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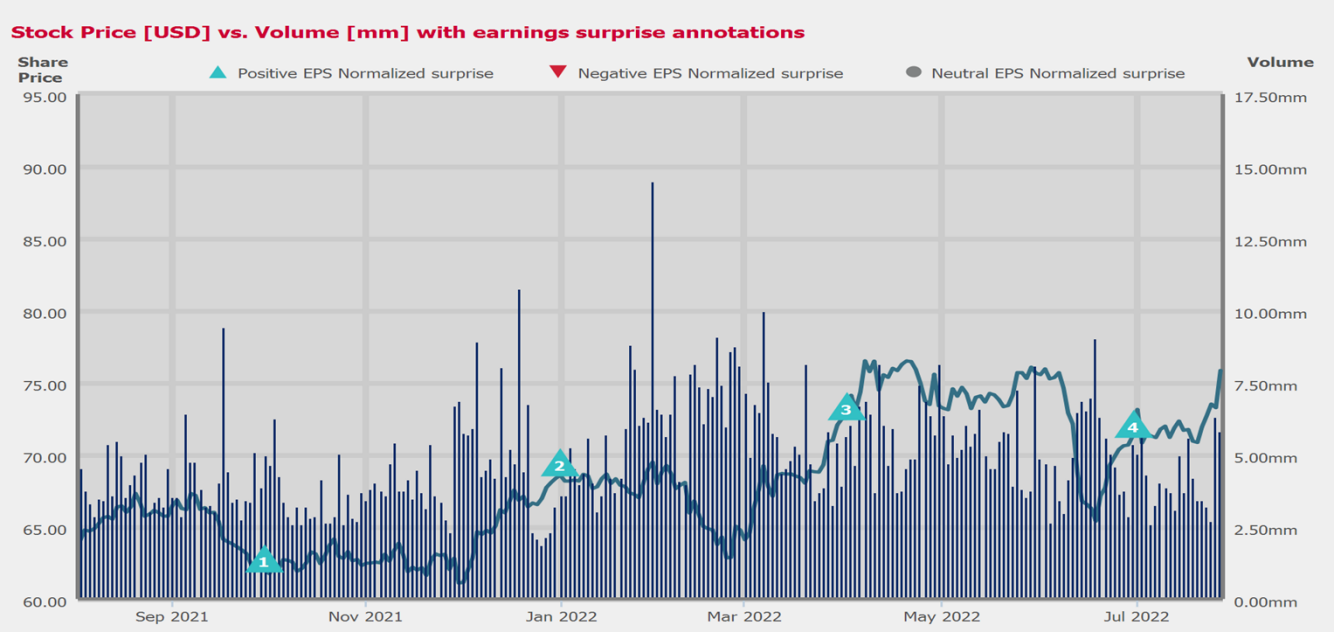
FQ2 2022 Earnings Call Transcripts

Thursday, July 28, 2022 5:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2022-			-FQ3 2022-	-FY 2022-	-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.84	1.07	27.38	1.31	3.56	3.78
Revenue (mm)	5312.88	7206.00	35.63	6529.52	24253.38	24870.15

Currency: USD
Consensus as of Jul-26-2022 12:33 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2021	1.22	1.23	1 0.82 %
FQ4 2021	0.35	0.36	2 2.86 %
FQ1 2022	0.91	0.97	3 6.59 %
FQ2 2022	0.84	1.07	4 27.38 %

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Call Participants

EXECUTIVES

Daniel S. Tucker
Executive VP & CFO

Scott Gammill
Director of Investor Relations

Thomas A. Fanning
Chairman, President & CEO

ANALYSTS

David Keith Arcaro
Morgan Stanley, Research Division

Durgesh Chopra
Evercore ISI Institutional Equities, Research Division

Jeremy Bryan Tonet
JPMorgan Chase & Co, Research Division

Julien Patrick Dumoulin-Smith
BofA Securities, Research Division

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

Nicholas Joseph Campanella
Crédit Suisse AG, Research Division

Paul Patterson
Glenrock Associates LLC

Shahriar Pourreza
Guggenheim Securities, LLC, Research Division

Steven Isaac Fleishman
Wolfe Research, LLC

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Presentation

Operator

Good afternoon. My name is Tommy, and I will be your conference operator today. At this time, I would like to welcome everyone to The Southern Company Second Quarter 2022 Earnings Call. [Operator Instructions]

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, Tommy. Good afternoon, and welcome to Southern Company's Second Quarter 2022 Earnings Call. Joining me today are Tom Fanning, Chairman, President and Chief Executive Officer of Southern Company; and Dan Tucker, Chief Financial Officer. Let me remind you, we'll be making forward-looking statements today in addition to providing historical information. Various important factors could cause actual results to differ materially from those indicated in the forward-looking statements, including those discussed in the Form 10-K, Form 10-Qs and subsequent filings.

In addition, we'll 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 for joining us today. As you can see from the materials we released this morning, we reported strong adjusted earnings results for the second quarter, meaningfully ahead of the estimate provided last quarter. The economies within our Southeast service territories remain strong, and we believe we are well positioned to achieve our financial objectives for 2022.

Before turning the call over to Dan for a more detailed look at our financial performance, I'd first like to provide an update on the recent progress at Plant Vogtle units 3 and 4. The projected completion timeline forecast for both units remains within the ranges we provided the last 2 quarters, although at the end of those ranges. At Unit 3, we continue to progress with all necessary systems turned over from construction to testing, all inspection records related to ITAACs complete and then submittal of 51 ITAACs since our last earnings call, including 2, which were just filed this morning. 2 ITAACs remain outstanding.

