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The Southern Company NYSE:SO

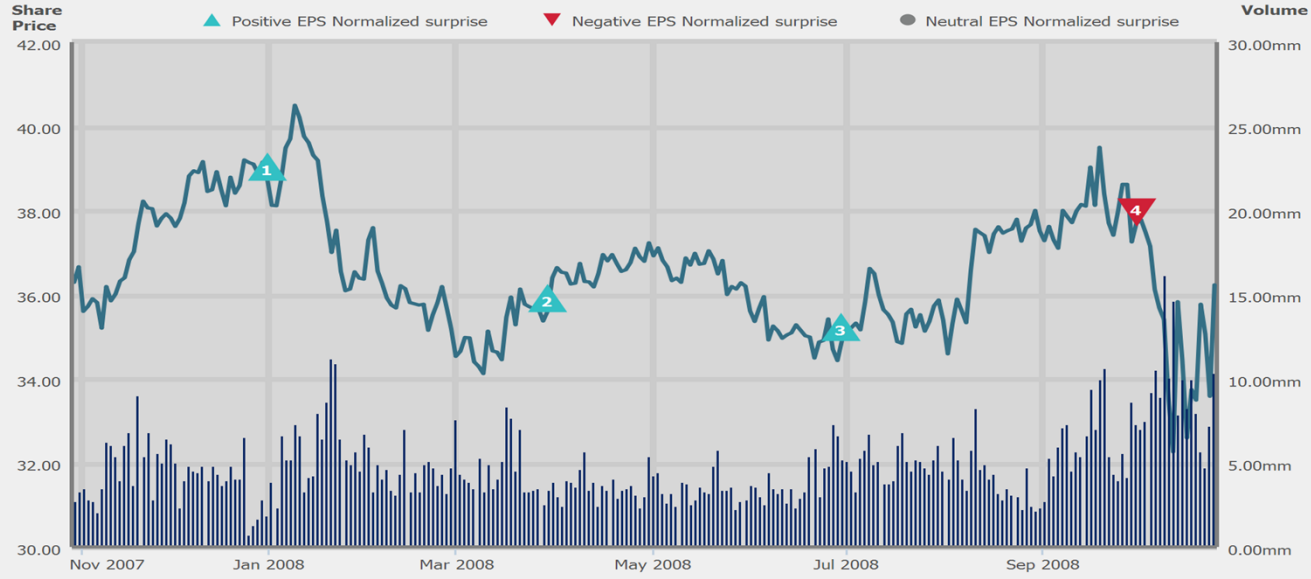
FQ3 2008 Earnings Call Transcripts

Thursday, October 23, 2008 5:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2008-			-FQ4 2008-	-FY 2008-	-FY 2009-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.02	1.01	▼(0.98 %)	0.24	2.36	2.47
Revenue (mm)	-	5426.00	-	3908.02	16323.24	17059.86

Currency: USD
Consensus as of Oct-23-2008 11:43 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2007	0.24	0.26	1 8.33 %
FQ1 2008	0.41	0.47	2 14.63 %
FQ2 2008	0.57	0.63	3 10.53 %
FQ3 2008	1.02	1.01	4 (0.98 %)

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Call Participants

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Paul Bowers

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Dan Eggers
Credit Suisse

Dan Jenkins
State of Wisconsin

Kerry Saint Louis
Fidelity

Leslie Rich
Columbia Management

Mark Siegel
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Nathan Judge
Atlantic Equities

Paul Patterson
Glenrock Associates

Paul Ridzon
KeyBanc

Phyllis Gray
Dwight Asset Management

Rudy Tolentino
Morgan Stanley

Steve Fleishman
Catapult

Steve Gambuzza
Longbow Capital

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Presentation

Operator

Good afternoon. My name is Dennis and I will be your conference operator today. At this time, I would like to welcome everyone to the Southern Company third quarter 2008 earnings call.

(Operator instructions)

I would now like to turn the call over to Mr. David Ratcliffe, President and Chairman and the Chief Executive Officer. Please go ahead sir.

David Ratcliffe

Thank you, Dennis. Good afternoon and thank you for joining us. I am pleased to be with you for our third 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 a positive quarter and despite a challenging economy and turmoil in the financial markets, our business is performing well. The fact that our business is performing well in a difficult and uncertain period speaks to the strength of our business model and our goal to provide regular, predictable and sustainable performance over the long-term.

With Georgia Power's three-year rate plan along with the formulary of base rate mechanisms and clauses in our other jurisdictions we have a great deal of transparency in cost recovery and in our overall financial profile for the next few years.

At this time, we expect to continue the $13.3 billion capital budget for our retail business that we presented to you for 2008 through 2010. As you know, nearly one-third of this budget, some $4 billion, is committed for compliance with state and federal environmental laws. Another $4 billion is scheduled to be spent on transmission and distribution assets to maintain reliability and to keep pace with the growth in our region.

We will continue to review this budget and adjust it as needed to reflect our current economic and market realities. Despite the turmoil over the past few weeks, we have ample liquidity and adequate access to the capital markets.

At this point, I'll turn things over to Paul for discussion of our financial highlights for the third quarter and our earnings guidance.

