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The Southern Company NYSE:SO

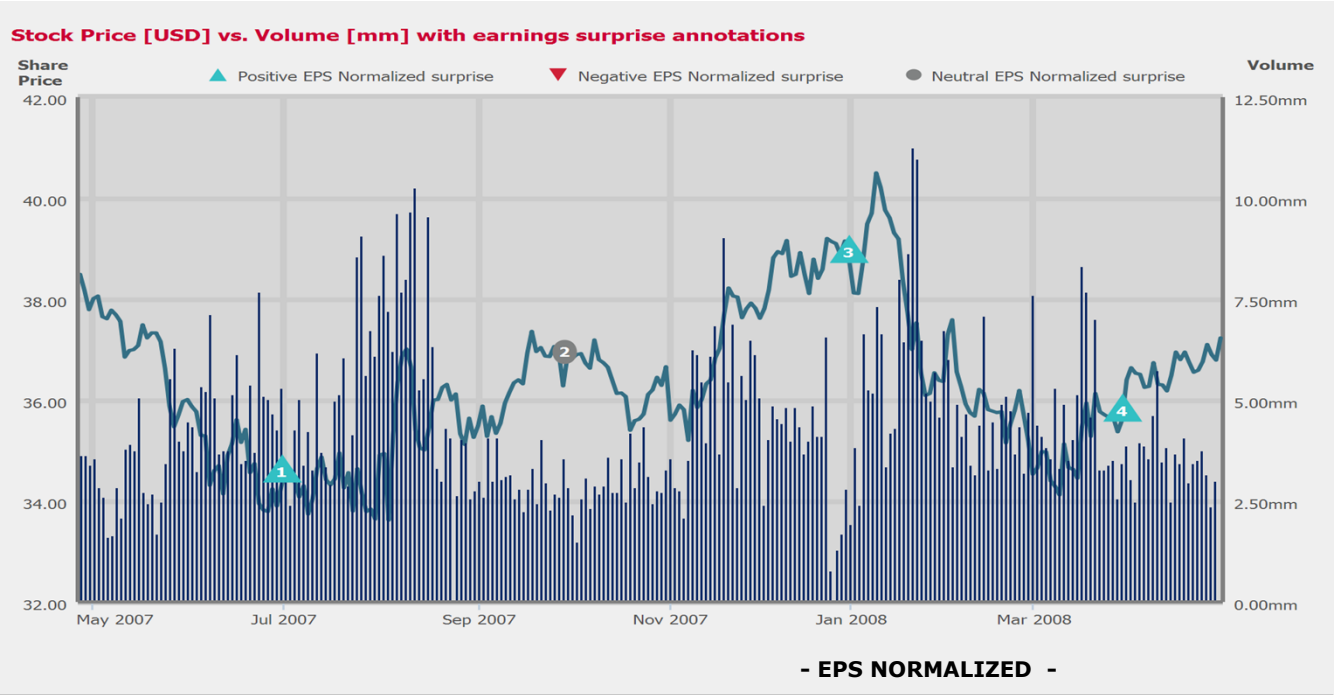
FQ1 2008 Earnings Call Transcripts

Wednesday, April 30, 2008 5:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2008-			-FQ2 2008-	-FY 2008-	-FY 2009-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.41	0.47	▲14.63	0.56	2.32	2.45
Revenue (mm)	3300.00	3683.00	▲11.61	3400.00	15545.03	16247.56

Currency: USD
Consensus as of Apr-30-2008 3:22 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2007	0.52	0.55	▲1 5.77 %
FQ3 2007	0.99	0.99	2 0.00 %
FQ4 2007	0.24	0.26	▲3 8.33 %
FQ1 2008	0.41	0.47	▲4 14.63 %

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Call Participants

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David Ratcliffe

Paul Bowers

ANALYSTS

Annie Tsao
AllianceBernstein

Ashar Khan
SAC Capital

Dan Eggers
Credit Suisse

Daniele Seitz
Dahlman Rose

Nathan Judge
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Paul Ridzon
KeyBanc

Scott Greenstein
CreditSights

Tom Arnel
Highbridge

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Presentation

Operator

Good afternoon. My name is Kimberly and I will be your conference operator today. At this time, I would like to welcome everyone to the Southern Company First Quarter 2008 Earnings Call. (Operator Instructions). Thank you.

I would now like to turn the conference over to Mr. David Ratcliffe, CEO. Sir, you may proceed.