Concurrent with our final ITAACs submittals, we plan to submit the all ITAAC complete letter to the NRC for Unit 3. This submittal should position us for receipt of the historic 103G finding from the NRC a few weeks later, documenting that license acceptance criteria for Unit 3 have been met. Upon receipt of the 103G finding from the NRC, no further NRC findings are necessary for Southern Nuclear to load fuel or begin the startup up sequence.

Receiving the 13G letter is an important milestone, but there's still more work to do before we load fuel. In the weeks ahead, we will be focusing on testing and surveillance, demobilization, finishing work and documentation. To support an in-service date at the end of the first quarter of 2023, we will need to complete this work and load fuel by the end of October.

Turning to Unit 4. Direct construction is now approximately 96% complete and progress continues in advance of cold hydro testing and hot functional testing. Electrical production, in particular, electrical terminations continues to be a key area of focus. We continue to add resources on site for this work,

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and we have a plan for transitioning electrical field engineers from Unit 3 as we continue our focus on increasing productivity and ensuring first quality first times to support the upcoming testing and long-term operations.

Timely Unit 3 fuel load and start-up, along with a sustained improvement in Unit 4 electrical production over the next several months is necessary to support our December 2023 in-service objective.

Moving now to cost. At the end of the second quarter, Georgia Power recorded an after-tax charge of $39 million, including replenishment of contingency and estimated incremental co-owner sharing impacts. Contingency allocated during the quarter is primarily related to procurement activities for remediation and a revised resource plan for Unit 4 that reflects updated productivity assumptions and the planned increase in craft and support resources.

We're excited about the progress that we've seen at the site over the last several months and look forward to the transition of Unit 3 from construction to operations in the weeks ahead.

Dan, I'll turn the call over to you.

Daniel S. Tucker
Executive VP & CFO

Thanks, Tom, and good afternoon, everyone. As Tom mentioned, we had a very strong quarter, with adjusted earnings of $1.07 per share, $0.23 higher than last year and $0.27 above our estimate. The primary drivers for the increases compared to last year and our estimate are higher revenues associated with higher usage, changes in rates and pricing and warmer-than-normal weather at our regulated electric utilities.

These revenue effects were partially offset by higher interest expense and depreciation, along with higher nonfuel O&M, consistent with the rising cost environment and our long-term commitments to reliability and resilience. A detailed reconciliation of our reported and adjusted results as compared to 2021 is included in today's release and earnings package.

Turning now to retail electricity sales in the economy. In the second quarter 2022, weather-normal retail sales were 2.3% higher than the second quarter of 2021. This increase reflects stronger sales across all 3 customer classes, as we continue to see expansion across our Southeast electric service territories. We also continue to see robust customer growth with the addition of 12,000 residential electric customers and 7,000 residential gas customers during the quarter. We remain encouraged by these trends and are continuing to monitor the potential impacts of supply chain constraints, labor force participation and inflation pressures on our outlook.

Economic development within our service territories remains robust, with Alabama seeing a 10-year high in jobs and capital investment announcements during the quarter, led by announcements from Hyundai, Novelis and Airbus. Additionally, recent electric vehicle plant announcements in Georgia from Hyundai and Rivian represent the largest economic development projects in the state's history. These 2 projects alone are expected to create nearly 16,000 jobs and over $10 billion of capital investment across the state.

As we highlighted last quarter, the Port of Savannah continues to show strength, with the container volume growth seen during the first quarter accelerating in the second quarter as a result of U.S. consumer demand and the diversion of vessels from other ports driving record cargo levels in June. We remain encouraged by the level of economic development within our service territories, and we continue to partner with each of our states to attract new businesses.

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 2022 is $1.32 per share on an adjusted basis. And consistent with historical practice, we will address earnings for the year relative to our EPS guidance after the third quarter.

Before turning the call back over to Tom, I would like to briefly highlight Georgia Power's 2022 Integrated Resource Plan, or IRP, which was unanimously approved by the Georgia Public Service Commission last

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week. Recall, Georgia Power files an IRP every 3 years, outlining the company's plan to continue delivering clean, safe, reliable and affordable energy to its 2.7 million customers over the next several decades. The approved plan includes the addition of 2,300 megawatts of new renewable resources as part of Georgia Power's long-term plan to double its renewable generation by adding an additional 6,000 megawatts by 2035. The plan also approves the addition of over 750 megawatts of battery energy storage projects, the retirement of over 1,500 megawatts of coal by 2028, and the continuation of existing grid investment in ash pond closure programs.

Additionally, the approved IRP continues Georgia Power's hydro modernization program and authorizes initiating a license renewal application for Plant Hatch, each of which will extend the lives of these important carbon-free energy resources for the benefit of customers. The expected capital expenditures associated with approval of the IRP are consistent with the capital plan that we laid out on the fourth quarter earnings call in February.

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

Thomas A. Fanning
Chairman, President & CEO

Thanks, Dan. For more than 5 decades, Southern Company's world-class research and development organization has remained at the forefront of innovation to build the future of energy today. I'd like to take a moment to highlight a couple of recent R&D announcements. Last month, Georgia Power and Mitsubishi Power, along with the Electric Power Research Institute, successfully blended 20% hydrogen fuel at Georgia Power's Plant, McDonagh, representing the world's largest hydrogen fuel blending demonstration project to date on an advanced-class gas turbine. This demonstration project helped pave the way for long-term clean and carbon-free use for existing natural gas-generating infrastructure.

