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The Southern Company NYSE:SO

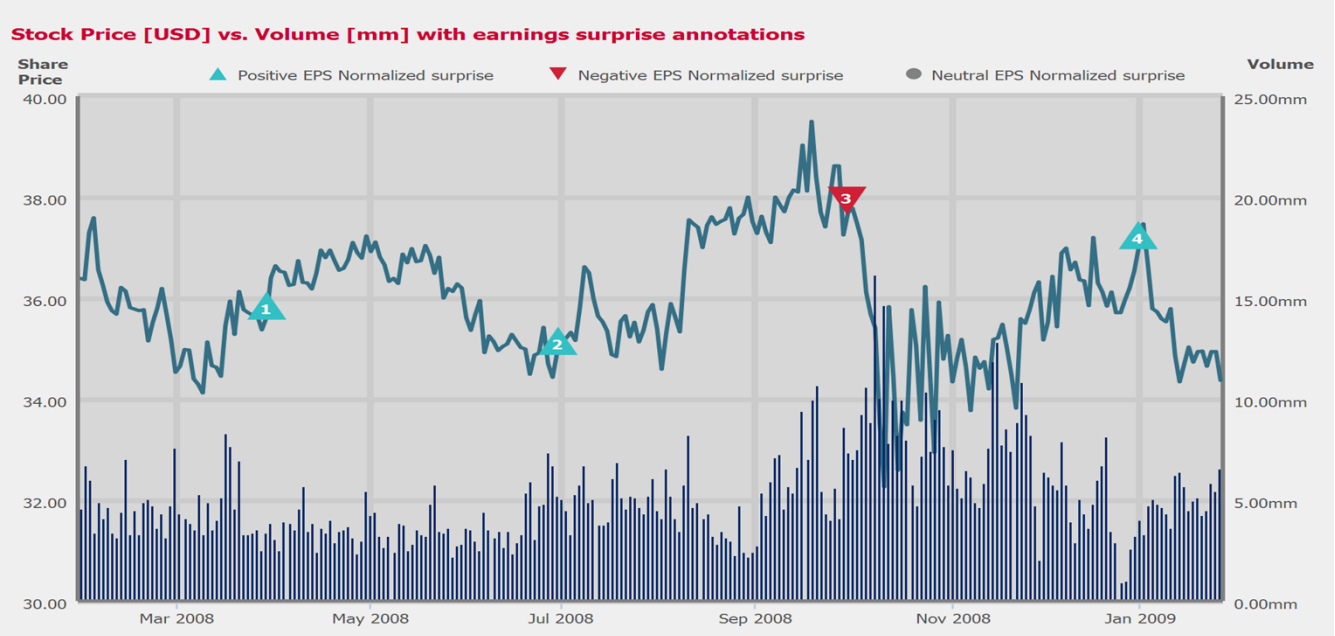
FQ4 2008 Earnings Call Transcripts

Wednesday, January 28, 2009 6:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2008-			-FQ1 2009-	-FY 2008-			-FY 2009-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	0.25	0.26	▲4.00	0.40	2.35	2.37	▲0.85	2.42
Revenue (mm)	3240.45	3802.00	▲17.33	3650.36	16431.82	17127.00	▲4.23	16964.49

Currency: USD
Consensus as of Jan-28-2009 5:30 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2008	0.41	0.47	1 14.63 %
FQ2 2008	0.57	0.63	2 10.53 %
FQ3 2008	1.02	1.01	3 (0.98 %)
FQ4 2008	0.25	0.26	4 4.00 %

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Table of Contents

Call Participants 3
Presentation 4
Question and Answer 9

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Attachment to STF-238-7

Call Participants

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Canaccord Adams

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Catapult Capital

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Longbow Capital

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Presentation

Operator

Good afternoon. My name is [Casey] and I will be your conference operator today. At this time I would like to welcome everyone to the Southern Company fourth quarter 2008 earnings call. (Operator Instructions)

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

David Ratcliffe

Thank you, Casey. Good afternoon and thank you for joining us. I'm pleased to be with you for our fourth quarter earnings call and 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 our subsequent filings.

Also now available on our Investor Relations website is a supplemental deck of slides highlighting recent operational and financial performance. The slides also provide details on information that will be discussed in today's call, such as our current three-year forecast for capital expenditures. In addition, these slides provide reconciliations for certain non-GAAP financial information that will be discussed on this call.

As you can see from the information we released this morning, we had a good quarter and a solid year of business results. 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 run.

In the long term I remain optimistic about the economic future of the Southeast and the ability of Southern Company to execute our business strategy. Let me share just a few reasons why. In our four-state area, Southern Company continues to provide customers with the best reliability and customer satisfaction in the industry, and in no small part, because we're still able to deliver those results at prices well below the national average. This in turn provides an environment which promotes capital formation.

In 2008 there were a number of positive developments in our wholesale business from a regulatory and growth perspective. At the federal level we filed a proposal with the Federal Energy Regulatory Commission that addresses generation dominance perceptions in the Southern control area. FERC accepted our proposal for an energy auction subject to certain conditions that we have agreed to meet. This auction, once implemented, mitigates any perceived horizontal market power that Southern Company may have in the Southern control area and it preserves our ability to charge market-based rates in this region going forward.

In our competitive generation business we have made significant strides to continue the expansion of Southern Power. As you may already know, Southern Power announced in December that it will build, own and operate four combustion turbine units in Cleveland County, North Carolina. The units will be able to generate approximately 720 megawatts, the majority of the capacity will be used to supply peaking needs through long-term contracts with two wholesale customers, the North Carolina Electric Membership Corporation and the North Carolina Municipal Power Agency No. 1.

Also at Southern Power during 2008 we extended contracts with current customers. Contracts representing 1,200 megawatts were lengthened an average of 17 years, demonstrating the strength of our customer-focused model.

As a result of the current liquidity issues in the market, we are seeing opportunities to obtain assets, including renewable generation, around the region and across the nation. We believe that Southern Company is uniquely positioned to perform well in both strong and challenged markets.

