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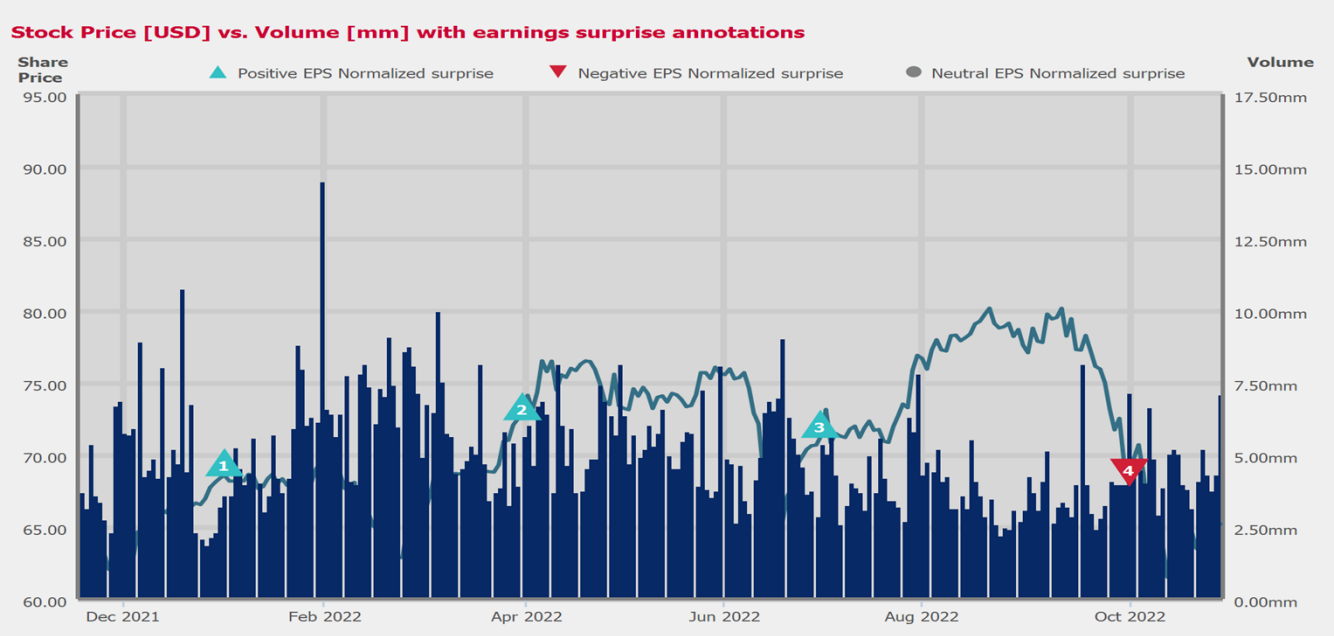
FQ3 2022 Earnings Call Transcripts

Thursday, October 27, 2022 5:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2022-			-FQ4 2022-	-FY 2022-	-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.33	1.31	▼(1.50 %)	0.25	3.60	3.78
Revenue (mm)	6851.53	8378.00	▲22.28	5193.72	25500.02	25497.04

Currency: USD
Consensus as of Oct-25-2022 10:32 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2021	0.35	0.36	▲1 2.86 %
FQ1 2022	0.91	0.97	▲2 6.59 %
FQ2 2022	0.84	1.07	▲3 27.38 %
FQ3 2022	1.33	1.31	▼4 (1.50 %)

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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

Agnieszka Anna Storozynski
Seaport Research Partners

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 Basch Michael Fremont
Mizuho Securities USA LLC, Research Division

Ross A. Fowler
UBS Investment Bank, Research Division

Shahriar Pourreza
Guggenheim Securities, LLC, Research Division

Travis Miller
Morningstar Inc., Research Division

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Presentation

Operator

Good afternoon. My name is Scott, and I'll be your conference operator today. At this time, I would like to welcome everyone to The Southern Company's Third Quarter 2022 Earnings Call. [Operator Instructions] I would now like to turn the call over to Mr. Scott Gammill, Vice President, Investor Relations and Treasurer. Please go ahead, sir.

Scott Gammill
Director of Investor Relations

Thank you, Scott. Good afternoon, and welcome to Southern Company's Third 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 our Form 10-K, Form 10-Qs and subsequent filings.

In addition, we'll provide 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.

Our third quarter financial results continue to support our full year earnings objectives. And the economies within our service territories remain strong, including customer growth and economic activity that has outpaced our expectations. Given our financial performance through the third quarter, we expect full year adjusted earnings per share near the top of our earnings guidance range.

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. Importantly, the projected completion timeline and capital cost forecast for both units remain consistent with what we outlined last quarter. Since our last call, the site team has continued to make substantial progress on Unit 3, highlighted by the successful achievement of several major milestones, including submitting the all ITAAC complete letter, receiving the 103G finding from the NRC, which signifies that license acceptance criteria for Unit 3 have been met, and successfully completing the safe transfer of all 157 fuel assemblies from Unit 3 spent fuel pool to the reactor core early last week.

Fuel load marked another historic and pivotal milestone towards startup and commercial operations. The focus over the next couple of months turns to final preparations and testing of systems primarily associated with the electric power production side of the plant and achieving the pristine conditions in the nuclear island necessary for start-up activities. The next major milestone for Unit 3 is initial criticality or the first self-sustaining nuclear reaction, which is projected in January.

Once this important milestone is achieved, plant operators can begin the prescribed testing sequence, which includes a series of power ascensions and reductions, various sustained power output plateaus and multiple forced trips to test the unit's safety systems. This rigorous process is intended to demonstrate the performance of the unit under a variety of conditions and its readiness to be included in reliable dispatch

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and to be placed in service for the benefit of customers. We continue to project Unit 3 will be placed in service by the end of the first quarter of 2023.

