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The Southern Company NYSE:SO

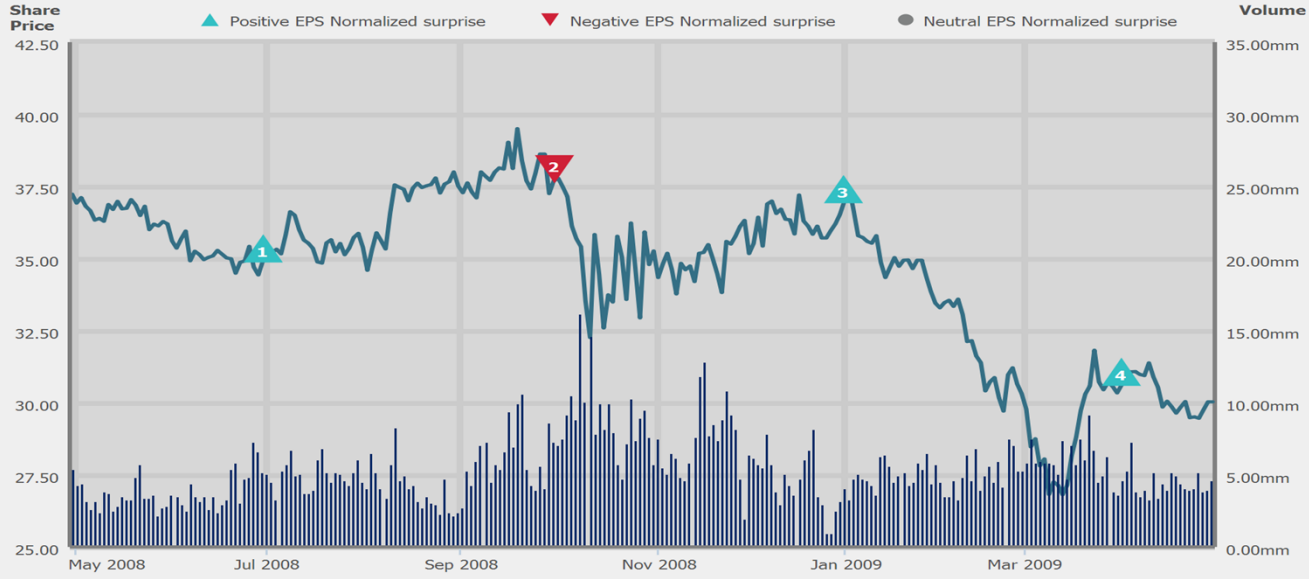
FQ1 2009 Earnings Call Transcripts

Wednesday, April 29, 2009 5:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2009-			-FQ2 2009-	-FY 2009-	-FY 2010-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.41	0.42	▲2.44	0.58	2.39	2.52
Revenue (mm)	3163.79	3666.00	▲15.87	4270.24	16865.88	17615.30

Currency: USD
Consensus as of Apr-29-2009 5:47 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2008	0.57	0.63	1 10.53 %
FQ3 2008	1.02	1.01	2 (0.98 %)
FQ4 2008	0.25	0.26	3 4.00 %
FQ1 2009	0.41	0.42	4 2.44 %

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Presentation

Operator

Good afternoon, ladies and gentlemen. My name is [Alexandria] and I will be your conference operator today. At this time I would like to welcome everyone to the Southern Company first quarter 2009 earnings call. (Operator Instructions)

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

David Ratcliffe

Thank you, Alexandria, and good afternoon and thank all of you for joining us. I'm pleased to be with you today for our first quarter earnings call. Joining me today is Paul Bowers, our Chief Financial Officer.

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

In addition, we will present non-GAAP financial information on this call. Reconciliations to the applicable GAAP measure are included in the financial information that we released this morning.

As you can see from the materials we released this morning, despite strong economic headwinds and excluding the charge for the settlement of a legal matter, we had a very solid quarter of performance. Before we discuss our earnings for the first quarter, I'd like to update you on some important business matters that have transpired since our call in January. These two important milestone events relate to the Vogel nuclear project in Georgia.