Paul Bowers

Thank you, David. Our third quarter results were consistent with our business plan. In the third quarter of 2008, we reported $1.01 a share, which compares to $1 a share or $0.01 a share above the third quarter of 2007.

Excluding synfuel items, our earnings for the third quarter were $0.02 a share above our earnings from the third quarter of 2007. Again, this excludes our earnings from synthetic fuel investments in 2007.

Now, let's turn to the major factors that drove our third quarter numbers. This discussion will exclude our synthetic fuel business. Weather reduced our earnings by $0.07 a share in the third quarter of 2008. Weather in the third quarter of 2007 was $0.06 a share above normal while the weather in the third quarter of 2008 was $0.01 a share below normal, thus creating the $0.07 a share negative impact.

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Increased depreciation and amortization reduced our earnings by $0.04 a share compared to the third quarter of 2007. Usage and economic growth reduced our earnings in the third quarter by $0.02 a share compared to the third quarter of 2007. Decreased usage by industrial and residential customers totaling a negative $0.03 a share was offset by customer growth of $0.01 per share, therefore, the negative impact of $0.02 a share.

Finally, an increase in municipal franchise fees reduced our earnings by $0.01 a share and increased the number of shares outstanding reduced our earnings by $0.02 a share in the third quarter of 2008, compared with the third quarter of 2007.

Turning now to the positive factors. The impact of positive revenue effects in our traditional business, including changes in retail rates plus additional revenue attributable to variable market response rate, added $0.16 a share to our earnings in the third quarter compared with the third quarter of 2007.

Improved results at Southern Company added $0.01 per share to our earnings in the third quarter of 2008 compared to the third quarter of 2007. Lower expenses at the parent company added $0.01 a share to our earnings in the third quarter of 2008 compared with the same period in 2007. So we had $0.18 of positive drivers and $0.16 of negative items and overall our quarter came in at $1.01 a share.

Before we turn to guidance for the remainder of 2008 and our estimate for the fourth quarter, I would like to update you on a few items that impact our business. We continue to access the capital markets to secure the short and long-term financings that are required by our business.

As of September 30th, we had available consolidated liquidity of $2.5 billion, of which approximately $800 million is in cash.

Our commercial paper programs are performing well with rates that average below 2.5%. The ability to continue issuing commercial paper and to set rates for our tax-exempt daily securities has meant that the company has not drawn on any of its $4.3 billion committed credit facilities.

During October, the company converted $134 million of the variable tax-exempt floaters to maturities of 17 to 24 years, which improved our liquidity. Our commercial paper and bank revolvers are sufficient to allow us to delay long-term issuance for a period of time.

Year-to-date, we have issued approximately $2.4 billion of long-term debt at average rates between 4% and 4.5%. Our current plans are to issue approximately $750 million to $800 million of additional long-term debt for remainder of the year.

Turning now to our equity requirements, we are continuing to raise approximately $500 million of new equity each year to our existing employee and dividend reinvestment programs.

Our current projected capital requirements including the Vogtle nuclear project in Georgia and with a potential for additional projects like the proposed Kemper County IGCC, facility in Mississippi, we anticipate additional equity requirements beyond the capacity of the existing program to maintain our financial integrity.

To address these needs, we began work early this year, and are continuing to work to establish a continuous equity offering program, also called an equity dribble program.

The amount we issue will depend primarily on the level of capital expenditures required for growth, new generation, reliability, environmental compliance in our traditional operating companies as well as potential new growth opportunities for Southern Power Company. We anticipate filing this program in the first half of 2009 after reviewing the final capital budgets from 2009 through 2011.

Turning now to the discussion of the economy, we are continuing to see a weakness in economic activity here in the Southeast that follows the national patterns. However, we have not seen, nor do we expect, the total impact to be as severe as in other regions of the country.

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Sales to industrial customers have declined 3.4% in the third quarter, and 1.6% year-to-date as compared with 2007 with the exception the steel industry which, is slowing, but still up by 2.5% over the third quarter of 2007. This sector is also up 4.4% year-to-date.

Housing markets in the Southeast have been weak with excess inventories which are depressing construction. While the financial and credit issues continue, our stronger than national growth in households should stabilize the housing market in our region more quickly. We will continue to monitor the economic conditions and we'll adjust our plans as appropriate.

Turning now to our guidance for 2008. It is clear that even in a challenging environment, we are successfully executing our strategy, and that our businesses are performing well despite uncertain economic trends. We expect sales and customer growth trends, we have seen through September to carry forward through the end of the year.

Given this projection, our fourth quarter estimate is $0.25 per share. Again, our estimate for the fourth quarter is $0.25 per share. The fourth quarter implies an earnings estimate for 2008 of $2.36 per share, which represents performance at the very top of our guidance range. Again, our estimates of $2.36 for 2008 represents performance at the very top of our range.

Including the $0.09 charge we took in the second quarter related to leverage leased transactions, our estimate for 2008 is $2.27 per share. Again, that $2.27 per share estimate includes the charge associated with our leveraged lease transaction that was recorded earlier this year.

At this point, I'll turn things back over to David.