David Ratcliffe

Thank you, Kimberly. Good afternoon and thank you for joining us. I am pleased to be with you today for our first quarter earnings call. Joining me today is Paul Bowers, our Chief Financial Officer.

Let me remind you that we will make forward-looking statements today in addition to providing historical information. There are various important factors that could cause actual results to differ materially from those indicated in the forward-looking statements, including those discussed in our Form 10-K and subsequent SEC filings.

As you can see from the materials we released this morning, we had good quarter and we are off to an excellent start for the year. Continued with our longstanding commitment to customers through superior reliability, customer satisfaction, and low prices, we now also find ourselves well positioned with a transparent and stable regulatory framework during a period of significant capital investment.

With Georgia Power's three year rate plan along with a formulated base rate mechanisms and clauses in Alabama, Mississippi and Florida, we have a great deal of transparency in cost recovery and in our overall financial profile for the next several years.

Turning now to a discussion of the economy, there are signs that economic growth in our territory is slowing. However, we expect that the decline in the southeast will be less severe than in the US economy as a whole due to the healthy demographic trends and a favorable business climate.

The slowdown in construction of new homes has had a significant impact on the building products industry. We are seeing a decline in sales to the stone, wood products and carpet manufacturing sectors. On the positive side, job growth in the region is currently ahead of the US. In addition, the Southeast is expected to outperform the national economy in terms of most household growth currently 1.8% and population growth which is now 1.7%. And as we emerge from this economic slowdown, we expect that the states of Alabama and Georgia will add nearly 280,000 jobs by the year 2010.

At this point, I will now turn the call over to Paul Bowers, our Chief Financial Officer, for a discussion of our financial highlights for the first quarter and our earnings guidance for the remainder of 2008.

Paul Bowers

Thank you, David. As you mentioned, we are off to a good start this year. In the first quarter of 2008, we reported $0.47 a share; that's an increase of $0.06 a share over the first quarter of 2007 excluding our synthetic fuel investments. Although the synthetic fuel is no longer a factor in our 2008 earnings, we will still compare our results during 2008 to our ex-synfuel earnings for 2007. On an as reported basis, our earnings for the first quarter of 2008 were $0.02 a share above our earnings from the first quarter of 2007.

Now let's turn to the major factors that drove our first quarter numbers compared with the first quarter of 2007.

First, the negative factors. Non-fuel O&M for our traditional operating companies had a negative impact of $0.04 a share on our earnings for the first quarter of 2008 compared with the prior period in 2007. This was primarily due to an increase in the number of planned outages and the duration of outages associated with installing new environmental equipment as well as an increased customer service expense.

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Increased depreciation and amortization due primarily to increasing environmental investment reduced our earnings by $0.03 a share compared to the first quarter of 2007. Also consistent with our growing investment, interest expense for our traditional operating companies reduced our earnings by $0.01 a share compared with the first quarter of 2007.

Finally, an increase in the number of shares outstanding reduced our earnings $0.01 a share in the first quarter of 2008 compared with the first quarter of 2007.

Turning now to the positive factors. Increased revenues due to short term or market response rate and regulatory actions in Alabama and Georgia added $0.10 a share to our earnings in the first quarter of 2008 compared with the first quarter of 2007. Usage and economic growth added $0.02 a share to our earnings in the first quarter of 2008 compared with the same period in 2007.

Total customer growth year-over-year was 1.1%. On average, weather in the first quarter of 2008 was normal as it was in the first quarter of 2007, so weather was not a factor in our earnings. We had other contributions to earnings from our traditional business that added $0.03 a share in the first quarter of 2008 compared with the first quarter of 2007. This increase came primarily from Allowance for Equity Funds Used During Construction or AFUDC related to our environmental construction program.

In conclusion, we had $0.15 of positive items offset by $0.09 of negative factors, so overall our quarter came in at $0.47 a share.

Before I discuss our earnings estimate for the second quarter, I would like to take a moment to discuss our recent dividend increase. As you may have seen last week, we announced a 4.3% annual dividend increase effective with our second quarter dividend payment in June. The dividend is now $0.42 per share on a quarterly basis and $1.68 per share annually.

This marks this 242nd consecutive quarter that Southern Company has paid a dividend to its common shareholders. In fact, every year over the past 60 years, Southern Company has paid a quarterly dividend equal to or higher than the previous quarter dividend.