Turning to Unit 4. Open vessel testing was completed in August and direct construction is now approximately 97% complete. Electrical production, in particular, electrical terminations remains a key area of focus. To support our projected December 2023 in-service date, recent electrical production levels must be sustained for several more weeks. Testing is expected to become the critical path as the project team progresses towards future milestones of cold hydro testing and the start of hot functional testing, which is projected by the end of the first quarter 2023.

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

Daniel S. Tucker
Executive VP & CFO

Thanks, Tom, and good afternoon, everyone.

As Tom mentioned, we had a strong quarter with adjusted earnings of $1.31 per share, $0.08 higher than the third quarter of 2021. The primary drivers for the year-over-year increase are higher revenues associated with increased usage and retail pricing at our regulated utilities. These revenue effects were partially offset by higher nonfuel O&M expenses consistent with the rising cost environment and our long-term commitments to reliability and resiliency, along with higher interest and share dilution from the mandatory conversion of our equity units. 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 third quarter 2022, weather-normal retail sales were 1.8% higher than in the third quarter of 2021. This increase reflects stronger sales across all 3 customer classes, as we've continued to see expansion across our Southeast electric service territories. We also continue to see robust customer growth with the addition of 11,000 residential electric customers and 8,000 residential gas customers during the quarter.

We are encouraged by these trends and continue to monitor the potential impacts of supply chain constraints, labor force participation and inflation pressures on our outlook. The economic development pipeline in our service territories remains robust. Within our electric service territories, economic development announcements through the first 9 months of 2022 compared to the same period in 2021, reflect a 170% increase in job additions and a 237% increase in business investment.

Next, I'd like to provide you with an update on our outlook for the remainder of 2022. With adjusted earnings per share through September of $3.35, we expect to achieve adjusted full year earnings near the top end of our guidance range of $3.50 to $3.60 per share. Our adjusted earnings estimate for the fourth quarter is $0.23 per share.

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

Thomas A. Fanning
Chairman, President & CEO

Thanks, Dan. We remain encouraged by the sustained level of economic development activity within our service territories as we continue a long legacy of partnering with each of our states to attract new business. In recognition of these efforts, Alabama Power and Georgia Power were once again named to Site Selection Magazine's top 20 utilities in economic development out of approximately 3,330 utilities across the United States based on capital investment and job creation activity. We are honored by this recognition and look forward to continuing our commitment to helping our states and communities attract and grow businesses to further strengthen the economies within our service territories for years to come.

In closing, I would like to take a moment to highlight a significant safety milestone at the Vogtle project achieved this month, when the site successfully completed its 68 millionth job hour lost, I mean, without a lost time incident, but 68 millionth job hour without a lost time incident. At Southern Company, safety represents a key tenet of our uncompromising values and this milestone is a testament to the

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project team's focus on creating a safety-first culture. I'd like to recognize Sean McGarvey from the North American Building Trades and Lonnie Stephens from the IBEW along with all of the thousands of individuals that they represent for their tremendous ongoing support at Plant Vogtle Units 3 and 4. These groups have been terrific business partners for us, and the recent achievement of several major milestones is a tribute to the dedication of thousands of men and women committed to bringing Vogtle Units 3 and 4 safely online to provide Georgia with a reliable, carbon-free resource for the next 60 to 80 years.

Thank you all for joining us this afternoon. Operator, we are now ready to take questions.

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Question and Answer

Operator

[Operator Instructions] We have a question from Shar Pourreza with Guggenheim Partners.

Shahriar Pourreza
Guggenheim Securities, LLC, Research Division

Tom, I think you just got the fastest reward for the quickest prepared remarks. So that was good.

Thomas A. Fanning
Chairman, President & CEO

Scott just got made Vice President, give him all the credit.

Shahriar Pourreza
Guggenheim Securities, LLC, Research Division

There you go. Just quickly on the Georgia GRC, I guess how are discussions going with intervenors? I mean so the staff recommending both the 9.45% ROE as well as a reduction in the equity layer when Vogtle is fully in service seems somewhat counter to what we're seeing with capital market conditions and kind of the risks that are out there. I guess, what are your thoughts around a settlement and narrowing that bid ask? Or do you think this case will likely go to litigated route?

Thomas A. Fanning
Chairman, President & CEO

Well, you do know that this is an accounting order is what it's been since 1995, which means it's not technically kind of a litigated kind of thing. You know that this process has been in place since 1995 and that it really is, I think, a process that has been proven, tried and true, to let every party have their say and have a constructive outcome. And I think we've proven that time and time again.

Us commenting on any particular part of anybody's testimony at this point really isn't constructive. Let the process run, and I'm sure we'll be treated in a constructive way at the end of it.

Shahriar Pourreza
Guggenheim Securities, LLC, Research Division

Got it. Perfect. And then just on Vogtle, where do things now stand with the other co-owners in terms of resolving any sort of outstanding cost cap or contribution concerns? And I guess, what that ultimately means for your ownership of the projects and so on?

Thomas A. Fanning
Chairman, President & CEO

I'll turn this over to Dan here just to give some more details. But effectively, among and between Oglethorpe and Dalton and MEAG, we have reached an agreement, a settlement with MEAG. My sense is, Dan, you're not going to know anything else about the rest of these likely until the end of next year.

Daniel S. Tucker
Executive VP & CFO

Yes, that's right. And so the settlement with MEAG, you might see in the materials a slight cost revision for Georgia Power's ownership. And that's really reflective of that settlement. Our assumptions previously assumed, as many of you know, this notion of a tender or a put of ownership from any of the co-owners. And since that was not part of the resolution, we reached the kind of our estimate of the impact of the settlement is less than our previous estimate.