Additionally, in Alabama, Southern Company continues to manage the National Carbon Capture Center for the Department of Energy, which recently surpassed 128,000 hours of testing, and has expanded its focus on advancing carbon capture for natural gas-powered generation, carbon utilization and technology-enhanced solutions such as direct air capture. In fact, a low-carbon concrete technology developed by Carbon XPRIZE winner, UCLA and CarbonBuilt, recently achieved its first commercialization deal bolstered by successful testing at the center. We are proud of the legacy created by our R&D group over the last 50 years and look forward to continuing this important work for many years to come.

In closing, I'd like to take a moment to highlight Southern Company's generating fleet and power delivery system, which performed exceedingly well through June's extremely hot weather. During what was the second hottest June in 50 years, we were able to maintain sufficient generating capacity reserves across daily peaks, including 6 days, which peaked over 40,000 megawatts, and an all-time peak load of 41,376 megawatts on June 15.

Delivering these results requires effective long-term planning that is best facilitated in a vertically integrated, state-regulated markets, coupled with real-time coordination between our plants and our system operators. And I'd be remiss if I didn't recognize the performance of our covered workers who, once again, performed during these times of duress in an exemplary manner. I'm proud of our team's continued outstanding performance during times when our customers need us the most.
Thank you for joining us this afternoon. Operator, we're now ready to take questions.

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Question and Answer

Operator

[Operator Instructions] And we'll get to our first question on the line is from Shahriar Pourreza with Guggenheim Partners.

Shahriar Pourreza
Guggenheim Securities, LLC, Research Division

So just got 2 quick ones for you, Tom. Just on the IRP, obviously, a decision on the Bowen plant was pushed out to $25 million do you sort of think is kind of the most viable pathway forward there at 1,800 megawatts, it's sizable. Can you convert it to gas? Can you get firm transmission on the pipe -- or if you went with more renewables, can you just maybe remind us of the amount of transmission you've said you would be needed and the time it would take to build it to make solar an option there just given that the plants in the northern location?

Thomas A. Fanning
Chairman, President & CEO

Shar, you hit the nail on the head. My overarching comment here is that our long-term strategy as a system remains robust and strong commitment to net-zero by 2050 is in place. I think the beauty of how we work with the commission and the staff and, frankly, all of our stakeholders is something that allows us to respond to the kind of exogenous factors that really impact us from a tactical standpoint. Obviously, fuel markets have changed, inflation has changed, supply chains have changed. And so I think the wisdom of the commission in this case is perfectly warranted in pushing that decision forward.

I don't want to certainly prejudge what we don't know at this point. But I will say the 2 options you outlined are very reasonable. One, is to think about keeping generation in the northern part of our state. You know that our big load sync is Atlanta. And so the Bowen unit historically have played a really important part in kind of balancing the load between North and South.

Were we to continue to shut down those units, you would need to think about replacement. Obviously, gas is an option North. More renewables North could play a role. As you know, our big answer on renewables across the system is most likely solar, not wind, just we don't have the climate to do widespread wind. And maybe these tall turbines will come to fruition or not, who knows.

So failing that, putting more solar in the south part of the state with a much better terrain does make sense. In order to locate more generation in the state in order to balance the needs in the North, we'll need to build significant transmission. The beauty of our market structure here is we are allowed to iterate among and between generation and transmission as an optimal portfolio solution. The so-called organized markets have difficulty doing that. So this is a topic of conversation. I think we'll handle it in the future.

Shahriar Pourreza
Guggenheim Securities, LLC, Research Division

Got it. Got it. And then just lastly, on Vogtle with sort of 8 months left to hit your Unit 3 target, you have 4 ITAACs, the NRC letter, likely doesn't seem like it's a major hindrance and then you have fuel load expected in November. Can you just elaborate sort of on those interim steps that you think could be more complex post fuel load, which still gives you about a 4- or 5-month cushion to hit your Q1 target date? I mean, I hate to say this, but can the plant actually be ahead of schedule here?

Thomas A. Fanning
Chairman, President & CEO

Yes. I would hate to say that. You would love to say that.

Shahriar Pourreza
Guggenheim Securities, LLC, Research Division

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I don't want to get everyone excited.

Thomas A. Fanning
Chairman, President & CEO

Yes, right, right. If we don't either. We're guiding you all to say that we feel comfortable within the range that we've laid out, I guess, 2 calls ago. Let's say the schedule calls for completion by end of March 23. Here's kind of where we are. We have 2 ITAACs remaining, not 4. And I believe we'll finish those in days, not weeks. I think these things are reasonably imminent. Then we'll file concurrently for the letter requesting the 103G, letter to be issued by the NRC. We think the NRC has plenty of capability to handle that within their time frame, which I think is we've laid out at a max of 17 days.

Really, I think the greater pacing factor to fuel load is now not ITAACs, it is the rest of the work we need to finish on our own to begin fuel load and then begin the initial operation of the plant. As I mentioned before, and Dan can help me here, too, there are 4 kind of big categories we're thinking about in terms of the scope of that work. One is demobilization. The second is testing and surveillance. The third is just finishing the work that we already have in place. And then the final one we've talked to you about is documentation, getting the paper right.

Simple examples of some of those things, demobilization is taking down things like scaffolding, and taking any of the spare parts that we have laying around the site and moving those off so that, at the end of the day, the work rooms and everything within Unit 3 will meet nuclear standards in terms of operations.

Dan, do you want to add anything else there?

Daniel S. Tucker
Executive VP & CFO

Yes. I think that's a great example of demobilization and scaffolding, temporary lighting is a similar example. Testing and surveillance activities and documentation, I think those are pretty obvious part of the finishing work, really gets to what Tom alluded to, but it's doing coatings, it is getting particularly containment to this pristine condition to get ready for fuel load. So it's those activities that, frankly, have a logical sequence to them, and it just takes time to work through.