Our dividend plus our financial objectives of regular, predictable and stable earnings per share growth and stable A credit ratings are key components of our overall low risk shareholder value proposition when compared with the overall market. These financial metrics plus the future three-year period of comparative regulatory stability that David referred to earlier distinguish Southern Company from many of our peers in the industry.

Turning now to our guidance for 2008. It is clear our businesses are performing well. While we exceeded our first quarter estimate by $0.08 a share, a portion of this variance can be attributed to O&M timing. Our current plans are for O&M to be on budget by the end of the year. Given this and the potential for other variability particularly during our peak summer month, we are maintaining our current earnings guidance of $2.28 to $2.36 per share while our estimate for the second quarter is $0.55 per share.

With this, I'll turn the call back to David for his closing remarks.

David Ratcliffe

Thanks, Paul. I wanted to update you on a significant event, which has transpired since our last earnings call in January. You may have seen earlier this month, Georgia Power and its partners, Oglethorpe Power, Municipal Electric Authority of Georgia and Dalton Utilities have signed an engineering procurement and construction agreement with Westinghouse and Shaw Group to design engineer, procure and construct two AP1000 nuclear units. If selected and approved by the Georgia Public Service Commission, the units would be constructed at Plant Vogtle near Augusta. Based on its current ownership interest, Georgia Power would own approximately 45.7% of the new units.

The signing of this contract is a significant step forward, and if approved by the Georgia Public Service Commission, Vogtle Units 3 and 4 could be one of the first nuclear plants to be ordered in the United States since 1978. However, it's important to remember that this is another step in a long process.

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The next milestone is a selection of a preferred bid by Georgia Power. All bids will be submitted to the Georgia Public Service Commission by tomorrow afternoon, May 1. The Georgia Public Service Commission through its independent evaluator will review the Nuclear EPC Contract as well as all competing baseload generation bids. From the alternative, Georgia Power will then select a preferred resource and expects to file an application for the certification in August of this year.

The final step will be the certification proceeding before the Georgia public Service Commission with a decision expected in March 2009. Under Georgia law, once certification is obtained, Georgia Power would then be assured recovery of all capital cost spent on the project assuming they're incurred in a prudent manner. At this point, we have not provided a cost estimate for these two units. However, if constructed, the project would include a combination of fixed price and indexed components.

As discussed previously, the contract terms and conditions are part of a confidential and competitive solicitation monitored by the Georgia Public Service Commission's independent evaluator. After all bids are submitted, Georgia Power expects to release additional details regarding the project including the total estimated cost of the plant.

You may have seen in the 8-Ks we filed on April 8 that we increased our capital expenditures budget for the next three years. The new CapEx forecast totals $14.4 billion for 2008 through 2010. Our CapEx budget for 2008 remains unchanged at 4.4 billion. Our forecast includes 1.3 billion in 2009 and 2010 as a placeholder in the event that the nuclear bid is ultimately certified.

For Units 3 and 4 at plant Vogtle, the major capital dollars are expected to be spent from 2009 to 2015 with an expected commercial start date in 2016 for Unit 3 and 2017 for Unit 4.

Nuclear energy is the best means of meeting some of the nation's future additional energy requirements without emissions of carbon dioxide. In addition to nuclear, it will take a host of new technology approaches as well as renewables and energy efficiency measures to achieve meaningful reductions in emissions of carbondioxide.

To this end, we are working with the State of Mississippi and the Department of Energy to construct a coal gasification facility of approximately 600 megawatts in East Central Mississippi to be completed in the 2013 timeframe. The technology is a transport gasification process that we developed in partnership with Kellogg Brown and Root and the Department of Energy. We believe the Mississippi coal gasification option in addition to meeting additional load requirements in the region represents an excellent opportunity to demonstrate the benefits of this clean coal technology including the potential for carbon capture.

You may be aware that earlier this month, the Mississippi legislature approved a bill that provided greater certainty of cost recovery. If approved by the government, the measure will authorize the Mississippi Public Service Commission to allow utility to recover all or a portion of its pre-construction cost and earn a return on its prudent construction cost for the new baseload generation. As we continue both the nuclear project in Georgia and the IGCC facility in Mississippi, we will as always keep you informed and updated about our progress.
At this point, Paul and I will be happy to take any questions you might have. Kimberly, we will now take the first question.

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Question and Answer

Operator

(Operator Instructions). Your first question comes from line of Ashar Khan of SAC Capital.

Ashar Khan
SAC Capital

Good noon.

David Ratcliffe

Hi.