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For example, even in a period of credit turmoil we've been able to access the capital markets. As a result, with our A credit rating, we issued approximately $3.6 billion of long-term debt at an average rate of less than 4.5% during 2008. Even as the financial crisis worsened in the fourth quarter, when many investment grade utilities were unable to issue debt, we placed $1 billion of long-term debt. Our debt now has an average maturity of 13.5 years at an average cost of 4.75%, among the longest maturity and lowest cost debt portfolios in the industry.

We are mindful that the current recession is impacting virtually every economy this year. Looking beyond 2009, we remain optimistic about the Southeast and the opportunities for our growth here in the region.

At this point, I'll turn the call over to Paul Bowers, our Chief Financial Officer, who will revenue our financial performance for 2008 and provide earnings guidance for 2009.

Paul Bowers

Thank you, David, and good afternoon to everyone. As David said, we had a good quarter and a solid year. First, I'll review our fourth quarter and full year 2008 results, then I'll discuss our economic outlook, capital budget, and guidance for the full year 2009 and for the first quarter.

However, before I review our earnings for 2008, I want to update you on the resolution of an important tax matter. After extensive discussions with the Department of Justice and the Internal Revenue Service regarding certain leases, Southern Company accepted a settlement offer from the IRS on January 8th. An additional after-tax charge of $16 million or $0.02 per share was recorded in the fourth quarter to fully recognize settlement of this [inaudible] litigation.

Now for the numbers for the quarter and for the full year compared with 2007.

In the fourth quarter of 2008, we reported $0.24 a share. That's a decrease of $0.03 per share from the fourth quarter of 2007. Excluding our synthetic fuel investments and SILO adjustments, we earned $0.26 a share in the fourth quarter of 2008, which was the same result we achieved in the fourth quarter of 2007.

For the full year we reported $2.26 per share, a decrease of $0.03 per share over the prior year. Excluding our synthetic fuel investments and SILO adjustments, our earnings for the full year were $2.37 per share, an increase of $0.16 per share over our results for 2007.

Now let's turn to the major factors that drove our numbers for the full year compared to 2007, excluding synthetic fuel investments and SILO adjustments. First, I'll cover the negative factors. Here's the breakdown:

Higher depreciation and amortization and higher interest expense reduced our earnings by $0.18 per share in 2008 compared with the prior year. These increases in depreciation and interest expense are due primarily to overall rate-based growth for our traditional operating companies and a corresponding need for additional financing.

Weather reduced our earnings by $0.09 per share in 2008 compared to 2007. Weather was $0.02 a share below normal in 2008. In 2007, weather was $0.07 a share above normal, so the result was a $0.09 per share negative impact.

Non-fuel O&M for traditional companies reduced our earnings by $0.10 a share in 2008 compared with 2007. This is due primarily to the cost associated with new environmental equipment and additions to our generation fleet.

The impact of higher taxes other than income taxes had a $0.05 per share negative impact on our earnings in 2008 compared with the prior year.

While customer growth was a positive $0.04 per share compared with 2007, lower usage among all classes of customers was a negative $0.06 per share, resulting in a reduction in earnings of $0.02 per share in 2008 compared with 2007.

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Finally, an increase in the number of shares outstanding due to issuances through our employee savings plan and dividend reinvestment plan reduced our earnings by $0.04 a share.

So total negative factors reduced our earnings by $0.48 a share in 2008.

Now, let's turn to the positive factors that drove our earnings:

Retail revenue growth in our traditional business added a total of $0.56 per share to our earnings in 2008 compared with the prior year. This impact was driven primarily by price changes and revenues related to recovery of environmental expenditures and market response rates for large commercial and industrial customers.

Other revenue in our four traditional operating companies contributed $0.02 per share to our earnings.

Other income and deductions primarily attributable to AFUDC equity added $0.02 per share to our earnings in 2008 compared with 2007.

Southern Power added $0.01 per share to our earnings in 2008 compared to the prior year.

Finally, lower expenses at the parent company, primarily lower interest costs, added $0.03 a share to our earnings in 2008 compared to 2007.

So for the full year we had $0.64 of positive drivers and $0.48 of negative items. Excluding synthetic fuel investments and SILO adjustments, we exceeded our guidance range of $2.28 to $2.36 per share by $0.01, and your year end came in at $2.37 compared with $2.21 in 2007. This represents a 10% growth in earnings per share over the 2007 guidance midpoint.

Turning now to our capital budget, our capital expenditures for the three-year period of 2009 through 2011 are expected to be $16.6 billion. We have included $1.9 billion for the start of two additional nuclear units at Plant Vogel in Georgia. Assuming the project is certified by the Georgia Public Service Commission in March, we would then begin spending capital on limited work activities with major construction beginning in 2011.

Also included in our capital budget is $1.1 billion for the proposed IGCC facility in Mississippi, which we expect to be in service by the fourth quarter of 2013, assuming we receive the required regulatory approvals.

Finally there is $2.2 billion for Southern Power included in our three-year capital budget. As David mentioned earlier, we are seeing opportunities for asset acquisitions and generation expansion, so we believe current market conditions could enable us to further improve both short and long-term growth profiles of Southern Power.

So the overall capital budget for 2009 through 2011 is projected to be approximately $16.6 billion, reflecting the requirements needed to meet the long-term growth of the region plus environmental and reliability requirements.

Turning now to the economy, the Southeast has not been immune to the current economic recession. Customer growth, which has historically been approximately 1.5%, declined to 0.6% in the fourth quarter of 2008. Going forward, we expect to see this lower growth continue for most of 2009; however, history has shown that the Southeast enters recessions later, that the downturns are typically not as deep, and the recoveries occur more rapidly in relation to the rest of the United States.

While every economic period is unique, we believe that the long-term fundamentals of the Southeast remain strong. We remain optimistic about the ability of the Southeast to continue to attract new residents and new businesses. For example, during the past three years Alabama Power and Georgia Power on a combined basis have evaluated over 350 economic development projects. Currently, there are more than 200 active economic development projects under evaluation across our service territory, strong evidence that the Southeast remains an attractive location to live and do business.