David Ratcliffe

Thanks, Paul. I said at the outset our companies were performing well in a very turbulent and challenging environment. It's important to remember the Southern Company has a reputation of above average financial performance in difficult times.
I believe we are well-positioned to withstand these difficult days and to maintain our position as a strong and resilient company. We certainly appreciate your investment in Southern Company. And Dennis, at this time, we will take the first question.

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Question and Answer

Operator

Your first question will come from the line of Dan Eggers with Credit Suisse.

Dan Eggers
Credit Suisse

Good afternoon.

David Ratcliffe

Hi, Dan.

Dan Eggers
Credit Suisse

David, I was wondering if you could share a bit more from an economic perspective what you were seeing in the region if we dig a little deeper into it. We heard a lot of bad news out of Florida.

Have you guys seen that creep up more significantly into your territory, and while customer growth is so good year-on-year, what should we be thinking about for 2009 given the trends you guys are seeing?

David Ratcliffe

Dan, we don't have a particular crystal ball about this economy, but the really bad stuff is concentrated in the southern part of Florida in the Miami area, and the very tip of the resort area down there.

We have seen, certainly some moderation on the Gulf, and we're seeing little positives out of our Gulf service territory. I believe we've seen some stability in residential growth in the Gulf, if I'm not mistaken. I'm looking to see if Paul can validate that.

We believe if that we get through the end of the year; get a new administration in place; get the benefit of experience with the provisions that the government has put in place to try to help the financial markets; that we would expect and hope that maybe by the third or fourth quarter next year, we'll have legs under the economy and it will be growing again.

We clearly have to work through the excess inventory in housing that we have, just like everybody else does. But as we said, in our information, we did not have the run up in housing prices that the rest of the country saw in certain areas like South Florida.

As a result, we haven't seen the decrease in valuation of housing. We've said many times that one of the good things about our service territory is that it didn't have quite the severity of impact in these kinds of markets. And as a result, we tend to stabilize faster and recover faster than other parts of the country.

Paul Bowers

Dan, I'll just add to what David just said. Gulf has an excess inventory. So it is slowing their overall growth and that inventory is diminishing their overall sales in the residential sector. But as David mentioned with this household growth perspective, we should be eating into that vacancy or that inventory that we have, that should help us come out of this downturn sooner. That vacancy rate, though, is almost double of what we've experienced in the past. The normal vacancy rate is around 2%. Right now, it is around 4% to 4.5%.

Dan Eggers
Credit Suisse

Okay. Generally, it is the third quarter, when we get an update on kind of moving the CapEx plan forward, another year. Any update on the CapEx and '09 guidance?

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David Ratcliffe

Yes, Dan, as always we do that on the fourth quarter call. So in January, we'll update everyone on our CapEx budget as well as our guidance for the year. Right now, we're in the middle of the forecast and finalizing all those budgets.

Paul Bowers

I said in my remarks, Dan that we're committed to the capital expenditures that we've outlined before at this point, but obviously we're going to try to take into account the economic reality that might impact it, particularly on the transmission/distribution side; a good amount of that capital is committed to environmental projects.

Dan Eggers
Credit Suisse

I guess one last question just on the coal supply. This is not to say you use it as international coal. Are you still seeing deliveries coming as expected and at prices agreed upon?

Paul Bowers

Yes, from Colombia we have not seen any disruption at all. However, we are still seeing the prices sustain at those higher levels.

David Ratcliffe

Yes, I don't like that term, prices agreed upon. I would like for it to be a lot lower than they are, but they are moderating some.

Paul Bowers

And from a standpoint of where we stand with our co-inventories, we're in good shape. So we feel real good about our coal basis, but not necessarily the price.

Dan Eggers
Credit Suisse

Thank you.

Operator

Your next question will come from the line of Steve Fleishman with Catapult.

David Ratcliffe

Hi, Steve.

Steve Fleishman
Catapult

Hi.

David Ratcliffe

Hi.

Paul Bowers

Hi, Steve.

Steve Fleishman
Catapult

First, I think Paul, you said the rate is up by $0.16?

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Paul Bowers

Yes.

Steve Fleishman
Catapult

In the quarter, but it looks like in the release it's $0.14.

Paul Bowers

$0.16 of related to increased rate of our market response rate, as well as improved revenues in some of our embedded wholesale activity.

Steve Fleishman
Catapult

Okay.

Paul Bowers

Okay?

Steve Fleishman
Catapult

So the difference between the two numbers is the wholesale?

Paul Bowers

Yes when you look at the overall picture. Let me give you the numbers. When you look at our revenue effects, there is about $0.15 there.

Steve Fleishman
Catapult

Okay.

Paul Bowers

And some additional revenue coming out of the wholesale sector and embedded piece of our operating companies.

Steve Fleishman
Catapult

Okay.

Paul Bowers

And there is a $0.02 negative impact based on usage and economic growth.

Steve Fleishman
Catapult

Okay

Paul Bowers

Okay.

Steve Fleishman
Catapult

I see, so the $0.02 usage. That's the difference. That was netted out of the 16.

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David Ratcliffe

Yeah.

Steve Fleishman
Catapult

That is not the weather impact?

David Ratcliffe

No.