Thomas A. Fanning
Chairman, President & CEO

And now is the time to do that work. There's nothing unusual about the work ahead, we needed to finish the safety-related ITAAC, and now we finish that stuff. Look, the whole exciting transition we have here is moving this plant from transition to operations, and we have line of sight to that now.

Operator

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

Steven Isaac Fleishman
Wolfe Research, LLC

Tom, good to hear you. So just kind of a last second question here just since we just got this potential new inflation reduction bill. Any thoughts on you've been very right about this not happening, and now certainly, there's a chance that it might. Just do you think this now can happen that Manchin is on board? And then just implications for Southern across different ways that would impact you or your customers good or bad?

Thomas A. Fanning
Chairman, President & CEO

Yes, sure. You bet. Let me give you the -- it's all good. Let me go back to what I said before. I never say it wouldn't happen. I said the deal physics were hard. And let's just kind of replay the cards as we've worked relentlessly on the hill, whether it's Congress or in the administration and, frankly, our stakeholder groups, environmental, et cetera, the deal physics were getting tough because we were entering this period of

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inflation. And I won't say senator Manchin had his eye on inflation a long time before a lot of other people did.

And so the idea of spending more money in light of inflation pressures, and I guess the latest announcement was 9% or so, is really something that is concerning. And so the way that you get to promote this kind of bill is to include within it, pay-fors that will offset whatever inflationary pressures may arise from the increased spending. And as you can see from the proposal right now, and let's leave it as a proposal, there's an additional, I don't know, $300 billion of pay-fors. So hopefully, it speaks to the need to not make this an additional log on the inflationary fire.

The second kind of interesting exogenous variable is a specter of a recession. And I think what has been concerning many people is that adding taxes at this time may be another domino to fall that may increase your likelihood of entering into a recession. Now we've just heard this morning that the United States is in technical recession that is 2 GDP quarters negative in growth. But if you look at our numbers, and I leave this to Dan or whatever, who kind of did a nice summary in the script, we're not seeing any indicators of recession right now. But certainly, the historic numbers that bring us up to date for the quarter are way better than what we expected.

Further, when you look at the data Dan referenced with respect to our headlights, if you will, our economic development activity, you're talking over 300% of job growth in the backlog, and you're talking nearly 700% of capital investment. And you're talking about things like Rivian and you're talking about more EV development, and you're talking about data centers. We don't see the specter of a recession right now.

Now I'd like for Dan to comment a little bit. He does his economic roundtable, just got through with it. Other people are seeing some reasons to be cautious. And maybe that's cautious in the first part of 2023, Dan, why don't you give us a burst on the roundtable.

Daniel S. Tucker
Executive VP & CFO

Yes. So just as a reminder for folks, we've done this for over a decade. And what we do a couple of times a year is bring in folks from regional universities, large financial institutions and then, frankly, a lot of representation from a cross sector -- or a cross-sector representation from our customer base. So we had railroads in the room. We had manufacturing companies, ones that get involved with housing. We had consumer goods across the board.

And to Tom's point, there was this backdrop of, yes, a recession is looming, but a very clear acknowledgment that what you may find yourself in is a place where there's very clear geographic or regional differences as you enter into that period and endure it. So Tom is right. Everything we're seeing provides a lot of tailwinds for us. We're in terrific shape. Things could certainly change. But everything we see now every indication, and if you look at Slide 10 of our deck and how sales manifested during the quarter relative to what we expected. We're in terrific shape.

Thomas A. Fanning
Chairman, President & CEO

And even those industrial results, Dan, included 2 pretty big plant closures, one Olin Chemical and the other one was...

Daniel S. Tucker
Executive VP & CFO

Resolute, a newspaper manufacturer that was in Georgia.

Thomas A. Fanning
Chairman, President & CEO

And so absent those guys, [indiscernible], I mean, it would have been certainly higher than 3.7%. The momentum numbers look good. So we just don't -- the data doesn't support a recession, all right? Now

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we raised the issue on the last call in light of the recession that there may be the likelihood of a national recession where the Southeast remains robust and growing. So we just don't see that right now.

Now, I will say, we do see inflation and particularly in the food and energy markets, and that hurts our customers. So this is not an environment without duress? And it's those factors, I would say, inflation and potential for recession and what the other exogenous variables may be? I mean, what is the future of Ukraine? And what is the unwinding of the supply chain from and how will that visit the United States in the future are all key variables.

What has changed a bit has been this narrative of, are we really in a technical recession? Does that really reflect the strength of the economy? There's pretty good arguments on each side. I would argue that the Southeast, given our strong foundation, is going to be better able to weather this than many places else in the United States.

I think the conclusion of the people that have come up with this legislation is also that this is an inflationary by its structure and the tax increases, which don't impact us very much, and I'll speak to some of the pieces of this legislation and how in respect Southern, probably aren't going to be enough to tip very further into recessionary territory. They tend to believe more of the qualitative not the quantitative story.

With respect to Southern, good having -- this looks really good. When you look at the energy security and climate change pieces of the legislation, the $369 billion or so, it's very helpful to us. You know that the move from investment tax credit or production tax credits is very favorable. To us, our favorite kind of renewable over the years, we call it one time, we were the largest owner of solar in the United States. We've recycled some capital. I never particularly like having to live off the ITC characteristics. So moving to PTC is really a good thing.