Now, let's turn to our financial goals and earnings outlook for 2009.

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To achieve our objective of providing shareholders a superior risk-adjusted return over the long term, our financial plan is geared to produce top quartile ROE performance, which in turn supports a growing stable dividend and industry leading financial integrity. Our goal is to continue to grow the dividend consistent with a target payout ratio of approximately 65% to 70%. Since 2005, we have grown our dividend annually by 4%.

Our dividend policy is long term in nature. As those of you who follow Southern regularly will note, since 2004 we have provided an estimated range of earnings per share for our annual guidance. Our actual EPS growth over this time, excluding syn fuel investments and the SILO adjustments have averaged 5.4% per year. As we enter 2009, there is more uncertainty than usual regarding the depth and length of the recession.

The current recession's impact on our service territory increased in severity during the fourth quarter of 2008, therefore we believe that it is prudent to expand the range of our earnings per share guidance. To capture the range of economic scenarios that have been forecasted, we have grown the bottom of our 2008 guidance range by 1% and increased the top of the 2008 range by 4%. Remember, the EPS guidance for 2008 was $2.28 to $2.36 per share. So for 2009, the resulting range is $2.30 to $2.45 per share or a $0.15 range.

Post-recession we are committed to a long-term growth rate average 6%. We believe the fundamentals of our business will continue to support this rate of growth in a post-recessionary economy. So again, with the adjustments for the economic challenges, our guidance range for 2009 is $2.30 to $2.45 per share.

Finally, to complete our discussions of earnings per share for this year, our estimate for the first quarter of 2009 is a range of $0.39 per share to $0.43 per share.

At this point I'll turn the call back to David for his closing remarks.

David Ratcliffe

Thank you, Paul.

As Paul indicated, 2009 will bring both challenges and opportunities, and I think we are prepared for both scenarios. We still remain very optimistic about the long-term future of the Southeast and the attractiveness of our region. In the midst of an economic downturn, we must continue to build a foundation for the long-term growth that we expect will resume once the recession has ended.

As we prepare for future growth in the region, we continue to move forward with plans to add units three and four to Plant Vogel in Georgia. As Paul said, the Georgia Public Service Commission is currently holding hearings on the certification of units three and four, Plant Vogel. The hearings will conclude next month and we expect a decision mid to late March.

In addition, a bill has been introduced in the Georgia General Assembly to allow the inclusion of construction work in progress for nuclear projects in rate base. Under this proposed legislation, financing costs for the facility would be recovered as the plant is constructed instead of when it is placed into service, avoiding a large one-time increase in rates.

As Paul mentioned, we're also pursuing the construction of an integrated gassification combined cycle or IGCC facility in Mississippi. The funds from the Stanton facility in Orlando which was canceled in 2007 have been successfully transferred by the Department of Energy to the Kemper County IGCC project in Mississippi. The agreement to allow the transfer of the clean coal power initiative funds, which amounted to $269 million, was completed in December of last year. This represents the remaining portion of the original grant by DOE for the IGCC facility in Orlando.

In addition, we are proposing 50% carbon capture on this facility, which will use locally sourced lignite as fuel. Mississippi Power filed for certification with the Mississippi Public Service Commission on January 16th and final approval from the commission could come by the end of the third quarter of 2009. The cost of this 580 megawatt unit is expected to be approximately $2.2 billion.

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Coal gassification and nuclear energy, as well as renewables and energy efficiency, are technology options we support for meeting the future limitations on carbon dioxide. As the new administration and Congress begin their work, pursuing a national carbon policy will be high on their agenda.

You may have seen that the electric utility industry through the Edison Electric Institute has proposed a framework to achieve an 80% reduction in emissions of carbon dioxide from current levels by 2050. This proposal would provide significant reductions in emissions of carbon dioxide while at the same time helping consumers adjust to large increases in compliance costs. Under this cap-and-trade proposal, carbon dioxide allowances would initially be allocated to all generators and local distribution companies at no cost, with the country gradually transitioning to the more expensive full carbon allowance auction.

Under the proposal, the short-term targets should be based on available technologies, including energy efficiency, renewable energy as well as nuclear energy. Medium-term targets should coincide with additional low carbon technology such as additional nuclear energy as well as the capturing and storage of carbon emissions from coal-fired power plants.

While Southern Company and others have started researching the carbon capture and storage, this technology will not happen overnight. In the interim it's important for the government to provide a transition period to allow the technology to be developed and deployed, while mitigating the cost to our customers. The membership of EEI has joined together to develop what I believe is a workable proposal, one that protects customers, encourages technology development, but most of all can achieve meaningful reductions in emissions of carbon dioxide.

As the chairman of EEI, it's been a pleasure to work with our members to produce this policy recommendation. We look forward to working with the new administration and Congress to achieve a solution to the climate change issue.
At this point, Paul and I are ready to take your questions, so Casey, we'll take the first question.

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Question and Answer

Operator

Thank you very much. (Operator Instructions) Your first question comes from Daniel Eggers - Credit Suisse.

Daniel Eggers
Credit Suisse

David, I know you see a lot of probably better economic data than the rest of us see in the common world. Can you just share maybe some more deeper thoughts on what you guys are expecting for economic recovery in your service territory and how that's layering into the earnings guidance you guys gave for '09?

David Ratcliffe

Sure, Dan, and I'll ask Paul to sort of chime in as he sees fit.

If you look at our year last year, like a lot of folks, we had a great first half of the year and then the erosion began in the third quarter and really took significant decrease in the fourth quarter, particularly in the industrial sector. We'd seen the erosion in the residential sector throughout the year.

The decrease in the industrial sector is not unusual in the fourth quarter because a lot of facilities decide to take extended outages during the December timeframe. What we're trying to do now is to gather as much intelligence as we can from our industrial base to see if that is an extended outage or are people actually going to come back and what their market realities are.