Shahriar Pourreza

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Guggenheim Securities, LLC, Research Division

Got it. And then just lastly, I know you guys have previously talked about Georgia Power just not really being super competitive against third-party developers in terms of winning the solar RFPs. Sort of with the tax credit changes with transferability, solar PTCs, et cetera, that came with the IRA, could Georgia Power now potentially be able to compete and win a portion of the solar RFPs we're looking at that Georgia is going to be running? And then how do we sort of think about that versus what you assume in the current guide?

Thomas A. Fanning
Chairman, President & CEO

Predict to your question, is exactly right. Any differences we had were related to tax treatment flow through versus some sort of normalized treatment on the part of Georgia Power. It's interesting. I think during 1 of the early rounds in other years, we had developers take positions and then Southern Power actually came in and took them out of those positions. So we could compete another way.

My sense is the IRA is really going to be helpful to all regulated utilities that otherwise use normalized accounting. And it does put us much closer on an equal footing to those folks. The other thing that we always have to take into account, particularly with renewables that have distributed sites across our service territory is that Southern is reasonably well known for thinking about our expansion plan on a portfolio basis.

Of course, each company reaches its own conclusion within that portfolio. But those kinds of considerations have to be met, especially when you consider wrapping into that, the closure of certain coal plants over time. So we'll see how it goes. But I think overall, the IRA is really helpful. Dan, do you want to add?

Daniel S. Tucker
Executive VP & CFO

Yes. So it's important to think about this in terms of the planning horizon, right? So this is a longer-term dynamic. So you're not going to see very much on the front end of the 5-year plan. Those decisions have already been made. Those RFPs have already been executed for resources. So you're really talking about the back half or even the last couple of years of our 5-year forecast where this opportunity may manifest itself as potentially rate base assets.

The other thing that is a new dynamic that's entering into the equation, certainly, affordability of kind of a low-cost profile is what this -- these tax benefits change. Other considerations will begin to factor in to some of these resources, location, how much the controllability of them and so it's kind of the difference between the notion of lease cost versus best costs where there's locational dynamics and other things at play.

Thomas A. Fanning
Chairman, President & CEO

And every bit of the IRA to us just serves to reduce the transition cost of our current position to a net zero future, all for the benefit of our customers. We don't make money off tax benefits. We typically flow them through for the benefit of customers.

Operator

Our next question is from Ross Fowler with UBS.

Ross A. Fowler
UBS Investment Bank, Research Division

Just a couple of questions. One, election days 2 weeks away, but we're not going to have a Georgia Commission election on that day. So can you just remind us what the process is from here around

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redistricting and how that actually works, whether it's a statewide or district election and how that would sort of proceed?

Thomas A. Fanning
Chairman, President & CEO

Not figured it out yet. This is work ahead for the legislature to undertake most likely through next year. Our sense is this is not going to be something that's going to reach a conclusion anytime quickly. There's going to be a lot of debate and a lot of thoughtful consideration about how to put this into play. So really can't guess on it right now, and I really don't have an estimate on any time frame.

Except my sense is it's going to take some time. I don't think we're going to get a result anytime soon.

Daniel S. Tucker
Executive VP & CFO

And some of that time maybe because it becomes a bit of an iterative process between the legislature and the court.

Ross A. Fowler
UBS Investment Bank, Research Division

And then -- so the current commission would sit until that process was complete. Is that correct to understand it?

Thomas A. Fanning
Chairman, President & CEO

That's right.

Ross A. Fowler
UBS Investment Bank, Research Division

Okay. And then just maybe remind us as we're -- and congratulations on fuel load, that's a big step. As we get to putting Unit 3, Unit 4 into service, how does the ROE penalties roll off over time and sort of if unit 4 is done on December '23, then they're all -- there are no more penalties in 2024, if I'm thinking about it correct?

Daniel S. Tucker
Executive VP & CFO

Sure, Ross. So again, as a reminder, all of our outlook assumes a total cost for Vogtle that goes into rates of $7.3 billion. And so the way that will break down in terms of rolling into base rates and thus, earnings or to power full allowed ROE, there's $2.1 billion that will go into rate base, the month after Unit 3 goes into service. And then the remainder following prudence proceeding next year would go into rates the month after Unit 4 goes into service.

And so based on the current schedule, you'd be at -- Georgia Power's full allowed ROE on $7.3 billion for the full year 2024.

Ross A. Fowler
UBS Investment Bank, Research Division

And Dan, the penalties now pretty much put you into cost of debt, right? With the timing of how it's worked, right?

Daniel S. Tucker
Executive VP & CFO

The passage of time and increase in the cost of debt, we're essentially there.

Ross A. Fowler

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UBS Investment Bank, Research Division

Okay. And then the prudency process, you mentioned that starts on fuel loaded unit 4?

Daniel S. Tucker
Executive VP & CFO

Correct. Fuel load.

Thomas A. Fanning
Chairman, President & CEO

Summer of '23.

Ross A. Fowler
UBS Investment Bank, Research Division

Congratulations on fuel load.

Operator

Our next question is from Jeremy Tonet with JPMorgan.

Jeremy Bryan Tonet
JPMorgan Chase & Co, Research Division

You touched a bit on it before, but as it relates to IRA, just wondering, are there any other aspects to the bill that impact Southern that you could share with us at this point that you've determined. Clearly, benefits for the customer is very important here for other types of tax cuts beyond renewables. Would that impact Southern or minimum tax? Just wondering if you could share thoughts on the bill more broadly and its impact on Southern.