Paul Bowers

Hi Ashar.

Ashar Khan
SAC Capital

Just one to go, I guess Georgia Power did exceptionally well and I was just trying to go a little bit beyond the items as to what generated that nearly 34% improvement in net income? And then if you can share with us so whether O&M was flat or there was a higher non-fuel margin, which -- or is this what was predicted in your budgets?

Paul Bowers

Well, Ashar, this is a reflection of the base rate increases that we have seen plus the AFUDC equity component associated with increased investment that we have made at Georgia Power. First, I have seen continued momentum that they had last year in the industrial sector to continue in to this year. There are some segments that are non homebuilding related that are doing quite well. Most of the commodity based segments like primary steel and mill pipe.

Ashar Khan
SAC Capital

Okay. So, in essence, you are saying industrial sales were much higher and were very strong, is that correct? And then there is a higher AFUDC earnings and I guess the non-fuel margin is better because of the rate case, am I right?

Paul Bowers

That’s correct.

Ashar Khan
SAC Capital

Okay. And could you just mention what happened, I know it's a very small thing but anything unusual at Mississippi Power. The earnings were down I guess 4 million?

David Ratcliffe

Again, higher O&M, Ashar, for the quarter and higher depreciation for the quarter. They also are -- the O&M is related to evaluation of their IGCC project.

Ashar Khan
SAC Capital

Okay. Thank very much.

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Operator

Your next question comes from the line of Paul Ridzon of KeyBanc.

Paul Bowers

Hi Paul.

Operator

Paul, your line is open.

Paul Ridzon
KeyBanc

I am sorry, I was muted. You passed out $0.10 of upside from revenues from rate cases in MIR, can you kind of tell how much of those was related to each?

David Ratcliffe

Well, they are -- Paul, they are equally divided between rate impact associated with the regulatory actions in both Alabama and Georgia as well as response rates that we have seen in Georgia as well.

Paul Ridzon
KeyBanc

Can you kind of talk a little bit about the market-response rate mechanism and kind of what we could see in the balance of the year?

David Ratcliffe

Well, those pricing products or prices or tariffs that provide customers with options to make purchase decisions based on incremental market prices. This product has been around since the early 1990, so over 15 years that they have been with us both at Georgia and at Alabama. Customers have choices with this product. Of course, they have a choice to continue their purchasing patterns that they normally do. It was really based on their own economic thresholds or margins within their own business. The other option they have is based on prices reduced or change or usage patterns or select other pricing products. So given that as a platform for decisions, we don’t see their product being a carry-on for the rest of the year. The question is just a thing of loyalty. We think it will start adjusting based on the prices that they see and the customers will makes another buying decisions. Last summer we saw the customers adjust their usage patterns during our peak period almost 300 megawatts, so it's a demand response price product that based on individual customers economics they make those decisions.

Paul Ridzon
KeyBanc

Thank you.

Operator

(Operators Instructions). Your next question comes from the line of Scott Greenstein of CreditSights.

Scott Greenstein
CreditSights

Good afternoon guys.

David Ratcliffe

Hi.

Scott Greenstein
CreditSights

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You spoke a little about this already. But could you talk a little more about any changes in the industrial demand since last quarter and the analyst day?

David Ratcliffe

Sales for industrial were up 6% for quarter-over-quarter. What we are seeing is, if you take these segments that is non-building related, it is still a strong growth area for us, in particularly the primary metals and transportation. We have seen activities around pipelines. So I think it's been a robust moment builder, if you will for us in that segment. However, the downside is the lumber related industries those have seen a significant reduction in overall sales. Now if I pick 6%, mid point of 6%.

Scott Greenstein
CreditSights

Okay.

Paul Bowers

We wish it was 6%.

Scott Greenstein
CreditSights

Okay. That's helpful. Thanks a lot.

Paul Bowers

Okay.

Operator

(Operator Instructions). Your next question comes from the line of Dan Eggers of Credit Suisse.

Dan Eggers
Credit Suisse

Afternoon.

David Ratcliffe

Hi Dan.

Dan Eggers
Credit Suisse

I want to talk a little bit about -- what you guys are seeing, one on hydro conditions, how those have dwelt through at the Analyst Day, kind of if you guys are seeing any change now, look for the rest of '08 at this point?