There's no question that we've seen a decrease across our entire industrial base. Some of those folks are coming back and where they are able to compete in this global marketplace and their products are necessary, they'll do well and they'll continue to produce. Obviously, the automotive sector, the steel sector, anything associated with the housing industry is still somewhat depressed.

When we look at our econometric forecast, what we have in this plan is an expectation that we begin to get some legs under us in the third quarter and start a recovery in the fourth quarter, it continues into '10. I personally believe that's an optimistic forecast, but after we did all of our work - and as you suggest, we look at a lot of different ones - that's the one that we found consensus around. And I certainly hope it's right.

Paul, do you want to add anything?

Paul Bowers

Well, Dan, this is Paul. I think when you look at the economic scenarios that are out in the marketplace, our econometric scenarios internally, you have to really guide the business with a lot of uncertainty, especially around the downside if what we saw in the fourth quarter persists for the whole year to what David's articulated in terms of starting an easing of the recession of the fourth quarter of '09.

So that's what gave rise to the broad range of guidance that we're putting forward because, quite frankly, there's so much uncertainty out there.

Like David also said, around industrial class, the fourth quarter did show significant weaknesses, but what we're trying to do is gain as much intelligence associated with those specific industries in our service territory to get a better feel for what their growth prospects are for the future. Like David articulated, there is some weaknesses, especially around the textile. The chemicals are much more on the neutral side, but we have some weaknesses.

On the upside, we still see that companies that have announced an expansion are continuing on. The TK or Tyson Krupp steel manufacturing facility which announced an expansion in Mobile, Alabama this week

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said they're going to move forward with a 200 megawatt facility on carbon and delay their 100 megawatt stainless steel facility. So that's positive that 200 megawatts is moving forward versus delaying all of it.

Dan, let me give you a little more. We had budgeted about 1.5% customer growth for '08. What we saw was about 0.6%, so down, but still positive.

Daniel Eggers
Credit Suisse

But I think about, you know, with that in mind and I think about 2009, I guess what I'm reading into this is probably you're expecting flat, probably down volumes a little bit in 2009 systemwide? Is that a fair assessment?

David Ratcliffe

I think that's a good assessment.

Daniel Eggers
Credit Suisse

But nothing extreme, not like a down 2% number but somewhere between zero and minus 2. Is that a fair read on where you guys are?

David Ratcliffe

I certainly hope so.

Daniel Eggers
Credit Suisse

And then I guess along those lines, with kind of the retreat in commodity prices, are you guys going to find some room on the O&M cost side to help offset the volume deterioration this year?

David Ratcliffe

That's a good question, Dan. We're going to find some room on the O&M side every place we can, whether it's combining prices or just general O&M reductions, so one of the things that we did in December that cost the company, we implemented a restricted hiring policy. We said to the extent people leave, we're going to work hard not to replace them. There will be some situations where we have to hire people and we will do so.

We also basically said we're not going to grant base salary increases like we normally would. We're going to postpone that decision. We normally would do that in March. We're going to postpone it. We may not grant any at all, depending on what happens.

The other thing we did, to your point, was began to implement what we'd already begun in '08 in looking at our O&M costs across the business and restricting meetings and travel and things like that. So we're about that in earnest in addition to finding opportunities around commodity price decreases.

Paul Bowers

Dan, I'd just emphasize one other thing, too. Because of the economic uncertainties, we're going to manage the business appropriately to try to address some of that, to give us a little bit of headroom.

Daniel Eggers
Credit Suisse

So I should assume kind of flattish O&M in '09 versus '08? Is that a reasonable assessment?

Paul Bowers

That's correct, that's a good assessment.

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Operator

Your next question comes from Mark Siegel - Canaccord Adams.

Mark Siegel
Canaccord Adams

With regards to your Smart Meter program referencing your CapEx plan, what's the latest status update there and what's the projected total project cost?

David Ratcliffe

Well, the AMI is rolling out as we speak in terms of smart meters. We have installed approximately 800,000 meters in '08. We're projecting approximately 1 million in '09. The total cost is between $400 and $450 million.

Mark Siegel
Canaccord Adams

And then do you have any sense of if Southern Company would be eligible to receive any federal funds or dollars for their already under way program given the new administration's goal of implementing smart meters nationwide under a stimulus bill?

David Ratcliffe

I don't know that we know the answer to that until we actually see the proposed legislation and corresponding implementation plans, but rest assured that we are paying careful attention to all of the provisions in the economic stimulus package and we will do whatever we can to position ourselves to take advantage of any opportunities that emerge there.

Operator

Your next question comes from Jonathan Arnold - Merrill Lynch.

Jonathan Arnold
Merrill Lynch

I was intrigued by your comment early in the call talking about assets and an interest in potentially acquiring assets, and I think I heard you say not just within your own footprint. Can you just elaborate on where you might be interested that would be outside your historical norm and how you would finance anything on that front, maybe revisit the plans for equity this year as well.

David Ratcliffe

Let me start, and then Paul can talk about financing.

We said earlier, I think, on an earlier call that we were expanding our universe. We still would prefer to acquire assets in what we call Super Southeast, but we've expanded our horizon and we're willing to look at I think anything domestically that makes sense, and that making sense has a lot of criteria to it. But we're not going to limit ourselves geographically at this point.

So we're trying to mine that landscape to see what's out there. If there's something that we think fits and has a good profile to it, we would certainly consider it.

Paul Bowers

Jonathan, as we mentioned in the third quarter call last year, we anticipate additional equity requirements beyond the capacity of the existing programs to maintain our financial integrity. We expect to establish this continuous equity offering program which we mentioned during that time. The amount and timing or form of any issuance is really dependent on the market conditions and the level of capital expenditures at any given time.

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So all those scenarios, if you will, or ideas are contemplated in our financial plan. We have not moved forward yet with any other plans that we mentioned last year, so it will be forthcoming.

Jonathan Arnold
Merrill Lynch

We should expect that in 2009?

Paul Bowers

Yes.

Operator

Your next question comes from Greg Gordon - Citigroup.