First, the Georgia Public Service Commission certified both the need and the technology for Units 3 and 4 at Plant Vogel. The certification is important because under Georgia law all prudently incurred costs as periodically certified in the regulatory process are fully recoverable.

Secondly, last month the Georgia State Legislature passed the Nuclear Energy Financing Act. This legislation will allow Georgia Power to collect financing costs as Vogel's Units 3 and 4 are constructed. The timely collection of these expenses is expected to lower the total cost of the units, saving both customers and Georgia Power approximately $300 million.

In its certification of Vogel 3 and 4, the Georgia Public Service Commission authorized the recovery of financing costs in a manner consistent with the legislation. The governor signed the legislation last week.

In another important business matter, the litigation between Southern Company and the creditors of Merritt Corporation that began in 2005 - known as the MC Asset Recovery - has been settled. The settlement requires that Southern Company pay $202 million to MC Asset Recovery. The case as presented asked for $2 billion in damages plus interest. The settlement includes a release of any other claims against Southern Company in connection with the 2001 spin off of Merritt.

Finally, another important event which occurred just last week was the official start of the energy auction on April 23rd. On March 25th the Federal Energy Regulatory Commission approved the concept of the energy auction as part of our market-based rate compliance filing. It has been one of our major goals to find a means to create greater transparency in the wholesale markets in the Southeast and to eliminate misperceptions concerning Southern's ability to exercise generation market power. Energy auction meets both of these requirements. We will continue to work with our customers and other sellers of wholesale energy in the Southeast to further enhance this process.

At this point I'll now turn the call over to Paul Bowers, our Chief Financial Officer, for a discussion of our financial highlights for the first quarter and our earnings guidance for the remainder of 2009.

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Paul Bowers

Thank you, David.

As you mentioned, we're off to a solid start this year despite the economy. In the first quarter of 2009 we reported $0.16 a share. That's a decrease of $0.31 a share over the first quarter of 2008. This result includes the Merritt settlement charge of $0.26 per share, which David mentioned earlier. Excluding the Merritt settlement charge, our earnings were $0.42 per share in the first quarter of 2009 compared with $0.47 per share in the prior period or a decrease of $0.05 per share. Let's turn to the major factors that drove our first quarter numbers, excluding the Merritt charge.

First, the negative factors:

A reduction in sales across all customer classes had a negative impact on our earnings of $0.06 per share compared to the first quarter of 2008. I'll provide additional information on how the economy is impacting these various customer classes during our discussion of the economy in a few minutes.

Increased depreciation and amortization due primarily to increasing environmental transmission distribution investment reduced our earnings by $0.03 per share compared to the first quarter of 2008.

The impact of higher taxes, primarily from increased franchise fees and a lower manufacturing tax deduction, had a negative impact of $0.02 per share on our earnings for the first quarter compared to the same period in 2008.

Other operating revenues were lower due primarily to lower transmission revenues and reduced our earnings by $0.01 per share in the first quarter of 2009 compared to the first quarter of 2008.

Finally, interest expense on additional investment at our traditional operating company reduced our earnings by $0.01 per share compared with the first quarter of 2008.

So total negative factors, excluding the Merritt settlement charge, reduced our earnings by $0.13 per share in the first quarter of 2009 compared with the prior period in 2008.

Now let's turn to the positive factors that drove our earnings for the first quarter of 2009:

Retail revenue growth in our traditional business added a net total of $0.06 per share to our earnings in the first quarter compared with the first quarter of 2008. This impact was driven primarily by price changes and revenue related to recovery of environmental expense and other investments at our operating company. This was partially offset by market response rates for large commercial and industrial customers, which reduced our earnings by $0.04 per share in the first quarter of 2009 compared to the same period in 2008, due primarily to lower commodity prices. So with a negative $0.04 per share impact from market response rate, retail revenue growth had a positive $0.06 per share impact on our earnings in the first quarter of 2009 compared to the same period in 2008.