Thomas A. Fanning
Chairman, President & CEO

The minimum tax thing really ended up not making much of a difference, particularly with the latest change they made. That doesn't impact us, hardly at all. This sounds like a policy response, but look, longer term, helping with 45Q and research and development and hydrogen, those are all good things that help us get from say we've already hit our 50% reduction goal. We put it in place in 2030. We hit it a decade early in 2020. Getting from 50% to 80%, we think we know how to do that, too.

Getting from 80% to 100% is where these things that relate to innovation and research and development will be helpful. Obviously, those expenditures will happen before they're put into place. In particular, some of the things that we're interested in are this trade you make in the 30s and 40s between nuclear and combined cycle with carbon capture and sequestration. And certainly, in respect of the cost of adding more renewables is something we're focused on. All of those provisions as they're addressed in the build are helpful.

Daniel S. Tucker
Executive VP & CFO

Yes. And Jeremy, I'd say the other things that we're kind of exploring and trying to better understand and certainly waiting for IRS guidance is the normalization opt out for storage. That's something we're certainly evaluating how that impacts customer rates the transferability of these tax credits is particularly interesting, especially within Southern Power, where historically, we might have used tax equity. This creates a new, perhaps better dynamic in that regard. There's been a lot of discussion about the nuclear PTC. But we -- right now, as we sit here, based on our interpretation, I don't see that having any meaningful impact for us. But again, we'll wait for guidance on that and see how that turns out.

Thomas A. Fanning
Chairman, President & CEO

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Yes. And in general, what we really like about the idea of this bill is the structure that the credits are effectively technology neutral. And therefore, let the market work to show what is best in place for our customers over time.

Daniel S. Tucker
Executive VP & CFO

Yes. And the certainty that these are there for the next 10 years provides a lot of flexibility and planning and the way we think about our business.

Jeremy Bryan Tonet
JPMorgan Chase & Co, Research Division

Got it. That's all very helpful. I just want to pick up with the part that you talked about nuclear there and saw during the quarter, there was a key milestone with Southern Company and TerraPower as it relates to their molten chloride fast reactor. And I was just wondering if you could provide us your thoughts as far as when you think that type of technology could come into play for utility scale proven up? What type of time frame there and having the ability to ramp up and down quickly there, I guess, the benefits that could provide as part of the generation effect.

Thomas A. Fanning
Chairman, President & CEO

Yes. Yes. I would argue that the new nuclear future of America will likely start with SMRs. We hear a lot about people discussing putting small modular reactors into effect. I mean, that could happen last half of this decade certainly. The larger Gen IV reactors that you're referencing to me, are kind of mid-30s and beyond.

Operator

We have a question from David Arcaro with Morgan Stanley.

David Keith Arcaro
Morgan Stanley, Research Division

I was wondering if you could give a little bit more color around just the updates on Unit 4. The time frame didn't shift. Just wondering for additional color around how productivity has been relative to recent targets based on just eyeballing the green line and the red line. It looks like maybe even a little bit ahead over the last 2 months. And has there been increasing clarity with the progress that you've made on Unit 3 also as you look to Unit 4?

Thomas A. Fanning
Chairman, President & CEO

Well, Dan, you and I should tag team this 1 as well. I'll start. The -- we're gratified with the progress on electrical terminations. We've always called that one out as a risk factor. And so long as we sustain our recent performance on the site, through, say, November, then we're on track on that issue.

So we're watching it very closely. We're gratified with the progress we've made. We just need to continue that progress. Obviously, as you've seen with Unit 3, our performance on these tests are particularly important. We believe that we've learned a lot from the test on Unit 3. And where we had some delays due to equipment issues or system issues, we think we've learned a lot, and we don't expect to repeat some of the issues that we saw in Unit 3 on Unit 4. So our schedule reflects that as well. Dan?

Daniel S. Tucker
Executive VP & CFO

Look, I think you hit the big issues. The testing will become critical path here for Unit 4 in the near term. And it is certainly predicated on those lessons learned and being a smooth process. And right now, the focus is getting the right people focused on Unit 4 in that regard where they've been tied up on Unit 3 completing that work.

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Thomas A. Fanning
Chairman, President & CEO

And all these discussions that Dan and I are referencing occur in a completely open and transparent environment. We have our co-owners with us. We have representives from DOE, NRC, the Public Commission staff, et cetera. I mean, everybody gets to hear all this information the same way. And I just think we're gratified with the progress we've made, and we see our way through to remaining comfortable with the time frames we're laying out.

David Keith Arcaro
Morgan Stanley, Research Division

Okay. Great. And then a separate topic. I was just wondering if you could touch on how you're managing interest rate headwinds right now with debt issuances coming next year, any ways to hedge against that proactively or other ways that you're looking to manage potential EPS headwinds there?

Thomas A. Fanning
Chairman, President & CEO

Well, I will say this, old dog doesn't learn new tricks. Maybe that's not the right line here. But I'm an old finance guy, and I really like this stuff. I like liability management. And I can remember back when Drew Evans was CFO and we were in this low interest rate environment. We were very intentional about reducing, what I call, our level of risk capital. That's short-term debt, debt due within 1 year, putable debt, all that sort of thing.

So we shortened our risk capital. We lengthened the duration of our assets. And I would argue if we do this plot, I think it's in your package, but Southern Company debt portfolio when you look at kind of total enterprise value of a corporation is a really valuable asset. It's 18 years long on the average and has a really cheap coupon rate, 3.5% or whatever. These guys have done a really nice job managing it. Dan?

Daniel S. Tucker
Executive VP & CFO

Yes. So to Tom's point, we're starting from a great place in that regard. We've done things this year to take risk off the table, accelerating or upsizing some of our issuances, taking some of the variability out of the portfolio here in the short term. We'll continue to do those things. And then look, already in '22, interest rates certainly are having an impact on our results, and we've been able to offset that.