And when you look at the Georgia IRP, solar plays an important part in our future. So that's really good start. Recall also our R&D for storage. We've already mentioned our importance of carbon capture science. So the 45Q credits are great.

Here's the big thing, though. If I had to write a headline on all of those benefits, I would say that this is really beneficial to our customers and should reduce the cost of the transition from the fleet today to the net-zero long-term strategy in the future. There are some other things in there that are kind of attractive. The tax credits in there for purchase of electric vehicles, whether they're used or new. There're some other things in there for hydrogen, a variety of other things.

So what about the negatives? What about the pay-fors? If you look at kind of the list of that leading the charts is this 15% corporate minimum book tax. I'll probably leave this for the guys in the boiler room after the call, but I am prepared, Steve, with examples that will show you that the difference between tax taxes and book taxes to us is almost nothing.

A company as big as ours with $23 billion of revenue and all that other stuff, the difference is in taxes paid is just really small like 0.5% kind of as an estimate. It's almost you can't see it, $5 million, $10 million. It's almost nothing. Now of course, as that travels over time depends on a host of factors. But to us, this alternative book tax just doesn't have a material impact to the company, okay?

It will be interesting to see what happens on the prescription drug pricing reform and some of these other things. I just don't have enough there. And everything I should say should be underscored with the admonition that we really haven't been through the 700-page document as thoroughly as we will. What we're giving you are our first thoughts on what it appears to be to us. Dan, do you want to say anything there?

Daniel S. Tucker
Executive VP & CFO

No, I think we just see if Steve has any follow-ups.

Steven Isaac Fleishman

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Wolfe Research, LLC

Yes. I guess my one follow-up on this question would be, again, is your judgment, but you need every Democrat to support it to pass reconciliation just the likelihood that, I guess, particularly Sinema or the risk of someone falls off in terms of it getting done?

Thomas A. Fanning
Chairman, President & CEO

I think Sinema becomes a really important person now. I don't know how involved she has been so far on the creation of this agreement, frankly, between Manchin and Schumer. So her sense of this is going to be extremely important. And I know she's been very hawkish on raising taxes. So we'll see.

In the house, let's not even put that in the wind column just yet because I know that a lot of the House Democrats have had a lot of, I don't know, requests, desires for a change in tax policy, including things like a surtax on the wealthy, including SALT relief, the state and local tax relief. There's no additional taxes on small businesses. So there's a lot on the Democrat side in the house that's not in this bill, that still has to be negotiated. So we'll see how that goes.

Operator

And we'll get to our next question on the line from Julien Dumoulin-Smith, Bank of America.

Julien Patrick Dumoulin-Smith
BofA Securities, Research Division

So if we can, just where the negotiations stand, the lawsuit filed by the co-owners playing into the timing of resolution here? I mean just you're previously pointing to the summer time broadly. I guess we're still in summer for resolution. But what's your expectation on that being extended, if you will, just to come back very squarely on this and sort of the parameters at this point?

Thomas A. Fanning
Chairman, President & CEO

Yes. Julian, I don't think we expect anything in the near term there. I think, as this plays out, I wouldn't be surprised to move to business court in Georgia, and the resolution could be second half of '23. I don't think we'll know anything in the near term.

Daniel S. Tucker
Executive VP & CFO

Yes. The one near-term data point, Julian, is there is an August 27 date by which we'll know whether MEAG plans to tender their portion is what we've heard from [indiscernible] and MEAG still needs to work through their process and let us send one way or the other.

Julien Patrick Dumoulin-Smith
BofA Securities, Research Division

Got it. Okay. That's more perfunctory. I understood. All right. Excellent. And then actually, -- let me ask you this. I mean, just how do you think about addressing the opportunity about owning renewables, whether through these RFP processes or just kind of stepping in at some point after RFPs have been awarded here to expand your ownership? And again, I get that you've got a certain allocation already in Southern Power, but is there any regulatory solution when you think about Georgia here that you could address or talk to a little bit? I think Shar was kind of alluding to it a moment ago.

Thomas A. Fanning
Chairman, President & CEO

Yes, man, certainly, going to the PTC, certainly makes it more competitive, more attractive for our operating companies to own this stuff. So that's really helpful. We're all in. And of course, Southern Power

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can compete for the new megawatts of particularly solar in the state. So on the margin, everything that we see in this potential settlement looks good for us. We're very happy with it.

Julien Patrick Dumoulin-Smith
BofA Securities, Research Division

Got it. So perhaps the shift to really -- Go for it.

Thomas A. Fanning
Chairman, President & CEO

I would also say that we have been engaged in conversations in this. Like I say, I mean, with the administration, with any stakeholder, with Congress for months. So to the extent they arrived at a resolution, is it surprising? I don't know. I think it depends on how you view this inflation versus recession pressure issue. The pay fors certainly speak to the inflation. And I think the judgment on the ability of the United States economy to withstand the tax increases is really what's going to get us over the line. I just think, on the margin, this is good stuff for us.

Julien Patrick Dumoulin-Smith
BofA Securities, Research Division

Right. And to be extra clear about this, the solar PTC sort of opens up the window of eligibility, especially given how punchy ITCs can be, not just for Southern Power, but more specifically here for Georgia Power.

Thomas A. Fanning
Chairman, President & CEO

It sure does.

Daniel S. Tucker
Executive VP & CFO

Yes. For all of our regulated utilities, they're always going to make the economic choice for customers and what the PTC does is make cell phone that much more economic. So I think our competitiveness has definitely improved if this goes through.

Operator

We turn the next question on the line is from David Arcaro with Morgan Stanley.

