have estimated, however, lower productivity. That's to give ourselves a little more margin on cost and schedule. So we're trying to be sensitive to really hit these numbers.

Outside of Vogtle, we're very excited about the progress. But outside of Vogtle, this franchise, whether we're transitioning the fleet to a low-carbon future, whether we're running the business to make it more resilient to extreme weather or attacks in the cyber and physical realm to preserve our national security, we are doing great. And we will continue to do great. And so we're making progress on all of those functional fronts.

Last thing I'll just mention. When I think about our DE&I efforts, when I think about diversity and when I think about the improvement of culture. We mentioned to bringing Southern Company Gas into the fold, I guess, bringing AGL in the fold now becoming Southern Company Gas, we have cross-populated. Southern Company Gas now run by Kim Green, Drew Evans is over here, being CFO at Southern.

The cross population, the learning has strengthened our culture and increased, if you will, our cultural bandwidth. This company is better off in the long run for all of these efforts. And I think now when we renewed our efforts on diversity and inclusion, we'll be even better. So thank you. Exciting day today, and look forward to talking with you in the future. Thanks, everyone, for listening.

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

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