Non-fuel O&M added $0.01 per share to our earnings in the first quarter compared with the same period in 2008. This includes charges for a voluntary attrition program at Georgia Power. Without these charges, reduced O&M would have had a positive benefit of $0.03 per share to our earnings in the first quarter. The savings from this program in 2010 are expected to be approximately $40 million.

Finally, lower interest expense at the parent company contributed $0.01 per share to our earnings in the first quarter of 2009.

In conclusion, we had $0.13 of negative items compared with $0.08 of positive items, so overall our quarter came in at $0.42 per share excluding the Merritt settlement charge.

Before I discuss our earnings estimates for the quarter, I'd like to take a few minutes to discuss several items.

First, it appears that the decline in the economy is slowing and hopefully we're approaching a bottom in the recession. However, we are still facing headwinds in our industrial customer class which I will discuss in a few minutes.

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Customer growth, which has historically averaged approximately 1.5% declined to 0.3% in the first quarter of 2009, which equates to 13,711 new customers. We have added 28 new industrial customers, which is a positive given the economic environment.

Our 2009 plan assumes that total retail sales will decline by approximately 2%. Sales to our industrial customers declined by 16.9% in the first quarter of 2009 compared with the first quarter of 2008. The most significant reductions from the industrial segment were from primary metals, which were down 38% quarter-over-quarter, the chemical group, which was down 22%, and our transportation segment, which was down 20% quarter-over-quarter.

The quarter-over-quarter declines in these segments are more severe because the manufacturing sector remained relatively strong during the first three quarters of 2008. When we compare industrial sales data for the fourth quarter of 2008 to the first quarter of 2009, the picture becomes less volatile. In particular, industrial sales from December of '08 through March of '09 have basically remained flat.

Our industrial marketing group reported that a major steel producer has temporarily closed many of its plants in the U.S. except those in Alabama; however, these plants will still be impacted because of high inventory levels. One of our largest chemical customers is planning an extended summer outage to retool and to allow for inventories to fall. The automobile manufacturing sector, while still operating, has cut shifts and production levels in response to lower sales and high inventories.

Turning to the residential market, housing activity continues to be slow, with new connects at 50% of the activity from historical levels. New residential connects are expected to be about 44,000 in 2009. During the past four months, sales of existing homes continued to be slow. While electricity sales to the residential customers declined by 1.3% quarter-over-quarter, it's worth noting that most of the decline in residential sales is being driven by primarily by increased vacancy rates.

In the commercial sector commercial customer growth is negative as smaller commercial customers close their doors. Sales to the commercial customers decreased by 1.3% in the first quarter of 2009 compared with the first quarter of 2008.

In summary, the rate of decline in economic conditions is beginning to slow. Residential sales are slightly exceeding our forecast. Commercial sales are currently meeting our forecast. Industrial sales are below our forecast and are unlikely to remain below expectations through 2009.

As we go forward, the leading indicators that we will continue to monitor are household creation, non-manufacturing employment and inventory levels. In addition, the stabilization of unemployment claims, improvement in credit markets and an upturn in consumer confidence will help determine the depth and duration of this recession.

Even in this economic environment there is positive news. Georgia Power has a total of nearly 140 active economic development projects currently assessing sites in the region.

In Alabama, along with 41 active economic development projects, ThyssenKrupp is continuing with plans to open its carbon steel plant in Mobile. They are hiring employees and construction is on schedule.

Mercedes-Benz has also announced a $300 million capital investment at its Tuscaloosa facility for future growth.

Gulf Power reports that construction continues on a new airport near Panama City, which would be the first new greenfield international airport in the United States to be constructed in more than a decade. Scheduled to open in May 2010, the airport will be able to accommodate the largest passenger and cargo aircraft and can serve as a key international transport hub for all of Northern Florida and the Deep Southeast.

These projects and others remind us that the long-term outlook is encouraging for the Southeast economy.

Turning now to the discussion on capital markets and liquidity, our financial integrity and strong credit rating have enabled us to continue to access the capital market and to place at attractive terms. Year to

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date we've completed $1.3 billion of our total 2009 financial plan of $2.1 billion. Rates averaged under 6% for long-term 10 and 30-year issuances. The company also accesses capital through commercial paper markets, with an average amount outstanding of $795 million during the first quarter at an average rate of 0.35%. We also had committed credit agreements in place totaling $4.2 billion at quarter end which we've recently increased to $4.7 billion to enhance liquidity.