David Keith Arcaro
Morgan Stanley, Research Division

I was wondering, just back on Vogtle, could you just talk a little bit about the labor backdrop maybe specifically on Unit 4? And if you're facing any labor tightness, any kind of turnover or churn issues there as you start to maybe ramp up and bring people back to that site and accelerate the work there?

Thomas A. Fanning
Chairman, President & CEO

In general, a lot of that goes to compensation. I think we're top decile. We measure ourselves all the time. And so the compensation issues are pretty well spoken for. I think you always have kind of a worry that as you finish conclusion of work that people will start leaving and go to other more sustained work. We're keeping our eye on that, and we think we have that spoken for. We measure our churn statistics virtually every day, report every week, and they're within our expectations right now. We are adding people to the site with relative ease.

I think the interesting issue there will be, you may remember us talking a lot about attracting electricians. We're able to do that now. I think the more important point for us is as we wrap up work on 3, it frees people from 3 to move to 4.

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And it's not just folks that will do particularly these electrical termination. We're ramping that up in a big way. It's engineering and supervisory people that will make the increase in people on Unit 4 more efficient. Those are necessary to achieve the ramp-up schedule that we expect to see, oh, I don't know, over the next 10 to 12 weeks or so.

So that really is it. I think it's this idea of advancing on 3, freeing people up, moving those resources to 4 and increasing our productivity.

David Keith Arcaro
Morgan Stanley, Research Division

Got it. That's helpful. And I guess maybe any latest thoughts on a potential for a settlement around prudency or the time frame for when you might be able to start those discussions with other parties and intervenors here? Is getting closer to fuel load on Unit 3 is still the focus before that becomes maybe closer in time to being mixed up?

Thomas A. Fanning
Chairman, President & CEO

Settlement is always an option, but, boy, we don't want to get in front of that horse. We'll just let it go. As you may remember, the official schedule calls for prudence to begin on fuel load for Unit 4. And we kind of expect that in what summer next year.

So that's the official date to have a prudence hearing or begin that process. Yes, we could settle in advance of that, but I'm not going to front-run that issue here.

Operator

And we'll get our next question on the line is from Jeremy Tonet with JPMorgan. Good afternoon -- thanks for joining.

Jeremy Bryan Tonet
JPMorgan Chase & Co, Research Division

Just wanted to touch on the guidance a little bit here, if I could. And just wanted to see any updated thoughts you have? I mean, just being so far ahead this past quarter, how do you see yourself positioned? Could the guidance raise be in the cards if things continue -- current trends continue?

Daniel S. Tucker
Executive VP & CFO

Jeremy, this is Dan. So look, as we always do, we'll narrow down our year-end expectations during the third quarter call. It is clear that our year-to-date performance has positioned us really well to deliver strong results. But what it also does is position us really well to mitigate our operational and financial risk in future years.

So we're going to take every opportunity we have to fix the roof while the sun is shining, if you will. And if you look at our history of O&M spending in the electric business, there's almost never such a thing as a normal year. We build flexibility into our programs so that we can accelerate maintenance activities when we have higher-than-expected revenues from weather or customer growth or strong economic activity.

And then conversely, in those years, that inevitably happen where weather or economic activity are below our expectations or even recently a pandemic, we have the flexibility to curtail in those years knowing what we've done in years prior to get ready. Over time, this all balances out. And the system remains in great shape to serve customers, and our financial results are a lot less volatile than they might have otherwise been.

Additionally, and very importantly, many of our regulatory frameworks have backstops whereby better-than-expected results accrue to the benefits of our customers through the various rate or rebate mechanisms. So I would just say, stay tuned to the third quarter, but know that we're doing everything we can to improve and derisk future years.

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Jeremy Bryan Tonet
JPMorgan Chase & Co, Research Division

Yes. Got it. Sorry.

Thomas A. Fanning
Chairman, President & CEO

No, I mean just a little bit of clarity to that, too. It's inescapable. We're way ahead of where we thought we would be. I mean we, what, $0.37 up on the first 6 months. We're not going to be $0.37 over at the end of the year, right? That's what Dan is trying to say. I mean, I'd be disappointed if we weren't improved in the range or whatever. But we're just sticking with our practice of really giving you the firm guidance on our range in the next earnings call.

Jeremy Bryan Tonet
JPMorgan Chase & Co, Research Division

Got it.

Thomas A. Fanning
Chairman, President & CEO

But the performance so far -- Yes, we're doing great.

Jeremy Bryan Tonet
JPMorgan Chase & Co, Research Division

And then just one last one, if I could. And I realize that everything is new here. As you talk about the news last night out of D.C., but any thoughts with regards to regulated nuclear eligibility for PTC here that you might be willing to share with us?

Thomas A. Fanning
Chairman, President & CEO

Yes, it's slim. I think that language was designed to help plants under duress. Ours haven't been under duress. So I don't think it's a big deal. And recall that we already have production tax credits in place for Vogtle 3 and 4. So really, the application of Vogtle 1 and 2 fairly are hatch slim to none. That's our view right now.

Operator

And our next question on the line from Michael Lapides with Goldman Sachs.

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

Tom, Dan, a question for you. The McDonough discussion early in the call about blending hydrogen, Tom, can you just talk about both for hydrogen and your gas power plants, but also for RNG for your gas utilities, how should we think about what kind of the steps that have to happen, the big broad steps that have to happen for those to become decent-sized investment opportunities for the Southern family of companies?