We've got levers within the business to do that, and we'll continue to focus on those as we move forward. Like with anyone, I mean, we were fairly conservative about our assumptions over the long term. And like everyone, I'm sure our assumptions in the short term were pretty far off, but we're managing through that.

Thomas A. Fanning
Chairman, President & CEO

It's just another issue that we deal with.

Daniel S. Tucker
Executive VP & CFO

That's right.

Operator

We have a question from Nick Campanella with Credit Suisse.

Nicholas Joseph Campanella
Crédit Suisse AG, Research Division

I guess just a follow up on the interest rate kind of commentary and I'm really just kind of thinking about through next year and the drivers of '23. Not to get ahead of it, but could you just give us any kind of

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comments on how you're thinking about the growth rate into '23? I know you've had this $4.15 marker out there for '24. I think on previous calls, you kind of talked about bridging the gap to that $4.15, but you have the ROE penalty, maybe some potential higher financing costs. Your sales commentary seems pretty strong, and you also have new rates at Georgia Power. So just any other considerations to be thinking of?

Thomas A. Fanning
Chairman, President & CEO

Yes. And not to pick at your question, but all we've ever said about '24 is $4 to $4.30. I think you were just picking the midpoint. Our range has always been $4 to $4.30. We put that in place some years ago. Dan?

Daniel S. Tucker
Executive VP & CFO

Yes. And Nick, we're not going to change course here. We always provide our annual guidance on our fourth quarter call. So we'll do that again here in February and put our '23 number out there for the first time. And what we are also likely to do in February is we will narrow that $4 to $4.30 based on what we see at the time. One of the important factors and real uncertainties that existed 3 years ago when we put that in place, was knowing we'd have another Georgia Power rate case, and then, of course, everything else that has transpired in those 3 years. So once we get past that, we'll be positioned to narrow that down.

Nicholas Joseph Campanella
Crédit Suisse AG, Research Division

That's helpful. And yes, I was just picking the midpoint, but understood for the $4.30. I guess just on the sales growth, your kind of commentary on the economy and your current footprint was notable and just we've seen some of your peers starting to revise longer-term sales load higher. Just how are you kind of thinking about that as we prepare for more of a longer-term update in the fourth quarter call?

Thomas A. Fanning
Chairman, President & CEO

Yes. I don't know whether you saw my saying on CNBC this morning on Squawk Box. But it is a consistent refrain, and we're actually surprised that a wee bit. Our growth so far has been much higher than what we thought. And it's pretty comprehensive. A summary, though, is kind of notable. I was looking through all of our material. We are essentially back to pre-COVID levels on commercial and industrial sales. Our residential sales number is a little over 5% improved.

I think that's probably a reflection of a number of things, but including kind of workforce America's reaction to this new hybrid work environment we're finding. The other thing Dan mentioned is the economic development data, which continues to be strong. We don't see much of a reduction, a slowing in those numbers. I have a background with the Fed. And so I always get into the nerdy economic details. But one of the things that our head economist here, kind of shiver does, is look at particular industrial segment.

So we take our top 10 industrial segments, which represent, I think, about 80% of our sales for the industrial segment. And we do look at not only kind of period-over-period results, which still show really positive growth, everything looking pretty good. We go to the trouble of going to the first derivative, and I would call that a momentum statistic. That would show that even though we still show really good growth, that the amount of growth is moderating. And we just need to kind of think about that as we look going forward.

I know a lot of my peers around the country and the economists and the Fed and all the pundits are talking about potentially a mild recession sometime first, second, third quarters of 2023. We see no data for the Southeast that indicates that would be here. So when you hear recession data, just know that,

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generally speaking, it is national broad brush kind of statistic. The Southeast region is appears to be, by the data we have, much more resilient and much less prone to such a downturn.

Operator

We have a question from Julien Dumoulin-Smith with Bank of America.

Julien Patrick Dumoulin-Smith
BofA Securities, Research Division

Listen, Tom, I wanted to ask you a question specifically. I mean we saw some headlines in the quarter here about perhaps your eventual retirement here. Can you talk a little bit about succession planning? And just where we stand in that process? And Tom, specifically, how long are you thinking about staying vis-a-vis the in-service of the units here, just to prep the street around your thought process?

Thomas A. Fanning
Chairman, President & CEO

Yes. There's been a lot of written about that. I'm feeling like Methuselah for heaven's sakes. Look, I am 65.5. So that's a fact. Somebody saw it fit to read an article about that. The fact is Southern Company's Board has made no assessment of that one way or the other. There is no timetable for me leaving. I certainly have an interest in progressing the Vogtle units. That's for sure. You should know also one of my comments to that reporter, I think, got misconstrued or I don't know.

He asked me, are you looking for a successor. And I said, "Look, it's every CEO's job, first day they get there to have a succession plan in place." That got turned into, I'm actively looking for a successor. Here's the truth of it. And you all know this, I think, when you look at our brothers and sisters around the United States, Southern Company has been a terrific place to grow talent. We have several subsidiaries where we can give people experiential opportunities beyond just growing within a silo of functions within their experience at the company.

And it is our intention to do that. Somebody is successful in a certain area, we put them into a place where maybe they don't know as much, maybe they're not as comfortable and they've got to build new constituents in order to succeed. We have a very rigorous process. We have had a rigorous process for 20, 25 years of growing talent and moving them around. The latest example, Robin Boren, who has been Treasurer at Southern Company is now, I guess, effective November 1, going to become CEO of Southern Power.

This is just another example of how we move people around that show us that they have the capability to grow into senior, senior positions inside the company. So we'll continue with that. The great news is that there's good talent all over this industry. There's exceptional talent inside Southern. And I'm very, very happy with the bench, the Southern Company management council and beyond.