Greg Gordon
Citigroup

Just following on to John's question, is it presumptively, the $500 million increase in CapEx that you've shown in your slides relative to the slides you've shown at EEI, I mean, that's all at Southern Energy, so is that a placeholder for opportunistic transactions?

Paul Bowers

That's correct, Greg. That is, as we have shown in the past, when we show Southern Power's CapEx budget, there is a portion of maintenance costs and activities around site acquisitions in there, but the remaining part are placeholders for opportunities in the marketplace.

David Ratcliffe

Well, Greg, the rest of that is drop it off of year eight and pick it up at 11. We're beginning to increase expenditures on Vogel and on our McDonough units and we have some money in there for the Mississippi IGCC project.

Greg Gordon
Citigroup

Now are you still predominantly focused on one-off plant acquisitions or small portfolios, or would it be fair to assume that if there was the right strategic opportunity in sort of the merchant power universe that you would consider that or is that just beyond the realm of what you think is reasonable size vis-à-vis your strategy?

David Ratcliffe

We don't have any limitations on our universe at this point.

Operator

Your next question comes from Daniele Seitz - Seitz Research.

Daniele Seitz
Seitz Research

I just was wondering in terms of O&M, you said that you could actually keep them as flat as possible. Is the goal associated to your term forecast?

David Ratcliffe

Daniele, we haven't set a specific goal for O&M. We've got a budget and we're going to work hard to minimize any increase and do a lot if we can to actually reduce O&M, but I don't have specific numbers because we're still doing a lot of work on different initiatives.

Daniele Seitz

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Seitz Research

On the construction of Vogel three and four, how do you realize the government credit to be programmed along with your expenses?

David Ratcliffe

I'm not sure. Are you saying how do the loan guarantees manifest themselves?

Daniele Seitz
Seitz Research

Right.

David Ratcliffe

I'm not real familiar with the program. We might need to get back with you and explain on follow up exactly how we see the program working.

We're in line - and I think everybody's aware - we've made application for the loan guarantees. We think we're well positioned. Our application's been accepted as complete, so we're waiting to hear from the government, the new administration, when they grant the loan guarantees.

Daniele Seitz
Seitz Research

And in your estimates you anticipate that this will come well into the construction period?

David Ratcliffe

I'm not familiar with the exact time and I'll have to get back with you on follow up.

Operator

Your next question comes from Steve Fleischman - Catapult Capital.

Steve Fleischman
Catapult Capital

First, you showed in the fourth quarter that residential sales were up, even weather normalized, while they'd been weak all year. How would you explain that?

Paul Bowers

Year-over-year we saw a subsiding sales use during the '07 year, so there was an increase in '08. So it's a relative position from quarter to quarter. If you look at the annual usage, Steve, you'd see the numbers there declining year-over-year.

Steve Fleischman
Catapult Capital

What was your market response earnings for the full year '08 and also for the quarter?

Paul Bowers

For the year we had approximately $0.20 attributable to the market response rate. For the quarter I would say it was $0.03.

Steve Fleischman
Catapult Capital

And I guess I just wanted to get a little bit more - hash out a little bit more of your thinking on the recovery and growth. It sounded like your core plan assumes a recovery starting in the third quarter and really picking up in the fourth quarter?

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David Ratcliffe

Really, Steve, it starts in the fourth quarter as we assume in one of our scenarios. I describe that as legs in the third quarter and people are doing something in the fourth quarter. And I hope that's right.

Steve Fleischman
Catapult Capital

And should we kind of view the low end of your range being kind of dated to you, then? Just to try and characterize this range that's kind of dated on the low end and I don't know who's on the high end, who's on the aggressive case.

David Ratcliffe

I think the best way to characterize that is one scenario that we look at that continues to say that what we saw in the fourth quarter persists for the year as the [inaudible] industrial continues.

So that's how we put a set of parameters around the economy which, bottom line, we really fundamentally don't know what the outcome's going to be. You hear some economists predict that we have not reached the bottom yet; others are saying that it's going to rebound faster because of some leading indicators - low interest rate, low commodities, inventories in housing are starting to decline. So you have some positive indicators, but you also have others that are predicting a worse outcome.

Operator

Your next question comes from Paul Ridzon - Keybanc Capital Markets.

Paul Ridzon
Keybanc Capital Markets

Have you switched your M&A focus away from kind of fossil-based load serving toward renewables? Did I hear that distinction in the call?

David Ratcliffe

Well, no, I don't think so. I mean, I don't - we have plenty of fossil-based exposure as it is. I think we'd have a preference not to add to that. But if the deal is such that it makes sense, we're not opposed to doing that.

Paul Bowers

And Paul, I think it's all-encompassing. It's not precluding one versus the other.

Paul Ridzon
Keybanc Capital Markets

But you're looking closer at renewables now?

David Ratcliffe

Well, the opportunities are prevalent in the marketplace. The need for additional capital by some of the players in the marketplace have presented an opportunity for us to evaluate.

Operator

Your next question comes from Carl Seligson - Utility Financial.

Carl Seligson
Utility Financial

On the $16.6 billion construction figure, obviously some of that is subject to preapproval effectively by regulators, especially the spending, I guess, on the nuclear plant. There seems to be some controversy going on these days with the Georgia Public Service Commission, and I wonder if you could elucidate

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a little bit on what the staff position was relative to giving you pre-approval and what your counter comments were quoted in this morning's newspaper.

David Ratcliffe

I didn't see my quote in this morning's newspaper, but we're not surprised that the staff would not be as enthusiastic about the proposed [Sea Whip] concept, and that's one of the reasons why we've also initiated a legislative initiative to try to get that passed in the state legislature.

But I think we're pretty comfortable that we've presented a very good case for why it makes sense to go ahead and do that, and we'll do the homework with the commissioners as we have in the past. I mean, we continue to work with the staff to make sure they understand it also.

So as I said earlier, I'm optimistic about that outcome.

Carl Seligson
Utility Financial

Was in that total $16.6 billion, was there any programs specifically taken out of the construction budget as a result of current economic conditions, a decline in load growth and potentially an increase, I suppose, in delinquencies on bills and the like?