Steve Fleishman
Catapult

Okay. I got you. And then could you separate the revenue impact between rate relief and the demand, or just response rates?

Paul Bowers

Sure. You basically have $0.10 on the rate impacts and $0.05 associated with the market response rates.

Steve Fleishman
Catapult

Okay. Response rate improvement was just cost-cutting you mentioned?

Paul Bowers

Yes, lower interest costs.

Steve Fleishman
Catapult

Lower interest costs, too?

Paul Bowers

Yes. It's primary lower interest costs period.

Steve Fleishman
Catapult

Okay.

Paul Bowers

Okay.

Steve Fleishman
Catapult

And you mentioned potentially, if you move forward with Vogtle, that you would look at this continuous offering plan? Would that be something that also to the degree that you were reducing T&D CapEx?

Paul Bowers

Well that is the beauty of that dribble plan. It really gives us an opportunity to time at any issuances that we need and the amount of issuances.

Steve Fleishman
Catapult

Alright.

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Paul Bowers

It matches, if you will, the CapEx spend to maintain our credit quality.

Steve Fleishman
Catapult

Okay. Great, that was it. Thank you.

Paul Bowers

Okay, Steve. Thank you.

Operator

Your next question comes from the line of Leslie Rich with Columbia management.

Leslie Rich
Columbia Management

Hi, I think you called me?

Paul Bowers

Yes.

Leslie Rich
Columbia Management

Could you just explain what that market response revenues are? I'm not familiar with that. Is that some sort of demand response?

David Ratcliffe

Sure you're familiar with it. We've explained it every time we talked about it actually.

Leslie Rich
Columbia Management

I am sorry. Could you explain it again?

David Ratcliffe

Though it goes by lots of different names, it is demand response rates.

Paul Bowers

Real-time pricing.

David Ratcliffe

Response rates, real-time pricing. But it is that real-time pricing program has been in place for 20 years with industrial customers.

Leslie Rich
Columbia Management

It's for industrial, then.

David Ratcliffe

Large commercial as well, and it gives opportunity for customers to buy on marginal basis on a marginal basis as they deem economic for their own operations.

Leslie Rich

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Columbia Management

So what would drive that? Weather was mild, so coal plants were running more. So it was cheaper to buy from the utility. Can you describe sort of macro conditions that would lead to that being such a big uptick versus last year?

David Ratcliffe

There are about 2,000 customers that are involved in that rate, that are applied to that rate, that have voluntarily accepted that rate and it is a decision on their behalf to buy through on a marginal basis. So, when you look at it and look at our pricing, on our marginal dispatch, it is higher costs right now. And they're electing to go ahead and buy and it is economic for them to buy through or at that higher price. That is basically reflection of the current realities of marginal pricing in our marketplace.

Leslie Rich
Columbia Management

Okay. Then do you have any thoughts on CARE, whether the D.C. Court of Appeals is unwilling to reconsider its decision?

David Ratcliffe

Les, I think we got to wait and see what happens. It is my understanding that they'll doodle it around to see who is in favor of reinstituting it and who's in favor of maintaining the vacator and try to get responses from people on a very short-term basis here. I don't know exactly how that will come out.

Leslie Rich
Columbia Management

Thank you.

David Ratcliffe

Thank you.

Operator

Your next question will come from the line of Nathan Judge with Atlantic Equities.

Nathan Judge
Atlantic Equities

I wanted to follow up on the CapEx plan. You've said that most of your CapEx is related to environmental spending. But you also alluded to the fact that you'll have some ability to review your CapEx. Could you just better quantify what flexibility you have with your CapEx plans and what inset of scenarios would precipitate perhaps a delay in some of your CapEx expeditures?

Paul Bowers

Nathan, when you look at our CapEx spending for our operating companies, we have approximately $13.3 billion that was allocated for 8, 9 and 10, of which $3.9 billion is, as David said earlier, associated with our environmental program. That is compliance CapEx. So there is limited flexibility in terms of our expenditure.

The other piece is when you look at our T&D element of cost, there is about $4 billion that we have in the budget for it. There is a growth element in that piece of our budget, which we will be reviewing for the future in terms of how much is required to meet the expansion of our system.

The other pieces of our budget, our new generation, there is approximately $2.5 billion in new-gen for our operating companies. That is associated with primarily around our McDonough capacity that we had in RFP/ARM and have approval at the Public Service Commission in Georgia. That is replacement power for PPAs and also replacement power associated with a retirement of equipment.

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So there is limited flexibility going forward. We have, as you know, some fossil/hydro retrofits that we'll be reviewing. We have some nuclear fuel retrofits, our nuclear fuel and retrofits, as well. And we also have for new-gen, we have approximately $1 billion embedded net new CapEx budget as well.

David Ratcliffe

Nathan, I'd just say, I agree that it really is a function of timing. Very much of it's going to be discretionary.

Nathan Judge
Atlantic Equities

With regard to the Southern Company investments, and I'm speaking of 2011 and beyond, and perhaps even the IGCC/Vogtle plant, if we continue to see a difficult environment in the economy, what flexibility do you have with regard to timing of those plants, or are you at a state currently where you need to continue to proceed otherwise you would incur penalties?