Julien Patrick Dumoulin-Smith
BofA Securities, Research Division

Excellent. Thank you for providing that and clearing the air as you say, on some of the articles out there. If I can just follow up on Nick's last question a little bit. You all have a track record, especially through COVID of finding offsets and reductions and just dealing with difficult context. To the extent in which that we're dealing with inflation today, whether that manifests itself in the form of liability management and interest expense or just generally elevated labor costs at Vogtle and elsewhere, how are you thinking about providing a comprehensive update on that front as well? I know that you talked about narrowing '24 here. But can you talk a little bit more specifically about your efforts to manage inflation and offsets on that front as well?

Daniel S. Tucker
Executive VP & CFO

As with just about anything, Julien, it's all of the above approach, right? So -- and it always has been for us. So we have managed both in the short term and more importantly, in the long term, around all

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of these kind of issues, and we'll continue to do that. So to a degree that will be changing the way we operate, becoming more efficient. It will be looking for ways to deploy capital that thus reduces O&M. It will be looking for ways to grow the business more to help offset what might otherwise be headwinds elsewhere.

And then importantly, along the way, while we're focused on all of that, we'll also, as we always are, be focused on clean, safe, reliable and importantly, affordable energy as we navigate this with our regulators and strike the right balance there.

Julien Patrick Dumoulin-Smith
BofA Securities, Research Division

Got it. All right. Fair enough. It will be embedded in whatever you guys update on '24 at the end of the day, I take it.

Daniel S. Tucker
Executive VP & CFO

Yes, sir.

Operator

We have a question from Michael Lapides with Goldman Sachs.

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

First one, a number of your peers have built up pretty sizable deferred fuel balances that may take a couple of years to recover, just given the spike in power and gas prices. Just curious whether you're seeing the same thing across your larger subsidiaries. And in your conversations with stakeholders, how you're thinking about the time line to recover those different fuel balances?

Daniel S. Tucker
Executive VP & CFO

Yes, Michael, this is Dan. So we are certainly having discussions with our regulators. We've been very transparent and proactive about making sure that they understand and appreciate this macro dynamic that has occurred, particularly with natural gas costs and to an extent, coal prices as well. And so yes, we, like you mentioned, Michael, like many peers, have accumulated a pretty sizable under-recovered balance as of the end of the third quarter in total, it's about $2.2 billion.

The vast majority of that is at Georgia Power, which is about $1.7 billion. So with each of our jurisdictions, the process is a little different. Some are a little more regular in their cadence. Some are a little more discretionary. I think the plan for that largest balance in Georgia will be addressed that early next year. And again, we'll work very closely with the regulators to make sure that's done in a way that is the least impactful for customers as possible.

Thomas A. Fanning
Chairman, President & CEO

And Michael, I could just add as a comment on dogma. As apart from the so-called organized markets, the integrated regulated markets provide us a mechanism to pass through fuel costs. So there is no profit incentive for us. In other words, it's always incentive for us to keep prices as low as possible. And so we have done that. We've had programs in place that have helped us keep those costs low. This year, we've hedged 34% of our fuel prices, gas prices at about $3 and 22%, next year, 32% at $4.73. Certainly, those are below the spot prices for natural gas right now.

Nobody can predict the future. But certainly, those kinds of programs, which have been put in place with the conjunction of the Public Service Commissions have been awfully helpful to reduce the pressure on that issue.

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Daniel S. Tucker
Executive VP & CFO

And one last thing. So just in addition to that continuous proactive dialogue with regulators, we've been having similar conversations with the rating agencies, making sure that they're keenly aware of us likely having to carry a little incremental debt to see this through. But all of our subsidiaries, Georgia Power, in particular, Alabama Power, Mississippi Power, have the financial strength to be able to weather that.

Thomas A. Fanning
Chairman, President & CEO

One last comment. I just want to do it. But on a going-forward basis, once Vogtle 3 and 4 go in-service, the equivalent energy price coming out of that plant is going to be effectively about $1 per million BTU. It's going to be an awfully attractive asset that will run 24/7, 365.

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

Got it. And then a follow-up question, a little bit unrelated. I mean Vogtle CapEx should step down materially next year. And then done in 2024, except for maintenance. And there's -- Dan, you made the comment of if there's new generation additions coming in the capital plan, it's kind of in the back end of the plan. How are you thinking about the potential for incremental capital allocation, not necessarily in 2023, because you're still spending on Vogtle, but kind of in '24, '25 timeframe?

Daniel S. Tucker
Executive VP & CFO

Yes. Look, it's not unchanged from where we were early this year. I mean, our capital plan is designed to support our growth rate of 5% to 7%. I think we highlighted in the fourth quarter call, kind of the history of our planning process and how opportunities emerge further out in the forecast you get as we roll the forecast forward. The numbers continue to increase as we get clarity on things, as we bet things with regulators, as new regulations emerge, as new technologies emerge. And I think that will continue to happen.

And then we've got an allocation that we set aside for Southern Power, that's been a little quiet here in recent days, because of the uncertainty that existed before IRA passed, I think you'll see that continue to ramp up. We've got a plan today, Michael, that doesn't require us to issue any equity to finance it. And to the extent we find more opportunities that are able to earn either our regulated returns, or the returns that we require out of the projects in Southern Power, we'll adjust our financing plan, but I'm happy to turn our equity plans on to finance more regulated growth.

Thomas A. Fanning
Chairman, President & CEO

Yes. And Dan, please correct me if I misstate this. But I think you guys have done, you and your team, have done a great job illustrating to the investment community how we develop a CapEx estimate. And I'm being more direct than you were. The outer years are always underestimated. When you go through time, we end up spending more money than we estimate in the outer years. And if I had to estimate that in the current 5-year plan, aren't we estimating something like $41 billion over 5 years. And if we kind of adjust it for what may happen, a more reasonable number maybe as much as $45 billion.