Paul Bowers

Carl, associated with the CapEx surrounding just general growth, that was reevaluated during this budgeting cycle to reflect that it is a slowing growth rate in our area and our transmission distribution CapEx has been reduced accordingly.

On the environmental CapEx, over the three-year period for '08, '09 and '10, we had budgeted $3.9 billion. Now for '09, '10 and '11, we have roughly $3.1 billion, which shows a decline in environmental CapEx going forward.

But also remember, most of the environmental CapEx is captured in regulatory mechanisms, so it's ongoing recovery of those dollars.

Carl Seligson
Utility Financial

But I was wondering if specific projects were eliminated, were they?

Paul Bowers

No.

Operator

Your next question comes from Steven Gambuzza - Longbow Capital.

Steven Gambuzza
Longbow Capital

I was wondering if you could let me know for 2008 did Georgia Power and Alabama Power earn kind of near the top end of their allowed retail returns?

David Ratcliffe

Steve, they earned within their range. I won't say it's at the very top end of the range.

Paul Bowers

It's not at the top.

Steven Gambuzza
Longbow Capital

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And it looks like based on the guidance that you gave for the first quarter of $0.39 to $0.43, was that correct?

David Ratcliffe

That's right.

Steven Gambuzza
Longbow Capital

So $0.41 is the midpoint and it's kind of down $0.06 off of what you reported in 2008, which implies that kind of the low end of guidance for 2009 is basically flat earnings for the remaining nine months of the year versus 2008. And I guess it seems to me that would imply kind of perhaps a second quarter recovery as opposed to a third or fourth quarter recovery. I was wondering if you could comment on kind of the quarterly progression as we think about it throughout the year.

Paul Bowers

Steve, when we look at these guidance ranges, it really just captures some of the uncertainty out there associated with the market.

Being the first quarter and trying to determine exactly what's going to happen, specifically with specific customer classes like industrial, we're just trying to give a range.

Also from a weather standpoint, year-over-year we're going to normal weather as well.

Steven Gambuzza
Longbow Capital

Would you mind repeating what the weather impact was in 2008?

Paul Bowers

The weather impact for 2008 was a negative $0.09 overall.

Steven Gambuzza
Longbow Capital

Okay, so you have a catch up there?

Paul Bowers

Right.

Steven Gambuzza
Longbow Capital

Could you also comment on how we should think about power prices, whether or not that will have any impact on the retail operating company's ability to maintain their high returns through the sharing mechanisms you have on wholesale margin and whether you're seeing a lot of coal to gas switching and how that might impact things?

David Ratcliffe

I think obviously anytime you're in rising price environment and you have to go before the regulator to get them to approve the prices, you should expect pushback. And we've done that successfully for the last two or three years, so I think we're not immune to the potential pressure on returns as we continue to have to seek price increases. That's not unique to us by any stretch of the imagination. It's a conversation that we routinely have with our regulators and we're having as an industry with NARU. So I think we're fully aware of the vulnerability we have with return levels.

Steven Gambuzza
Longbow Capital

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I guess I was referring to the fact that you get to keep some wholesale margin at the retail operating companies. There's a sharing band, correct, if you have excess power?

Paul Bowers

That's right.

Steven Gambuzza
Longbow Capital

And I'm just wondering with lower power prices generally do you see that being an incremental headwind this year to your returns or is it not, given the mechanisms you have in place. It shouldn't be something that you'll - you know, if we see gas continue to go down to $4 or below that level, how might that impact your ability to maintain returns at your retail operating companies.

David Ratcliffe

That really doesn't have an impact, Steve. When you look at trading function, where there's additional excess capacity in the marketplace, the margins - because of those fuel prices that you just highlighted have come down, so the margins are coming down, so hence the sharing opportunity is reduced. But I do not see that as an impact on overall ROE.

Steven Gambuzza
Longbow Capital

What tax rate should we use for 2009?

Paul Bowers

For the ending period for 2008 was 33% to 34%. To be exact, the ending period for '08 was 33.8%.

Steven Gambuzza
Longbow Capital

And how will that be in '09?

Paul Bowers

It's between 33% and 34%.

Operator

(Operator Instructions) Your next question comes from Jonathan Reeder - Wachovia.

Jonathan Reeder
Wachovia

I wanted to follow up on the market response rates. You said $0.20 was the contribution in 2008. Was that incremental or could you remind us what 2007 was?

Paul Bowers

It is incremental over 2007.

Jonathan Reeder
Wachovia

Okay. And then what's embedded in the guidance for 2009 for market response rates?

Paul Bowers

Roughly it's a 10% reduction over 2008 - I'm sorry, $0.10 not percent.

Jonathan Reeder

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Wachovia

Okay, so we're roughly cutting it in half, then?

Paul Bowers

Right.

Jonathan Reeder
Wachovia

Okay, and then what's your expectations for the passage of a national RPS and I guess can you discuss how that might intertwine with your appetite for renewables that you've been discussing, particularly outside of the Southeast?

David Ratcliffe

Yes, I think it's obvious that with a new Congress there's a strong desire to move forward on an RPS requirement for the entire nation. There's no question on the House side since it already passed over there that it'd be pretty easy to get done quickly. I think Senator Bingaman on the Senate side has also expressed a desire to move forward.

I think the question is whether it moves by itself or whether it gets caught up in other legislation, but we're under the impression that we will likely have a renewable portfolio standard, so we've been working on this for a couple of years now, to look at how we might comply with it. Of course, we want as much flexibility in the definition as we possibly can and we want as much credit for energy efficiency as we can get.

We'll work hard to do more on efficiency. We're already doing that. And as you suggest, I mean, we're looking at the potential to construct renewable energy in territory as well as the potential to buy credits throughout the nation if that makes sense from a market standpoint.

Jonathan Reeder
Wachovia

What about the acquisition of assets outside of your territory? Does that just depend on how the legislation kind of shapes up before you would consider anything outside of the Southeast?