David Ratcliffe

Well, we're further along with the Vogtle project obviously because we made filing with the Georgia Public Service Commission. The hearings begin I think next week on that and we expect a decision in March of next year. And, remember, that is a base-load need that our preliminary look says that even with economic downturn, we still need base-load capacity in the 16, 17 timeframe. So you may be able to slow a little bit, but I suspect that we would want to maintain a pretty good track because that's going to be an aggressive plan in anyway.

The IGCC project in Mississippi, at Kemper County, we're on the front end of that project. We really haven't filed with the Mississippi Commission. We'll make that decision between now and the end of the year as that project comes together. So, we got a little more flexibility there. Those are the two big capital projects in the retail business.

Paul Bowers

Nathan, the other piece of it is when you look at those projects, special base-load projects, they are evaluated through our mix programs that we do for the system, what is the most economic choice of generation. Base-load capacity is needed in that 14 to 16 timeframe. Intermediate capacity and peaking capacity is the most flexible capacity that we have and there were combined cycles and there were some [CTs] that were required that might be shifted out based on the economic conditions.

Nathan Judge
Atlantic Equities

And the estimated cost of in particular Vogtle, given that commodity prices for steel and other essential components of those plants seem to come down, have been coming down, and if they continue to come down, what flexibility do you have? Does that just allow you greater confidence in making your budget, or is there a potential to participate in that pullback in commodity prices?

Paul Bowers

I'd have to go back and look at the actual contract terms, Nathan, but my impression is that what we try to do in the contract negotiation was to index the commodity exposure, and therefore, if prices come down, we would expect the index to reflect that, and we might be able to sharing that. We would expect that to be the case.

Nathan Judge
Atlantic Equities

Thank you very much.

Paul Bowers

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Thank you, Nathan.

Operator

Your next question will come from the line of Paul Ridzon with KeyBanc.

Paul Ridzon
KeyBanc

Just a clarification, was the dribble to fund Vogtle and the IGCC?

Paul Bowers

Paul, it is an equity issuance that reflects primarily those larger CapEx programs, but not just those CapEx programs because it has Vogtle, any additional environmental requirements that might be proposed, that's given us the flexibility to track whether we need to keep the balance sheet.

David Ratcliffe

I think that's the key, Paul. The nice thing about that concept is that it gives you a lot of flexibility to respond to changes in capital needs regardless where they come from.

Paul Ridzon
KeyBanc

That gives you tremendous flexibility.

Paul Bowers

Right.

David Ratcliffe

Exactly, right.

Paul Ridzon
KeyBanc

And can you just do a deeper dive on what you're seeing on the industrial side, which segments are hanging in there, and which are continuing to be impacted most severely?

Paul Bowers

Sure, Paul. When you look at the weakest industrial segments that we have right now, it's around the textile industry that has been for quite some time, where they have started reducing their loads, or sales, or energy consumption in the '07 timeframe. And right now, they are about 14% below last year.

The stone, clay, and glass group, which is tied to the residential housing market, is also showing significant weakness and they're about 6% below last year. The lumber, which is tied to the housing industry, is again another weak area.

The ones that showed the strongest performance year-over-year are primary metals which we highlighted in the script. They're up 4.4%, Fabricated metal is also up and transportation year-over-year is about 1%. But we're seeing signs in the transportation segment that are indicating lower growth going forward.

Chemicals are about flat year-over-year. One of the things about Southern Company and I think this is the strength for us, is that diversity of industrial base where we have a large number of different industrial segments in our service territories. In the past, it's been a hedge for us, but with these uncertain economic times you're seeing weaknesses in most segments.

Paul Ridzon
KeyBanc

Okay. Thank you very much.

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Paul Bowers

Sure .

Operator

Your next question will come from the line of [Kerry Saint Louis] with Fidelity.

Kerry Saint Louis
Fidelity

Hi, good afternoon.

David Ratcliffe

Hello.

Paul Bowers

Hi, Kerry.

Kerry Saint Louis
Fidelity

I have two questions. First, I wanted to know are you going to file as a [Tier-1 CP issues? Are you going to file for the government support program?

Paul Bowers

We are evaluating that right now. We have that on the table and looking at what the costs would be, versus what we're actually getting in the marketplace directly.

Kerry Saint Louis
Fidelity

Okay. Do you know when you have to make a decision by?

Paul Bowers

I do not. I think it's relatively short within the next few weeks.

Kerry Saint Louis
Fidelity

Right, okay. So you're evaluating that.

Paul Bowers

Yes.

Kerry Saint Louis
Fidelity

Could you remind me, these tax-exempt floaters, are these daily and weekly mode, or what type of term do they have?

Paul Bowers

They're daily and weekly mode.

Kerry Saint Louis
Fidelity

Okay. So it's just backup for those programs. That's what I thought. All right, thank you.

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Paul Bowers

Okay.

Operator

Your next question comes from the line of Phyllis Gray with Dwight Asset Management.

Phyllis Gray
Dwight Asset Management

Good afternoon. Could you describe a little more how your continuous equity offering program would work if implemented?

Paul Bowers

Sure. When you look at this program, it basically is one that as we evaluate is a quarterly issuance to track the needs of our business relative to the targets that we have for a credit rating.