Thomas A. Fanning
Chairman, President & CEO

Yes. You know what, but, I think that while some people have been breathlessly optimistic about hydrogen and I would argue we're doing the most research and the most kind of real money behind our words. We think hydrogen has a great place, particularly in blending with kind of methane fuels as we're demonstrating here in McIntosh. And then as we're looking at with the new plant that we may be building in Alabama to blend hydrogen, those are great applications, and we like them, okay? But I think the real issue in terms of near-term impact is going to be the classic chicken or the egg. Who's going to generate the hydrogen, and how do we move it?

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Now we are doing also a lot of research on the gas side. So we're looking at, as we add safety-related pipeline replacement programs in Southern Gas, is it suitable to think about moving hydrogen through those facilities. We're certainly thinking about that.

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

Got it.

Daniel S. Tucker
Executive VP & CFO

Yes, I was going to say, Michael, just along the same lines as what we've been talking about on the call around renewables and what this agreement with Manchin and Schumer may -- how that may benefit renewables something similar may be needed for RNG since you asked about that, to make it equally affordable for customers.

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

Yes. I was under the impression that there is an RNG ITC in this bill and -- but was just kind of curious for your thoughts about if there is some kind of tax credit for RNG, whether that's enough to make RNG really a material opportunity for the Southern Gas utility?

Thomas A. Fanning
Chairman, President & CEO

Dan, I don't know. We need to dive through the material. We're kind of looking at each other, going I don't know.

Daniel S. Tucker
Executive VP & CFO

Yes. I mean when you said material, it's hard to see it being material in the near term.

Thomas A. Fanning
Chairman, President & CEO

Yes. I really think hydrogen is a good idea, but it's probably in the 30s.

Operator

We can get to the next question on the line from Nick Campanella with Credit Suisse.

Nicholas Joseph Campanella
Crédit Suisse AG, Research Division

A lot of them been answered. I appreciate the updates. I guess just what's different about this quarter is you guys kind of moved off the ranges to target kind of specific quarters for in-service dates. So is that just kind of like the cadence of how you plan to kind of communicate ISD at this point? Or are you going to eventually kind of move back to a range on Unit 4? I think it's currently Q4 '23, if I'm not mistaken, for Unit 4 today?

Thomas A. Fanning
Chairman, President & CEO

We gave a lot of thought to that. We provided the guidance plus 3 months, plus 6 months. And as we look at the progress on 3, that has a lot to say about 4, okay? And let me give you an example. So as we begin fuel load and start-up of 3, the same kind of personnel that will be devoted to that activity will also be devoted to HFT in Unit 4. There can be overlap there, particularly, say, in the second half of start-up, maybe the last 25% of start-up. So let's just take a calendar. We've suggested that we could have fuel load before October. So that's -- and that would permit by March.

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If the same personnel are starting to get freed up in the second half by February, by January, somewhere in there, that would suggest you could accelerate hot functional test on 4 from the calendar that we're showing you on Page 6. So all we're trying to say is the timing of 3 has a lot to do with the timing of 4.

And to the extent we're successful on accelerating 3 prior to March, or have the people available at the end of startup of 3 prior to March, we can start hot functional testing sooner than the critical path we indicate on Page 6. That really is, I think, what is mostly behind our comments on schedule right now.

Nicholas Joseph Campanella
Crédit Suisse AG, Research Division

Okay. Great. Yes. I just I wasn't sure if you just had like enough line of sight where you were kind of comfortable in like nailing down a quarter here. So...

Thomas A. Fanning
Chairman, President & CEO

Well, I mean I almost describe it this way. I think we got line of sight on 3. I think we have reasonable expectations on 4. We admit that there's lots of variables on 4. We'll certainly keep you abreast of those developments as they occur. Right now, we believe we're reasonably comfortable within the ranges. We are expecting an improvement in productivity on 4. So we'll be watching that in the very near term. We'll have more to say about that certainly next quarter.

Nicholas Joseph Campanella
Crédit Suisse AG, Research Division

Okay. Got it. And then I guess when you gave these in-service date ranges, you also kind of talked about like $4 to $4.30 of EPS in 2024. Now that we're kind of at the end, does that guidance still hold here today?

Daniel S. Tucker
Executive VP & CFO

Yes. Look, we are where we were, but the reason we put out a range, Nick, is because there's -- it was 3 years away, and there's a lot of moving parts. So, look, you see what's happening around inflation and interest rates. You see that we've got a significant regulatory calendar ahead of us. We recognized that there was a lot of uncertainty. And as those things get buttoned up, and we get closer to 2024, we'll narrow in on exactly where within that range we are.

Thomas A. Fanning
Chairman, President & CEO

Yes. But I think we're still within the range. The biggest change, I guess, Dan, that we see of interest rates, particularly cost of -- interest costs at the parent. But we'll certainly update that at our year-end earnings call. But I would say that it is a range, and Dan mentioned, we'll tell you where we are within the range. I don't see any reason to change it now. But within that expectation as a result of the Georgia rate case, anything to do with the economy, a recession, a host of variables. But everything we know right now, we're still within the range.

Operator

And we'll get to our next question on the line is from Durgesh Chopra with Evercore ISI.

Durgesh Chopra
Evercore ISI Institutional Equities, Research Division

I wanted to go pick a brain just for a little bit more on the clean energy bill. So obviously, I mean, there's a lot to like here for utilities, generally speaking. But sort of when I compare this to sort of the build back better version of the plan, there's no direct pay for utilities, doesn't look like utilities are eligible for that. There's also no transmission investment tax credit as far as I can sort of see through the bill.

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And then obviously, you have the 15% minimum tax, which you guys talked to is not a material impact for you, but EEI has visually kind of oppose that, if you will. So I'm just wondering that is there a chance for the industry or EEI broadly here to kind of influence certain piece of this legislation? Or is the process moving too quickly?