My last update item concerns the dividend. As you may have seen last week, we announced a 4.2% annual dividend increase effective with our second quarter dividend payment in June. The dividend is now $0.4375 per share on a quarterly basis and $1.75 per share annually. This marks the 246th consecutive quarter that Southern Company has paid a dividend to its common shareholders. In fact, every year for the past 61 years Southern Company has paid a quarterly dividend equal to or higher than the previous quarter's dividend.

Our decision to raise the dividend this year is a measure of our financial integrity and confidence in the long-term future of our business. Our dividend and our long-term earnings per share growth, coupled with a stable A credit rating, are key components of our overall value proposition. These financial metrics, our constructive regulatory environment and our top quartile operating performance continue to distinguish Southern Company from many of our peers in the industry.

Turning now to our earnings guidance for 2009, our first quarter results, excluding the Merritt charge, were well within our estimate. Although retail sales were slightly lower than we anticipated, driven by a sustained lower industrial load we experienced at the very end of 2008, we have been successful in reducing our costs to help mitigate some of this impact. Looking ahead and considering our ongoing cost reduction efforts, our guidance range of $2.30 to $2.45 remains unchanged. Finally, our estimate for the second quarter is $0.55 to $0.60 per share.

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

David Ratcliffe

Thanks, Paul. While we endeavor to reduce our costs, our focus on operational excellence will certainly continue and we expect to maintain our position as one of the best operators in the industry.

As you're aware, there is legislation being debated in both houses of Congress to address climate change and a national renewable energy standard, as well as an energy efficiency standard and transmission planning. As expected, the House is moving faster than the Senate in addressing environmental and climate change issues. The House Energy and Commerce Committee has begun hearings and a bill could move out of the full committee between Memorial Day and the 4th of July recess.

Our concerns in the House bill are stringent targets and timetables on carbon dioxide emissions in the early years and the fact that the bill has no provisions for allocations and cost containment. In addition, there is no language in the bill that addresses nuclear power and there are no provisions for the regulation of carbon capture and sequestration.

Meanwhile, in the Senate the Environment and Public Works Committee and the Finance Committee have primary jurisdiction over climate change and, while we've had hearings, there's no schedule at this point of marking up a bill.

Southern Company is committed to working with the administration and Congress to help craft legislation that is best for our customers, shareholders and the environment. I've personally spent a lot of time in Washington meeting with members to discuss key aspects of energy and environmental legislation. Our experience with smart meters, energy efficiency, new nuclear, clean coal technology and transmission issues provides us with a great opportunity to help members and staff fully understand the impact of various climate change proposals.

I'm hopeful that when all the facts are discussed and analysis is completed Congress will pass legislation that allows the industry time to transition to new technology without dramatically impacting our customers.

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Finally, as Paul indicated in his remarks, our financial success in the near term is explicitly tied to the economy. We've been diligent and straightforward in our approach to economic issues and in running our business. Moving beyond a recession, we believe that our long-term earnings growth rate projection of 6% is supported by the fundamentals of our business. These core components, which include a constructive regulatory environment, capital investment to meet customer growth, and an economically vibrant region and proven business model give us confidence in the long-term sustainability of our business.
At this point Paul and I are ready to take your questions so, Alexandria, we'll now take the first quarter.

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Question and Answer

Operator

(Operator Instructions) Your first question comes from [Mark De Croisette] - Macquarie Capital.

Mark De Croisette
Macquarie Capital

A quick question on the '09 outlook by subsidiary to the extent that you can comment on it. Would it be fair to say that you expect earnings to trend up year-on-year, at Alabama down year-on-year, Georgia? Is that a trend that we can reasonably extrapolate for '09?