It is dribbled out, if you will, similar to our dividend reinvestment program, or employee savings program, that just really matches the needs of our company from an equity issuance standpoint to maintain our credit quality, so it's real flexible, it's just not a one-time standard issue that you go into the market with.

Phyllis Gray
Dwight Asset Management

Okay, thank you. And also could you let us know what your CapEx is year-to-date?

Paul Bowers

CapEx, year-to-date.

David Ratcliffe

Give us a minute and see if we can find that. We'll look for it while we take another question or we'll come back to it if we can.

Phyllis Gray
Dwight Asset Management

Thanks very much.

Paul Bowers

Yeah. On the CapEx year-to-date, we spent $2.9 billion.

Phyllis Gray
Dwight Asset Management

Thank you.

Operator

And your next question will come from the line of Rudy Tolentino with Morgan Stanley.

Rudy Tolentino
Morgan Stanley

Hi, given the relatively low cost of natural gas prices and relatively high cost of coal, are you changing the way you're dispatching the system? Are you increasing your gas dispatch versus coal?

Paul Bowers

We're not changing the way we dispatch. We dispatch everyday on the basis of cheap is the most expensive. So when gas prices are better than coal prices, we would dispatch gas as opposed to coal and

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we've seen some of that juxtaposition in the normal dispatching sequence that we experienced in last few months.

Rudy Tolentino
Morgan Stanley

You have been dispatching your gas plants more just due to low gas prices?

Paul Bowers

In some cases, yes.

David Ratcliffe

As we formulate our daily dispatch, it's based on economics, so we put in the cost of gas verses coal and that stacks up the system in term of what units go first. As you know, nuclear goes first and our low-cost PRB units go next and then it evaluates the higher cost coal units verses gas.

Rudy Tolentino
Morgan Stanley

Okay. Thank you very much.

Operator

And your next question will come from the line of Steve Gambuzza with Longbow Capital.

Steve Gambuzza
Longbow Capital

Good afternoon.

David Ratcliffe

Hi, Steve.

Steve Gambuzza
Longbow Capital

In terms of your target capital structure, is it 40% equity to capital through the construction cycle?

Paul Bowers

Yes, it is right at 41%.

Steve Gambuzza
Longbow Capital

That is where it is today. But I guess what I'm asking is for the continuous equity program, should we expect you will make use of it to maintain that level or as you kind of head into the heart of the nuclear construction cycle, do you expect that you might have to run with a more conservative equity layer to maintain a credit rating?

Paul Bowers

It's going to be in that 41% to 45% range. So it's going to give us some flexibility around that to secure that "A" credit rating.

Steve Gambuzza
Longbow Capital

Thanks very much.

Paul Bowers

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Yes.

Operator

Your next question will come from the line of Mark Siegel with Canaccord Adams.

Mark Siegel
Canaccord Adams

Hi. Good afternoon.

David Ratcliffe

Hi, Mark.

Mark Siegel
Canaccord Adams

Just wondering if you could provide us with an update on the status of your smart metering deployment and how that project is tracking on plan?

Paul Bowers

We have deployed already right at 900,000 in our system. We spent about $90 million associated with the program and we're going to phase in next year another million customers, roughly, a couple million customers next year into the program total. And then it phases in all the way through 2011.

Mark Siegel
Canaccord Adams

Okay. So you're going to go forward as planned?

David Ratcliffe

Yes.

Mark Siegel
Canaccord Adams

Thanks very much.

Operator

Your next question will come from the line of Paul Patterson with the Glen Rock Associates.

Paul Patterson
Glenrock Associates

Good morning. Good afternoon. How are you? To follow up on Leslie's question. The demand market response was $0.05 for the quarter. Is that correct?

Paul Bowers

That's correct.

Paul Patterson
Glenrock Associates

Okay. And year-to-date what was it?

Paul Bowers

Around $0.17, right at $0.17.

Paul Patterson

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Glenrock Associates

Okay. And you described it. I guess I'm a little slow in terms of the exactly what was it that made it more attractive for you and for the customers to opt for this program?

David Ratcliffe

Well, I didn't mean to sound flippant about it. I'm sorry. It's been in place for a long time and it is hour ahead, day ahead offering to larger customers, both industrial and commercial to have the opportunity to decide whether to buy on the basis of a marginal price and it's driven by what we believe is the marginal price of electricity at that time.

So they can buy through and we even offer price protection products around it. So, we try to give them great flexibility in managing their business as a function of electricity prices and it really is their decision as a function of what's going on in their particular segment of the industrial economy and their marketplace as to whether or not they want to continue to produce or back off because of the price in electricity.

So they make that decision as a function of their reality. What we've seen is with coal prices up, we've seen that marginal price increase some. And that means more revenue for us.

Paul Patterson
Glenrock Associates

Okay, but what is it that's driving them to that decision? Do you follow me? In other words, what is it that's making them?

David Ratcliffe

You always have to go to each individual customer. For example, if it happens to be oil and chemical and they have a tremendous market for chlorine and caustic soda worldwide, they may decide based on the price of electricity that we're providing versus where else they can produce that product in the world and literally they would buy it through and produce it with us.