Thomas A. Fanning
Chairman, President & CEO

I think -- I'm giving you a complete judgment here, not fact, all right? My judgment would say that it's been so hard to get to this place. And there are still uncertainties out there, as I mentioned in response to Steven Fleishman's question. You don't have SALT relief in here. You don't have a surtax on the wealthy individuals in America.

There are things here that so many people wanted this thing -- and [indiscernible], there are still many unknowns as to whether we can get this across the finish line. This is a great thing for us, and I broadly would say for the industry. Adding something else at this point, I think, is a bridge too far, in my opinion.

And I think, the inside the beltway people are kind of talking to each other with the frame of mind that don't let the perfect get in the way of the good. This is pretty good, and we hope it crosses the finish line.

Durgesh Chopra
Evercore ISI Institutional Equities, Research Division

Got it. And then just really quickly, can you just update us on the Georgia rate case filing? Just the milestones there, still expecting a final decision by year-end and kind of the key issues that investors now should be watching for?

Daniel S. Tucker
Executive VP & CFO

Yes, Durgesh, again, we don't want to get ahead of any of the process. There is a calendar in the slide deck, Slide 25. So really, the process will start in earnest in mid-September with hearings. And yes, we still expect a decision by the September. I think the only other thing I would say is just as a reminder, this rate case is largely a continuation of all the elements of the 2019 rate case. It is carrying a lot of those same capital initiatives forward. It's not Vogtle. It's 2019, 3 years later.

Thomas A. Fanning
Chairman, President & CEO

What I'd add, reference the NERC report that warned the industry that half of the United States would be under duress with our energy future. And then you're stressed further by this unusual weather we're having, whether that's part of climate change, et cetera, the tails appear to be flatter, our system has performed beautifully. And I think, given our relative price position in the United States, given the resilience of our system, I think the decisions of the commission in the past and the company had been excellent in respect to benefiting customers long term here in the Southeast.

And it's no secret why a lot of data centers in some of these big economic development projects, Rivian and others, are coming because of the price, because of the resilience, because of the long-term stability. Having this kind of constructive regulatory environment benefits long term the economic growth of the Southeast and that continues to look very robust. I don't see any reason why it would change at this point.

Operator

And we'll get to our next question on the line from Paul Patterson with Glenrock Associates.

Paul Patterson
Glenrock Associates LLC

And I'm afraid I'm going to be following sort of Durgesh and Steve's approach here, just if possible. You made some comments about the new PTC and how you think it was -- it's designed for troubled nuclear

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plants? Did I -- could you elaborate a little bit on that? I mean I am unable to read all the legislative tech, but it looked to me like it was a little bit broader than that. And what you're saying makes logical sense. I just wanted to sort of get a better feeling to what you actually see happening there.

Daniel S. Tucker
Executive VP & CFO

Yes. Again, so qualifying this, Paul, this is Dan. As it's 700 pages to get through and understand the details, and this is based on our high-level review of similar provisions in BBB. The legislation essentially sets an economic floor for nuclear plants. And so when you have a regulated nuclear plant that operates in a constructive jurisdiction and is recovering its costs on a regular basis, it's unlikely to truly benefit from something that's intended for troubled financially nuclear units.

Paul Patterson
Glenrock Associates LLC

Okay. That makes logical sense. I just wanted to get a better idea. And then also just in terms of the mechanics, the 15%, I assume that, that applies to all corporations within that large category or what have you. And I'm just wondering, when did that be -- or am I missing something -- could that be a political problem for the legislation, or am I missing something there? I mean, you mentioned the SALT and all those other things that people -- I am sorry, go ahead.

Thomas A. Fanning
Chairman, President & CEO

No, I mean, I think you're absolutely making a good point. I'm telling you it's good for us. There will certainly be people in America that don't like this. I think NAM has already come out and said that this really hurt some of the people in manufacturing in the industry and you kind of expect this. Well, if it's good for us, who isn't it good for, and they certainly will weigh in.

And we'll see what impact that has. It is -- it must be at least a zero-sum game in order to be positive to the scorecard in Congress. So we're not hurt by it, other people are. I fully expect that it will provide headwinds to getting it done. We'll see if it's enough to sway some votes. I don't know.

Operator

.

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

Thomas A. Fanning
Chairman, President & CEO

Yes. This is an exciting time, isn't it? We've had a wonderful quarter. We've made great progress on the ITAAC. My sense is these, next 2 will be done in a matter of days, not months or weeks. And son of a gun, we're poised to turn this thing over to operations and look forward to fuel and so forth, that will remove a great deal of risk, I think, from our portfolio going away. But that does not mean that risk is done. We still have to complete the work necessary to fuel load. We still have to improve particularly our performance in electrical, particularly in the terminations area. We believe we have reason to expect that performance to actually happen. We'll know reasonably soon whether that's true or not.

So look, I think we're as well poised as we can be. Dan mentioned the blessing of the good performance that we've had to date, $0.27 over versus our own estimate, gives us the flexibility to deal with problems in the future, including rate pressure. So I like our cards here. I like the cards that are shown by the robust performance of the Southeast economy relative to the national economy.

I know you all have to make your bets, and we have to do the same in terms of allocating capital. I think the allocation of capital from our own sense to our business model and going forward in this manner is really attractive.

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So thank you all for joining us this afternoon. Look forward to our next call in October. See you soon.

Operator
Thank you, sir. Ladies and gentlemen, this concludes the Southern Company Second Quarter 2020 Earnings Call. You may now disconnect.

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