David Ratcliffe

It is as it has been raining in the South East. So we are as better shaped going into this summer with regard to our reservoirs. And the reservoir that gets most public attention in the Atlanta area is Lake Lanier, it's about 13 feet down. It was about 20 feet down last year. So it's in better shape also. We expect that if the group of engineers operates that facility with a more conservative approach which they are currently doing, we should not be impacted during the summer as long as they provide the kind of minimum releases that we expect. And we expect that our own production would - we can budget it about 50% of normal for hydro generation and we are running just slightly behind that so far this year. But I think that 50% number is a pretty good number.

Dan Eggers
Credit Suisse

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Okay.

David Ratcliffe

The forecast is for dryer, I think in dryer renewals.

Dan Eggers
Credit Suisse

Okay. And then I guess, just kind of on the fuel supply conversations. How do coal inventories look and actually seeing people sign contracts at pretty rich prices. Are you guys, having to sign up on price and how are deliverabilities from Latin America up to you guys right now?

David Ratcliffe

Inventories are great. We are where we want to be going into the summer. We always try to build oil inventory going into the peak period. No question that prices are up and to the extent we are trying to replace any supplies we would see that also. A good news is that we are about 90 plus percent contracted for the year. I think its 50% to 60% in '09. So as we replace, supplies are actually contract suppliers in '09 and beyond we will begin see the impact on these prices if they stay there. Hopefully when raw supplies get back in balance maybe out of Australia and South America we would see a little moderation in these prices.

Dan Eggers
Credit Suisse

Are you guys having any supply deliverabilities kind of from South America at this point in time?

David Ratcliffe

No at all. The shipping coming into Mobile being backlogged because they are at full capacity at the port, but we still get our deliveries

Dan Eggers
Credit Suisse

Okay. We have seen some assets sales happen in the South East on the generation side and do you have a pretty big replacement market for Southern Power from a CapEx perspective over the next couple of years? Did you guys have taken a look at these recent auctions and is there anything that looked interesting or anything in the pipeline or you guys not be able to put that capital into work sooner?

David Ratcliffe

As you know Dan, we continue to look at opportunities within the South East currently Southern Power is contracted through 2011 and for 92% of all its capacity. And part of our strategy has been looking at acquisitions and we are very active in that space to try to find an economic opportunity that might exist out there.

Dan Eggers
Credit Suisse

Are you seeing much and we saw a couple get sold here recently, are you guys seeing anything you know, additionally coming or is it just kind of fit and starts.

Paul Bowers

That's more of a fit and starts. So its nothing uniformly going out there right now.

Paul Bowers

Okay. Thank you.

Paul Bowers

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Okay

Operator

Your next question comes from the line of Tom Arnel of Highbridge.

Tom Arnel
Highbridge

Good morning. I was just curious, if you could, clarify the payment you had made around Bourbon at the new bill, and just what you are looking for in August and then in March of 2009. I am just curious when you would be giving like notice to proceed with the Shaw Group.

David Ratcliffe

Sure. Let me go back to where the process is, it's a little bit can't be alluded, but I think I can walk you back through it. We will submit, or if I will submit its contract term and conditions call May the 1st. In turn the evaluation process, which is governed by independent evaluator will evaluate that bid along with any other bids that are submitted as par of the RFP process between May and August. In August, they that is the independent evaluator will make a recommendation to the Public Service Commission with regards to what they believe is the best alternative. In August, the Georgia Public Service Commission will begin a series of the hearings to evaluate that recommendation and its context. They have until the March of '09 to make that decision meaning either agree and certified the decision around logo or select some other alternative depending on what comes through RFP process. They can decide earlier, but they must decide by March of '09. Does that help?

Tom Arnel
Highbridge

It does. Thank you very much.

Operator

Your next question comes from the line of Annie Tsao of AllianceBernstein.

Annie Tsao
AllianceBernstein

Good afternoon. Two questions the Southern Power is down for the quarter, any particular reason and what kind of trend we should think about for the rest of this year for Southern Power?

David Ratcliffe

Annie one of the things that we have seen with Southern Power is increasing, the maintenance cost for the quarter associated with the term and inspections and then part of their on going use of those turbines. So that was increased over last year. We were expecting them to be on target for the remaining part of this year. As you know, Tom had mentioned at the last quarters earrings call that we are budgeting a 135 million for the year for the next three years for Southern Powers. So we expect them to perform at that level.

Annie Tsao
AllianceBernstein

Next question had to do with your CapEx, I just wanted some clarification You did mention for the next three years 14.4 billion, is it 4.4 billion of '08 and the rest is for '09 and '10, right?