David Ratcliffe

Mark, when you look at Alabama, as you know, they had an opportunity to get a corrective rate plan in place for this year which equated to $168 million. At Georgia you're under a three-year rate plan which adds stability, if you will, for three years. They're having to adjust their business associated with the economy. The rate impact, if you will, for Alabama helps them in terms of giving them some upside on revenue, but they're also being impacted by the economy as well. So as we go through quarter by quarter we will be getting a better picture of the overall impact by the end of the year.

Mark De Croisette
Macquarie Capital

Have you evaluated the impact of the stimulus plan on your earnings or capital growth plans?

David Ratcliffe

Mark, we have looked at it, especially around the bonus depreciation, which has given us some headroom of around $250 million from a financing standpoint.

In the individual areas in terms of the capital investment around smart meters that we're deploying right now and smart grid in general, we're assessing that currently and don't have a good number that I can give you.

Operator

Your next question comes from Greg Gordon - Citigroup.

Greg Gordon
Citigroup

When you talk about seeing customer consumption trends that were in line with your expectations on C&I and below so far your expectations on industrial - industrial, I'm assuming, your slimmest margin customer base - are you expecting to see the comparables improve in industrial in Q2?

We saw the majority of the pullback in sales in the first quarter in most regions happened in March. I'm wondering what you're seeing in April because from my perspective sort of a worst case scenario would be we start to see reasonably good comps in Q4 of this year because we had a pretty bad fourth quarter, so I'm wondering is the worst case scenario we start to see a recovery in Q4 and do you think, given what you're seeing, that it could happen sooner on the industrial side?

Paul Bowers

When you look at the numbers for the industrial sector, I think your assumption in general is right for the fourth quarter and that's what our forecast currently looks like. However, the numbers that we saw from December, January and February and March basically had a severe [drop] in that fourth quarter and then they are leveling out.

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We're keeping in tune with our customer base and actually having monthly feedback sessions from our marketing group to give us better insight of what customers are doing. In fact, what we're seeing is some of these customers are taking this opportunity with the high inventory levels at these facilities to go off line, do some modifications at the facility, do maintenance and then come back hopefully in the third or fourth quarter to show some response to the market as it improves.

David Ratcliffe

Greg, at this point we're comfortable we've seen a flattening on the industrial manufacturing side, but I don't think anybody knows when it turns back up yet.

Paul Bowers

That's right.

Greg Gordon
Citigroup

One other question, kind of in the weeds, D&A expense was up in the quarter. Was that sort of pro rata across the board at all the subs, because I know that the CapEx budget is pretty much high at every subsidiary as you build infrastructure. Was there one particular subsidiary where you saw the biggest increase in depreciation?

Paul Bowers

You're right, Greg, it's just a reflection of one, all the environmental CapEx plus activity around the T&D area, some of the subs. But it's across the board.

Operator

Your next question comes from Daniel Eggers - Credit Suisse.

Daniel Eggers
Credit Suisse

I know that every downturn is going to look different than the next one, but how have you seen your customers on the industrial side bounce back in past recessions or past deeper recessions? Even if we're seeing down 15% type of volumes now, would you see, when the economy gets back, would you expect that to reverse equally as sharply or do you think that you're seeing some permanent attrition in the customer base?

David Ratcliffe

Dan, I don't think there's any question that we've seen some permanent loss. For example, Cooper Tire in the Georgia jurisdiction basically has gone out of business. I don't think they start back up, although I guess they could, somebody could buy it and start it back up but I doubt it. So there's no question about that.

I think the wildcard here is what do the consuming public do in response to better economic reality? What do they go out and buy? And therefore what will drive this recovery? Because, as you all know, I mean, this is a global situation we're in. It's not unique to the U.S. or to the Southeast. So it's not at all clear to me. Do they go out and buy new cars? Do they go out and buy new houses? Do they buy retail? We can tell you what's happened in the past, but what we're in now is unprecedented. So it's not clear to me what happens when we begin to come out of this.

Paul Bowers

Dan, the other aspect, we went back and evaluated other recessionary periods since the 1970s to try to get an assessment of how severe some of this downturn might be. The worst downturn we had in industrial class was in 2001 and that was around an 11.9% reduction in that year, but that was an event-driven recessionary period versus this one being a global consumer-oriented recessionary period.