David Ratcliffe

Well, no, I think if the legislation provides for us to satisfy the requirements with credits outside of the territory, then that would make an acquisition more attractive to us, but again, provided the deal makes sense. The fundamentals of the deal have to make sense.

Jonathan Reeder
Wachovia

Okay, so you'd still be looking at it from the economic basis?

David Ratcliffe

Absolutely.

Paul Bowers

Completely.

Operator

Your next question comes from Nathan Judge - Atlantic Equities.

Nathan Judge
Atlantic Equities

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I just wanted to follow up on the RPS question. Are you suggesting that perhaps if there were opportunities outside the Southeast that you would perhaps increase your risk profile or are you still looking maintain the low risk profile that you have today?

David Ratcliffe

Nathan, our business model is a low risk business model. The model that we enthuse associated with Southern Power was a bilateral [alt-take] agreement. The same would be true for renewables, where we'd have [alt-take] agreements associated with that.

Nathan Judge
Atlantic Equities

Would there be the potential of putting assets outside your service territory into rate base if it was renewable?

David Ratcliffe

I don’t think so. There may be the potential to buy renewable credit to satisfy a state requirement or a company requirement, but I don't think we'd try to put it in a rate base.

Nathan Judge
Atlantic Equities

Just on the carbon debate, could you just discuss what your current expectations are for CO2 legislation, timing and potentially how that could play out over the next 12 to 18 months?

David Ratcliffe

Well, I think that, too, is a new ballgame. As you know, there's been a lot of conversation in the Congress from Chairman Waxman about moving legislation on the House side as early as Memorial Day recess. I suspect that he has the votes to do that.

I would also believe that the Senate would be the place where that would bog down, so I think it is not inconceivable, therefore it is conceivable that you could pass something on the House this year and have it considered by the Senate. I suspect in its final form it's 2010 at the earliest actual legislation being passed.

Nathan Judge
Atlantic Equities

And also just to highlight a procedural issue, on Alabama, I think there is a deferment of a rate increase. Could you just kind of work through the logistics of that and how we should think about that as it pertains to our model?

David Ratcliffe

Well, Nathan, when you look at Alabama Power, they had the opportunity to have a dialogue with their commission looking at their needs for '09 and a proposal of a corrective rate plan that was provided to the commission which was acted upon in October of last year which provided approximately $168 million of additional funding for this year beginning January 1.

But in exchange for that they agreed not to be there in 2009. In other words, they won't file anything until 2010 at the earliest. And the corrective rate plan had to do with increasing some of the fees associated with customer charges like connects and disconnects and bad checks and things like that.

Nathan Judge
Atlantic Equities

I see. So it's simply all of that increase came through in '08, therefore there's really no impact in '09 or do I have that correct?

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Paul Bowers

The plan was initiated and approved in '08, and the revenue shows up beginning January 1, 2009.

Operator

Your next question comes from Raymond Leung - Goldman Sachs.

Raymond Leung
Goldman Sachs

A couple of questions specifically related to your projected security issuance. Can you talk a little bit - just confirm, is that all debt issuance or does that also include equity issuance? And could you also reconcile that relative to your Edison EEI presentation where I think you showed almost $400 million higher in funding needs for '09, yet you've also raised CapEx now for 2009.

David Ratcliffe

Well, Raymond, when you look at the '09 numbers in the chart, that is for debt issuance [inaudible] maturity for the year, so that is correct.

The aspect of Southern Power - really the increase in CapEx associated with Southern Power for the year - is not showing up on that chart as of yet. We do not see a need for a significant amount of new debt issuances as of yet.

Raymond Leung
Goldman Sachs

Okay, so the difference can be made up in Southern Power if you actually follow through with some of those placeholder-type CapEx that's in the budget. Is that fair to say?

David Ratcliffe

That's exactly right.

Raymond Leung
Goldman Sachs

And the other thing, just given that you are looking to expand beyond the Super Southeast region and looking at generation assets, it seems, would it be logical to think it would be out of the Southern Power box and how committed are you to sustaining that high triple B rating? Is that sort of a linchpin of your whole thesis there?

David Ratcliffe

Raymond, when you look at Southern Company in terms of our financial integrity, that is a critical element, to maintain our credit quality and have access to the capital markets. What happened in 2008 illustrated that, that credit quality is critical in terms of access and cost, so that's what we're dedicated to do for Southern Power.

Operator

Your next question comes from Paul Patterson - Glenrock Associates.

Paul Patterson
Glenrock Associates

Just to follow up again - just total clarification here; I apologize - the revenues and the market response rates in total for 2008 was $0.20 - that wasn't incremental or was that incremental? I wasn't completely clear on that.

David Ratcliffe

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That was incremental.

Paul Patterson
Glenrock Associates

Okay, so the total amount - what was the total amount for 2008?

David Ratcliffe

I don't have that number. We'll follow up with you and get that to you exactly, okay?

Paul Patterson
Glenrock Associates

Okay. But it's going to be $0.10 less in 2009?

Paul Bowers

That's right.

Paul Patterson
Glenrock Associates

And that's because of fuel prices and power prices pretty much?

Paul Bowers

That's right. That's what - remember this price is an incremental pricing product and it's guided by those commodity prices that drive the range.

Paul Patterson
Glenrock Associates

And is there anything offsetting that other than just the O&M and all the other stuff that you were talking about? There's nothing specific with that program that's offsetting that, right?

Paul Bowers

That's correct.

Paul Patterson
Glenrock Associates

And then just to clarify here, the bottom end of the range assumes what time does the economic recovery begin in your area?

David Ratcliffe

Oh, Paul, when you look at the bottom end of the range, you're really taking a worst-case scenario of continued downturn like we saw in the fourth quarter that persist for the year.

Paul Patterson
Glenrock Associates

For the total year? Okay. And then the 500 megawatt clean coal plant, you mentioned $2.2 billion was what you guys thought it might cost.

David Ratcliffe

Yes.

Paul Patterson
Glenrock Associates

How does that compare to a regular plant?