Daniel S. Tucker
Executive VP & CFO

Yes, I don't think that's unfair. And importantly, the $41 billion, the starting point is what supports our 5% to 7% growth rate. And so as more opportunities to invest are identified, it simply increases the durability of that growth rate either in the short term or over the long term.

Thomas A. Fanning
Chairman, President & CEO

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And you should know, all of you on the phone should know that some companies put a bunch of plug estimates in there. We don't. We do sensitivities to indicate what may happen with higher CapEx, assuming we get appropriate recovery, which we think we would, but that's the way we are. We have a conservative plan.

Operator

We have a question from Durgesh Chopra with Evercore ISI.

Durgesh Chopra
Evercore ISI Institutional Equities, Research Division

Just 1 -- I have 1 housekeeping question and then just a follow-up. In terms of the -- and forgive me if I missed this, and I think you discussed this as part of the last Q&A, but the 5% to 7% long-term EPS growth target, is that -- is that still sort of where you are projecting long-term earnings growth?

Thomas A. Fanning
Chairman, President & CEO

Yes, we establish that once a year. And we'll come back to you with a new 5-year plan. I guess it's in February, but yes, that's us.

Durgesh Chopra
Evercore ISI Institutional Equities, Research Division

Okay. Got it. And then maybe just can you comment on -- there was some discussion of it, just bill increases, what should we expect here in the near term, excuse me, given the fuel price increases, what are what are we looking at over the next few months in terms of customer bill increases? And how could you potentially offset some of that?

Thomas A. Fanning
Chairman, President & CEO

Yes. Durgesh, we have a policy. You followed us for some time, never front-running a regulatory process. We're not going to start now. So that's going to be a question I let alone for now. When we see results, then we'll be able to speak to this specifically.

Operator

We have a question from Angie Storozynski with Seaport Global.

Agnieszka Anna Storozynski
Seaport Research Partners

So just a couple of questions about the Vogtle 4. So is there an agreement between the co-owners as to the in-service date and how the companies are showing it. I almost feel like -- I think I'm referring here to Oglethorpe. It seems like they're showing first quarter 24 as a COD for Vogtle 4. And I'm just wondering if this is basically what the whisper date is? Or is that it's up to them to actually make a call on the start of commercial operations?

Thomas A. Fanning
Chairman, President & CEO

Angie, it's a wonderful question. Look, our performance to date indicates that we are in the reasonable expectation of achieving a year-end '23 in-service date. You'll have to ask Oglethorpe why they may depart from that.

Agnieszka Anna Storozynski
Seaport Research Partners

Okay. And then secondly, just tracking the ITAAC for that unit. And I remember that they were very lumpy with Unit 3. So it's again, I mean, it seems like you need very many of them to start fuel load. So again, is

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there any pattern in those ITAAC that we should be worried about? Or again, they're just as lumpy as they were with Unit 3?

Daniel S. Tucker
Executive VP & CFO

Yes, there's about 240 or a little above that remaining on Unit 4, Angie. And yes, there's not a normal cadence, if you will. And there's also a lot of things that are tied to particular milestone tests. So hot functional testing as an example. There will be a lot that either come as a result of that or after that, and that's where we really started focusing on them for Unit 3 and kind of laying out the remaining schedule. But I would not expect any sort of linear progression there, it will be lumpy.

Thomas A. Fanning
Chairman, President & CEO

Well, in fact, your memory is absolutely spot on. It is lumpy. And the reason it's lumpy is when we finish systems, then we are able to submit the ITAAC. And recall a problem we had, I guess it was earlier this year, right around the end of the year into January, finishing up all of the paper. We think we put in place controls, processes, which will speak to that. We should not repeat that problem. So as we finish system completions associated with the big milestone, so ultimately, hot functional test, you'll see a big ramp up, a lumpy look in ramp-up of submittal of ITAAC.

Agnieszka Anna Storozynski
Seaport Research Partners

Great. And just one follow-up, and I appreciate that you have limited visibility as to the way the elections are going to be run for the GRC -- for the commission. Now when I think about the prudence review and the elections that may happen between now and then, how many of the commissioners will have been replaced? Again, I know that it depends when the elections actually happen, but just theoretically.

Thomas A. Fanning
Chairman, President & CEO

I couldn't even hazard a guess at that. It really depends on when they come up -- when the legislature comes up with this new process. I have no idea when that will be or what the outcome will be. And therefore, it's hard to answer your question. I'm sorry, but...

Daniel S. Tucker
Executive VP & CFO

Based on the current terms, Angie, there were only 2 appropriations this year, and there were none scheduled for next year. And so just Again, if this gets resolved quickly, it will be the 2 that would participate in a special election. There's another commissioner of reelection in 2024.

Operator

Our next question is from Paul Fremont with Mizuho. Paul.

Paul Basch Michael Fremont
Mizuho Securities USA LLC, Research Division

Congratulations on the good quarter. Can you update us on the construction work that's left on Unit 3. I think you had -- you had indicated that you were doing construction after you got the 103G letter up until fuel load. Is all of that construction completed or how many hours of construction are remaining there?

Thomas A. Fanning
Chairman, President & CEO

Tiny amount. And I wouldn't almost refer to it as construction at this point. It's really finishing the finest tuning, if you can imagine, in order to go critical. For example, we've loaded the fuel. We have to put the top on the reactor vessel and ratchet down the enormous bolt structures that will tighten that top down.

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We have to finish what they call coating. So this would be areas like walls that just need to be painted that weren't required on a safety-related basis.