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Daniel Eggers
Credit Suisse

And I guess the other question is on the O&M cost front. You guys were able to find probably more savings than I was anticipating in the quarter. How much more are you finding? How big of a year-on-year savings do you expect in O&M?

And then just to clarify, the Georgia cost, the $40 million, that was the cost to accelerate retirements or was that something else?

Paul Bowers

Let me answer the latter first. On the Georgia Power, the cost for us for the voluntary attrition program was roughly $29 million that we took a charge in the first quarter. The $40 million is O&M savings. The total savings for us associated with that action is roughly between $55 and $60 million in 2010.

Okay, now to your first question relative to initiatives around cost, David last year put Alan Martin, our President of Southern Company Services, in charge of cost containment initiatives. He started evaluating opportunities in the business for improved efficiency and cost reduction. When we saw the economic downturn and particularly seeing it in the fourth quarter, we quickened the pace associated with O&M reductions and looking at where we can gain efficiencies.

Our objective for this year is to be flat year-over-year on O&M, which will give us approximately $200 to $300 million of savings.

Daniel Eggers
Credit Suisse

The market response revenues, obviously down quite a bit with weaker commodities in the first quarter. What expectations do you guys have for a full year contribution or change in contribution from that side of the revenue stream in 2009 versus 2008?

Paul Bowers

Right now when you look at it it's roughly a $50 million negative in terms of revenue.

Operator

Your next question comes from Jonathan Arnold - BAS-ML.

Jonathan Arnold
BAS-ML

Just a quick question on the recent dividend increase and your previous comments around payout ratios targeting 65% to 70%, but I notice you've raised it by $0.07 into this year having done $0.07 last year. It's probably around half of the implied earnings growth rate that you would have if you were growing at 6%. Is the right read that you probably intend to continue growing the dividend at about half of that earnings growth potential and, despite this flat year, you wanted to hold that line and we're still on this trajectory to get back to 65% to 70% over some period of time? Because it seems from your guidance range that you'll stray up into the upper part of quite a bit above that range again here this year.

David Ratcliffe

Right. Jonathan, when you look at payout ratio, that is a long-term projection of where we'd like to be, recognizing with the downturn in the revenues and downturn in the economy, we'll be a little bit above that - between 71% and 73% payout - if you exclude the Merritt activity. That is our long-term projection, to get back into 70% to 65% range.

Operator

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

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Paul Ridzon
Keybanc Capital Markets

Your guidance includes the $0.02 for the voluntary early out?

Paul Bowers

Yes.

Paul Ridzon
Keybanc Capital Markets

Will any of it flow into the second quarter?

Paul Bowers

No.

Paul Ridzon
Keybanc Capital Markets

And then we've heard a lot of different language out of FERC regarding nukes. Can you comment on that?

David Ratcliffe

Well, I think Chairman Wellinghoff is optimistic about the possibility of renewable energy meeting future demands and from our standpoint you've got, as I've mentioned in my remarks, we've got certification to move forward from the Georgia Public Service Commission on Vogel 3 and 4 and we intend to continue right down that path. Assuming we achieve the appropriate permits from the NRC, we're just going to move forward with that project.

I think we'll all have to look at what the climate legislation requires in its final form and as we've said many, many times, we don't think there is a singular technology, whether it happens to be renewables or nuclear, that can achieve what we are aspiring to achieve from a carbon reduction standpoint by 2050. We're going to need all of the technologies. So I think Mr. Wellinghoff was a bit optimistic in my opinion about our ability to achieve that level of renewable capacity.

Paul Ridzon
Keybanc Capital Markets

And then just an update on your IGCC plant? I guess the attorney general, lieutenant governor, has made a little bit of noise?

David Ratcliffe

The attorney general filed some procedural motions with regard to the proceeding that's going on in Mississippi. I think we have adequate response to that and we'll file it as part of the process. I still feel very favorably disposed for the project. We had an opportunity to meet with the DOE staff to discuss the project, the new staff, so if we can get the Mississippi Public Service Commission to move forward, we're prepared to go forward with the project.