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David Ratcliffe

You've got to tell me what a regular plant is?

Paul Patterson
Glenrock Associates

I'm sorry. A non-clean coal plant, I guess. I don't know. What would be without the bells and whistles, if you know what I'm mean.

David Ratcliffe

You're not going to build any non-clean coal plants anymore.

Paul Patterson
Glenrock Associates

Okay, I know. There's a term - okay.

David Ratcliffe

I think that's the issue that I'm really trying - I mean, we're laughing about it, but the fact of the matter is it is increasingly difficult to build what we would term a traditional [pulverized] coal or [inaudible] bed kind of plant without considering carbon cost.

Paul Patterson
Glenrock Associates

Okay, I was just wondering what the carbon cost - it's all right; maybe you don't have it. I was just wondering if there was an easy comparison as to how that compares to one that wouldn't have the gassification - does that include carbon sequestration?

Paul Bowers

For our 2.2 it does.

When you look at costs for per kW on just a pulverized coal unit and at zero cost of carbon - just make that a scenario, kind of put these on equal basis - pulverized coal will run you anywhere between $2,000 and $2,500 a kW, and an IGCC with our technology will run around that $2,600 to $3,000 to get that.

David Ratcliffe

Let me make sure - we're planning at this facility for a 50% carbon capture. We are not planning on sequestration, meaning we're not going to pump it anywhere and sequester it underground. We will use the CO2 here in enhanced oil recovery.

Paul Patterson
Glenrock Associates

And then finally the SILOs, are we finished with that issue now?

Paul Bowers

Yes. We have concluded that.

David Ratcliffe

We better be.

Paul Patterson
Glenrock Associates

I'm sorry, one other final thing. The nuke, the pre-funding, if the Georgia Public Service Commission doesn't go for that and assuming that you go to the legislature and get that bill passed, what would the

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process then be in terms of - given how the legislation's currently shaping up, what would the process then be in terms of getting - how long would it take the PSC, I guess? Would the PSC's approval just not be an issue or how would it work after that?

David Ratcliffe

I think it's a non-issue.

Paul Patterson
Glenrock Associates

So in other words you just start getting - you get pre-funding whenever the bill would be enacted in that case?

David Ratcliffe

Yes.

Paul Patterson
Glenrock Associates

Okay, so you wouldn't have to go back to the commission. Okay.

David Ratcliffe

Well, the commission would have to implement it, but I don't think that would be a problem.

Operator

Your next question comes from the line Dan Jenkins - State of Wisconsin Investment Board.

Dan Jenkins
State of Wisconsin Investment Board

I think you mentioned that for '08 customer growth you'd projected 1.5% and it came in at 0.6%. Kind of what's your baseline for '09 customer growth? Is it still at the lower 0.6% rate?

Paul Bowers

That is correct, Dan, that we project out that the lower growth rate persists through 2009. That equated to roughly 25,000 new customer additions for us.

Dan Jenkins
State of Wisconsin Investment Board

I was wondering if you could give a little more color on the industrial sales being down 10% in 4Q and kind of what you're seeing. Have you seen any permanent plant closings or big layoffs or any of those items in your service territory or is it just kind of a regular slowdown of activity?

Paul Bowers

Dan, we've had a significant slowdown during that fourth quarter. And like David highlighted, some of these companies took an extended outage during that period where you had those kilowatt hours being reduced.

What we've seen is a shift on the automobile manufacturing segment where they're moving to one shift operations to try to minimize or reduce their inventory. So we've seen those type of activities.

Chemical plants from our interviews so far are showing that they're coming back. We're having some softness in the steel area because of the global recession. Some of the expansions that were announced are not moving forward, especially around U.S. Steel.

The other piece I would highlight is around the textile industry, which has been soft for several years. But with the housing slump, they are now seeing a significant reduction in overall sales there as well.

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Dan Jenkins
State of Wisconsin Investment Board

And then was the weather, you know, the weather impact was negative in '08 versus '07, but how was it versus normal?

Paul Bowers

Well, for '08 it was $0.02 down versus normal.

Dan Jenkins
State of Wisconsin Investment Board

And then I was wondering just on your refueling cycles for '09, how will that compare to '08 at the nuke plants?

David Ratcliffe

They're basically normal, Dan, in terms of our standard operations around our Southern nuclear plants.

Dan Jenkins
State of Wisconsin Investment Board

Is that normalized in the way your recover it or do you expense it kind of as it's incurred?

Paul Bowers

No, it's normalized.

Dan Jenkins
State of Wisconsin Investment Board

Then on your major projects that you showed on your slide there, I know you mentioned the Vogel and the IGCC. What's the timetable for the McDonough?

David Ratcliffe

The McDonough plant is a plant that is replacing a purchased power contract as well as the retirement of an existing coal plant. Those come into service in 2011 and 2012, so you have two units in 2011 and one unit in 2012.

Operator

Your next question comes from Steven Gambuzza - Longbow Capital.

Steven Gambuzza
Longbow Capital

On the market response contribution embedded into the '09 guidance, which I believe you said was $0.10, could you just describe what the significant factors are that could cause actual results to deviate from guidance. Is it sensitive to gas prices, power prices, load growth assumptions?

Paul Bowers

Steve, that's exactly what it is. It's associated with the commodity prices and, as you recall hearing on this call - and I think you already know this - this price is an incremental pricing product that matches the commodity prices in our market.

The other important element that we've had in the past is the low hydro generation in our system due to the drought conditions that we experienced in '06 and '07, which automatically drove up the commodity prices in our dispatch, so that has an impact on that as well.

Steven Gambuzza
Longbow Capital

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And I guess you're looking at kind of current prices today - the contribution you have today, it takes into account your expectation of load growth, which is that zero to 2%, as well as kind of the [inaudible] as you look at it today?

David Ratcliffe

Well, it's a forecast of the fuel prices going forward, that's correct.

Operator

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

David Ratcliffe

Thanks, everybody, for joining us. We look forward to recalibrating after the first quarter. Thank you.

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

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