David Ratcliffe

That's correct

Annie Tsao
AllianceBernstein

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And then '09 and '10 is for the nuclear?

David Ratcliffe

'09, '10 is for all the remaining environmental CapEx spend, our T&D capital new generation, which includes the Vogtle expenditures, for '09 we have 5.2 billion budgeted and 2010 we have 4.8 billion budgeted.

Paul Bowers

But only 1.3 billion of that is related to plant Vogtle.

Annie Tsao
AllianceBernstein

That's the one. Okay, thank you

Operator

Your next question comes from the line of Daniele Seitz of Dahlman Rose.

Daniele Seitz
Dahlman Rose

I was just also wondering, when do you start collecting on the return on your expenditures on Vogtle. Does it come after the decision of March '09 or do have to wait for another case?

Paul Bowers

Daniel, I assume you are talking about the potential to recover construction work in progress?

Daniele Seitz
Dahlman Rose

That's correct. Yes.

Paul Bowers

We are not at this point authorized to do that. So right now, if the commission certifies plant Vogtle unless we do something different, it would under the conventional financing process where we collect AFUDC through the construction phase and then when it is commercial we put it in rate base.

Daniele Seitz
Dahlman Rose

Okay.

Paul Bowers

We are considering whether or not we should discuss with the Public Service the idea of the minimizing the cost to the customers by taking advantage of C process, but that's a decision that Georgia will have to make and the commission will have to agree to it.

Daniele Seitz
Dahlman Rose

And would you ask for - I mean would you consider asking for it in 2009 or do you have to wait for a longer period?

Paul Bowers

We don't have to wait for any particular period. So it will be a matter of discussion here the next year or so.

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Daniele Seitz
Dahlman Rose

Thank you.

Operator

Your next question comes from the line of Nathan Judge of Atlantic Equities.

Nathan Judge
Atlantic Equities

Hello, I also have a question on Vogtle, when you say the $1.3 billion, is that your 45% or is that 100%?

Paul Bowers

It's our 45.7%.

Nathan Judge
Atlantic Equities

With regard to you partners, what risks would other be taking that there would be a liquidity issue with your partners not being able to fund their CapEx commitment?

Paul Bowers

Nathan, I am not aware of any risk right now.

David Ratcliffe

Nathan the process for them is they have to determine their take by July 2nd. They have to lock in their ownership portion on July 2nd. As far as liquidity, we don't see that being an issue at all.

Nathan Judge
Atlantic Equities

If they weren't able to contribute to the CapEx plan of the build though, what happens in that event?

David Ratcliffe

Well, I think we would simply have to sit down and look at that situation as it evolves and because there are multiple co-owners, we decided to see what the situation is at that time.

Nathan Judge
Atlantic Equities

Could you remind me of the process for the IGCC plant in Mississippi, what milestones should we be looking for?

David Ratcliffe

Well we have -- as we said we are working DOE to try to get funding for the IGCC project in the form of transfer of the commitment that DOE had made to the technology commercialization in Orlando. Also some tax benefits. Also some loan guarantees provisions that we're working with. And we expect to get some ruling from DOE here in the next month or so. At that time, as I mentioned in my remarks, we would have to go back to the Mississippi Public Service Commission and get them to certify the capacity and have a discussion about the potential for construction work in progress on that project. There is still a lot of work to be done. We're doing the feed studies on the technology side at this point. So we still have a lot of work to do to put that project together, but we are moving through the process. Hopefully by fourth quarter, we should know whether we're going to move forward.

Nathan Judge
Atlantic Equities

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And that would be above and beyond your planned CapEx or would that be already in plan?

David Ratcliffe

No it would be above and beyond.

Paul Bowers

Nathan one other point I will is when David referred to the DOE process, last year Mississippi Power submitted and received approval for over $133 million of tax credits associated with this project, opportunity is try to expand that with clean coal power initiative funds and the other offerings that are being made for coal-based generation for the country.

Nathan Judge
Atlantic Equities

Thank you very much.

Paul Bowers

Sure.

Operator

(Operator Instructions). At this time, there are no further questions. I would now like to turn the conference back over to Mr. Ratcliffe for any closing comments.

David Ratcliffe

Okay, operator thanks. And thanks to all of you for joining us. We appreciate your interest and your ongoing dialogue with us. We look forward to the second quarter call later in the year. Thank you.

Operator
Ladies and gentleman, this concludes today's conference. You may now disconnect.

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