So it really is a function of individual customer's reality. Whether it has to be a chemical company or a paper mill or some other plastics producer, whatever the case might be for them individually.

Paul Patterson
Glenrock Associates

Okay. I got you. But was there anything in general that was driving it? And year-over-year it looks like it has been particularly good for you?

David Ratcliffe

Well it has, but we have budget it. I think year-over-year we're about where we had expected to be from a budget standpoint.

Paul Patterson
Glenrock Associates

And what led you to expect the higher numbers? If it is a decision on the part of the customer, why was it that they got this segregated?

Paul Bowers

We have some history with our customers and we have some sense of what their economics are. We have to make those kinds of projections as part of our forecasting.

Paul Patterson
Glenrock Associates

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Okay. How does that forecasting look going forward into 2009 and what do you see?

David Ratcliffe

Well, we're reviewing it right now. So I don't have a current answer for you.

Paul Patterson
Glenrock Associates

But there is nothing independently that we can think about. In other words, it is not like some rule of thumb, like the coal prices being here and, I don't know, gas being here, this is what we should think.

This is something that you know from knowing your customers really well and that's how you are able to budget and predict it. Anything that we can foresee?

David Ratcliffe

I don't think so. We'll try to give you in our fourth quarter call in January. We'll try to give you a little bit better sense of what our projections are for that kind of experience going forward as a function of forecast.

Paul Patterson
Glenrock Associates

Okay. Thanks a lot.

David Ratcliffe

Thank you.

Operator

(Operator Instructions). Your next question will come from the line of Ashar Khan with SAC Capital.

Ashar Khan
SAC Capital

Hi, good afternoon. How are you doing?

Paul Bowers

Very well, thank, you.

Ashar Khan
SAC Capital

If I am right, you said that you're now projecting the same growth rate in the fourth quarter as for the first nine months, and if I look at your chart like total retail sales running at negative 0.4%. So you're expecting retail sales to be flat or slightly down for the whole year, this year. Is that correct?

Paul Bowers

That's correct, Ashar. We're actually looking at fourth quarter about 1% less.

Ashar Khan
SAC Capital

Okay. If one was to assume similar growth rate for next year flat, can you make your 6% growth rate based on a flat growth next year?

Paul Bowers

Ashar we'll come back out and tell you what we'll project in January. I don't want to speculate right now.

Ashar Khan

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SAC Capital

Okay, but can I ask you what was budgeted when you came out earlier this year for retail sales growth for the year 2008, or is there some tendency you can tell us, there would have been 1%, it could be so many cents, 2% percent, so many cents.

Paul Bowers

I don't have a rule of thumb associated with that. I can get that to you and we'll give you a call back on it but for this year we had budgeted 1.7% sales growth.

Ashar Khan
SAC Capital

You had budgeted 1.7%. So if 1.7% had come around the earnings would have been certainly higher, right?

Paul Bowers

Remember that when you look at regulatory arenas, there are caps associated with the ranges that the companies have within their Jurisdictions over certain percentage, if you will and their ROE goes back to the customer. As an example, in Georgia there is a top end of their range is 12.25. Anything above that is applied to the environmental CapEx spends.

Ashar Khan
SAC Capital

I know you're going to provide us with this in three months, but XL this morning mentioned that they don't expect the economy to pick up at all next year and/or sales to pick up next year. Are you seeing something different in the sense that you would see things pick up next year, just from as you see things today?

David Ratcliffe

I think Ashar, I'm simply more optimistic than Dick is. I believe and we've said this many times that Southeast is in a better spot. We continue to see pretty good industrial activity as Paul has described earlier. We also have over 200 different economic development projects that are still on the radar screen between Georgia and Alabama. I believe that Southeast is still the place in the country where people want to come to establish a business or expand a business.

So I think, as we've said, we should experience a faster recovery than other parts of the country, but when that begins, what I said earlier was my own gut is that unless something very, very catastrophic happens, and I am assuming that the work that the government has done to try to help this situation begins to take effect in the first half of the year. I am optimistic about third quarter, fourth quarter, beginning to see the same thing turn.

Ashar Khan
SAC Capital

Okay. Paul, I forgot one thing. You had mentioned that your revolver and your capacity allow you to delay financing for some period of time, but then you also mentioned that you would be doing some debt financing this year?

Probably I missed what you were trying to say. I was trying to say, are the costs so high that's why you're not planning to come into the market, but you still need to issue debt, or is it that if the spreads remain where they are today, you won't do anything this year, and just use up the revolver? Could you just mention what your financing plans are for the next six months?

David Ratcliffe

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Sure. Ashar, but you really nailed it. It associated with some flexibility around our daily floaters and CP capacity. As we look at rates, and we have some needs for the fourth quarter associated with maturities, that we could convert those into a short-term debt issuance until the rates get better, or if the rates, as they have been, start to trend down, we'll just go ahead and issue, but it gives us some flexibility.

Ashar Khan
SAC Capital

Okay. Thank you.

Operator

Next question will come from the line of Dan Jenkins with the State of Wisconsin.

Dan Jenkins
State of Wisconsin

Good afternoon.