It is finally -- so in the reactor vessel in order for us to load fuel, it had to be pristine, cleanliness and actually putting the top on the reactor vessel preserves that condition. We want to finish all of the minute cleaning procedures that will be necessary for us to run that plant. It's stuff like that.

Paul Basch Michael Fremont
Mizuho Securities USA LLC, Research Division

And is this -- I mean, is it days, weeks, months?

Thomas A. Fanning
Chairman, President & CEO

Well, what I would say, Paul, is the next milestone we're guiding you to is...

Paul Basch Michael Fremont
Mizuho Securities USA LLC, Research Division

Criticality.

Thomas A. Fanning
Chairman, President & CEO

It's criticality and that's January.

Paul Basch Michael Fremont
Mizuho Securities USA LLC, Research Division

So you would finish then the construction between now and then or whatever additional work there is between now and January?

Thomas A. Fanning
Chairman, President & CEO

Yes, sir. I'm not sure I would call that construction, but yes. That's right.

Paul Basch Michael Fremont
Mizuho Securities USA LLC, Research Division

Al right.And then can you discuss the secondary steam systems in the plant? Do we need to wait until after criticality when you go through that testing phase to make sure that, that system is working the way that you wanted to work or can you address that earlier?

Thomas A. Fanning
Chairman, President & CEO

So here's the thing. There is a prescribed process and it's a great graph, but nobody let me put it out there. But it's a really interesting looking graph that shows a prescribed process of taking the plant up in power and then taking it down. For example, within, I think, the first week or so, 10 days, we'll get to 25% power, then they take it down. And then we'll go to 50% and take it down. Then we'll go to 75% and take it down, then 90% and then 100%. They do all sorts of trips and bells and whistles along the way.

And what they're trying to do is what may be a condition that could exist once the plant goes in service, to make sure that everything works as it is supposed to. If you want more details on that, we filed the VCM here recently. And there's a good bit of background in that VCM report that we filed that can give you more here if you want to see it.

Paul Basch Michael Fremont
Mizuho Securities USA LLC, Research Division

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Great. And then last question for me. I'll take a shot at what somebody asked is an earlier question, but do you -- would you expect to settle the general rate case? Or do you think the parties are too far apart?

Thomas A. Fanning
Chairman, President & CEO

Oh, no, it's not -- whether we settle or not has no bearing on too far apart or at least hasn't in the years past. Paul, just -- I mean, you've followed us forever, it seems like. And we have had this process in place since '95. And every 3 years, we go through this. And typically, we reach an agreement just before the holidays. I would expect that to occur again. There's a lot of value. It's almost therapeutic, if you will to let everybody's views come out in the open and have a good fair debate. We've been treated fairly every other time, my sense is we will be treated fairly again.

Operator

And we have a question from Travis Miller with Morningstar.

Travis Miller
Morningstar Inc., Research Division

The customer growth, to the extent that, that continues above the forecast, what does that mean for mix of CapEx spending in terms of distribution versus potentially even transmission, but certainly, distribution versus generation, where does that stand?

Thomas A. Fanning
Chairman, President & CEO

If I remember correctly, Dan, again, correct me if I'm wrong. In the old days, we spent about $1 billion a year on T&D kind of every year. I would argue that maybe amped up a little in recent years, because of what I would call hardening or resilience expenditures. You remember Hurricane Yuri. Hurricane, gee it was Winter Storm Uri that went through Texas. One of the things we did in a proactive way was to look at our kind of planning margin system average temperature, and we reduced that temperature to give us more margin on extreme weather. Those are the kinds of things that we are spending more money on T&D for, I would argue.

As well, there is some T&D expenditures that will be intertwined with ultimately our generation location decisions. And I think we've been over this a lot with you guys, but if you look at North Georgia, what's the final disposition and when a plant Bowen. Whether we locate more generation in the north or let more generation be located in the South and add the transmission necessary to get that generation to the load center. Those are the kind of decisions that we'll cover in the next, I don't know, 3 to 5 years.

Travis Miller
Morningstar Inc., Research Division

Okay. That's helpful. And then real quick back on the capital allocation I know you can't talk about what the Board is going to do, but what are general thoughts on the dividend to the extent that you get to that post Vogtle $4 to $4.30. Obviously, that suggests a significant jump. What are your thoughts on that side?

Daniel S. Tucker
Executive VP & CFO

Yes, Travis, this is Dan. So we've talked about this in an earlier call. There is -- if you look in our slide deck, Slide 21 kind of represents the uplift from the completion of Vogtle from a cash flow perspective. We're really thinking about that uplift supporting 3 things. One is an improvement in our overall financial profile, in particular, our credit profile. Thing 2 is it continues to fund our growth. And then thing 3 is the dividend. We have increased the dividend every year for over 2 decades now, going back 75 years. We've never cut the dividend. It's an incredibly important part of our overall value proposition. As we get to 2024, given the improvement in our profile and given a durable growth rate, we think the Board will certainly have the opportunity to reevaluate the pace of growth and perhaps better align the growth in the dividend with growth in earnings.

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Operator

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

Thomas A. Fanning
Chairman, President & CEO

No, I'm just reminded, maybe age is getting to me, but I can remember one time, I don't know, 5, 6 years ago, where somebody was pleading with me to have a boring earnings call. The old mantra of regular, predictable, sustainable starts to reenter our dialogue now, as we finish these major milestones on Vogtle and we look towards the future. I wouldn't say this was a boring call at all, but it certainly has less volatility in it given the performance that this company has been able to achieve.

Here's hoping for the future. We feel confident, and we look forward to finishing the year strong and looking forward to a new year next year. Thank you all for joining us, and we appreciate it. See you soon.

Operator
Thank you, sir. Ladies and gentlemen, this concludes The Southern Company's Third Quarter 2022 Earnings Call. You may now disconnect.

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