David Ratcliffe

Hi, Dan.

Paul Bowers

Hey, Dan.

Dan Jenkins
State of Wisconsin

You just answered my questions on the financing plans, but I was wondering if I can get a little more detail on the sales environment for the residential, commercial and I'm trying to get a sense for the third quarter, how much of those declines in KWH sales were weather-related, versus just slowness in the economy? Would those numbers have been negative on the weather-normalized basis?

Paul Bowers

The only one that is not, Dan, is associated with commercial. Now, on a weather-normal basis it would have been a positive 1.1%. Overall, when you look at retail sales as the consolidated group, weather-normal it would be 1.4%.

Dan Jenkins
State of Wisconsin

Okay. And then another thing I was wondering is, you had a sizeable gain in the wholesale revenues, was there something driving that, or is that something you would expect to continue, like the new contracts go into place or what's behind the performance there?

Paul Bowers

Dan, it's primarily related to Miller adding some additional environmental equipment that is allowed in the rate, and it's reflective of that rate going up for those customers taking capacity out of the Miller units.

Dan Jenkins
State of Wisconsin

Thank you.

Paul Bowers

You're welcome.

Operator

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Your next question is a follow-up question from the line of Nathan Judge with Atlantic Equities.

Nathan Judge
Atlantic Equities

I wanted to ask how Southern Power was doing with its contracting business given the change in the credit markets, as well as demand for electricity, going forward? Are you seeing more the same or less interest for Southern Power products?

Paul Bowers

Well, Nathan, we have seen Southern Power being successful on a few RFPs, with Santee Cooper and with extensions with EMC contracts within the state of Georgia. They are very active in the market in terms of responding to RFPs, but we have seen RFPs in the area of 2013, 2014, being postponed for a year or so. So we have seen that in terms of outward years, but for the short-term they have been pretty active in that marketplace.

Nathan Judge
Atlantic Equities

Could you also just quickly discuss the appetite for renewables portfolio standard now given some of the changes in the market, and some of the consternation by politicians and also as you look forward to the leading political candidates for President, what do you think will be the likely outcome of a dividend tax hike?

David Ratcliffe

Nathan, my appetite for a federally mandated renewable portfolio standard has not changed. I really believe that the best policy is to leave that decision to the states who know most about their ability to achieve any kind of renewable standard. And we see that evolving across the country and I think we'll ultimately get to that in the Southeast.

Having said that, it is clear that the Democratic-led Congress, particularly on the outside is pretty adamant about the desirability of trying to pass a Federal mandate with regard to renewable energy. So I don't think the issue will go away and because it appears to be something that is fairly easy to do, it is likely to be part of whatever energy legislation is considered by the Congress.

So I would expect it to continue to be on the radar screen, so to speak. And what was the other?

Nathan Judge
Atlantic Equities

As a follow-up on that, has that moderated any at all given the potential cost and given the credit crisis/ economic slowdown?

David Ratcliffe

You mean has the appetite in the Congress moderated?

Nathan Judge
Atlantic Equities

Yes.

David Ratcliffe

I think anything that has to do with increased costs to consumers, whether it is climate change or renewable portfolio standards is likely to cause them to take a little more time to think about imposing that in this economy.

Nathan Judge
Atlantic Equities

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Okay. And just as you view dividend tax increases with knowledge that of the two leading candidates?

David Ratcliffe

Well, I think they've been very clear. Mr. Obama has made it clear that he intends to change the current dividend tax policy and not to do away with it, but to change it pretty significantly. I suspect that Mr. McCain would be more deliberate about any new taxes.

Nathan Judge
Atlantic Equities

Thank you very much.

David Ratcliffe

Sure.

Operator

Your next question is a follow-up from the line of Steve Gambuzza with Longbow Capital.

Steve Gambuzza
Longbow Capital

I just had a question on the spending at Southern Power. I know that you've included markers for unspecified growth capital at Southern Power in 2009 and 2010 in your most recent CapEx forecast and just given the increased costs of both debt and equity capital, as well as potentially diminished demand in the market place, do you feel confident in your ability to deploy that level of CapEx?

David Ratcliffe

Right now, we don't have any reason to change that. As far as what we see coming down the pipeline for Southern Power, we will be getting some additional information out of them for our updated budget. But that is, as you point out, the most flexible piece of our CapEx budget.

Steve Gambuzza
Longbow Capital

Do you feel like your targeted returns for projects have moved up in light of the increasing cost to capital?

David Ratcliffe

It does reflect what increase in cost of capital will be, but it also stems from the cost of new build economics, too. So what is the customer seeing? What are we seeing in terms of building those plants and what hurdle rates are we establishing for those projects.

Steve Gambuzza
Longbow Capital

Thank you very much.

David Ratcliffe

You're welcome.

Operator

And at this time there are no further questions. Mr. Ratcliffe, are there any closing remarks?

David Ratcliffe

Dennis, thank you for your help and thanks to all of you who've participated. Again we appreciate your confidence and investment in our company. We will look forward talking with you after the first of the year.

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Operator
Thank you, sir. Ladies and gentlemen, this does conclude the Southern Company third quarter 2008 earnings call. You may now disconnect.

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