Paul Bowers

Paul, this is a great platform for us and for the customers in the state of Mississippi for utilization of an indigenous coal source in the state of Mississippi and a great platform to demonstrate clean coal technology for this country. So we hope we are able to move forward.

Paul Ridzon
Keybanc Capital Markets

With regards to the Senate, any traction on getting nuclear considered a clean source or a renewable?

David Ratcliffe

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We continue to labor in the vineyard. I'm not optimistic about that. I do hope that Senator Bingaman's proposal for more of a clean energy concept instead of just a renewable mandate will get some traction and perhaps we could find actually next generation coal with carbon capture and new nuclear could be part of a clean energy program as opposed to just a renewables mandate.

Operator

Your next question comes from Steven Gambuzza - Longbow Capital.

Steven Gambuzza
Longbow Capital

On the forecast you gave for the year-over-year decline in real-time pricing contribution of $50 million, does that include what happened in the first quarter or is that for the balance of the year?

Paul Bowers

That's for the first quarter.

Steven Gambuzza
Longbow Capital

There was a $50 million decline in margin during the first quarter?

Paul Bowers

In revenue, that's correct.

Steven Gambuzza
Longbow Capital

Is it all essentially margin or how much of that falls to margin?

Paul Bowers

Steve, I'm going to have to get back to you on that if we can, follow up with you, because I don't have that breakdown.

Steven Gambuzza
Longbow Capital

Could you comment on what would be implied in your guidance for the balance of the year with respect to real-time pricing contribution versus last year?

Paul Bowers

What we had last year, it was a $0.10 impact for us and a benefit year-over-year, so you basically had that as a target for this year, taking it away.

Steven Gambuzza
Longbow Capital

So $0.10 negative for the balance of the year?

Paul Bowers

Right.

Steven Gambuzza
Longbow Capital

And then, so I understand the load forecast embedded in guidance, it would be for a full year 2009 decline in retail sales of 2%?

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Paul Bowers

That's right, that's our forecast.

Steven Gambuzza
Longbow Capital

I'm just trying to think how I should integrate weather impact into the thinking there. You were down 6.5% in the first quarter. Will there be a weather benefit, last year being below average, that will help contribute to a 2% - if things have stabilized at this level and we're down 6% in the first quarter, I'm just wondering how we're going to get to 2% for the year absent a sharp rebound in the next two quarters.

David Ratcliffe

We're don't try to predict the weather; we just respond to it.

Steven Gambuzza
Longbow Capital

But I'm saying was it that last year was a bad weather year and that you're forecasting normal weather?

Paul Bowers

That's exactly right. It's weather normal is what our forecast is all about.

Steven Gambuzza
Longbow Capital

But absent that, do you require a significant pickup in the economy in the second or third quarter to achieve that or is it relatively consistent with your view of demand stabilizing on a sequential basis?

Paul Bowers

Well, when you look at it, Steve, in our forecast we had a projection on an average annual sales decrease of approximately 2%. Quarter to quarter it's going to be different, but overall 2% is what we projected to give the guidance that we gave.

Operator

Your next question comes from Leslie Rich - Columbia Management.

Leslie Rich
Columbia Management

I wondered if you could talk about your coal supplies and if, as you look at existing contracts that were signed last year, pretty high level, sort of being repriced lower, if there's any sort of benefit for you, maybe your fuel mix, which is more gasless coal, if there's any overall benefit.

And then separately the new EPA is taking a very different approach and wondered if you had any thoughts, David, on sort of what longer-term implications could be in terms of emissions, new source revenue, overturning existing regulations, just sort of strategically how are you trying to position for what may be coming down the pike over the next four years?

David Ratcliffe

Let me say, Leslie, at the outset in response to your question about coal, we've got plenty of it. If you need some, let me know.

Leslie Rich
Columbia Management

You and everybody else.

David Ratcliffe

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We're also looking at a market cost decline, so we hope that our contracts would provide some opportunity for us to recognize some of the downturn in those market prices. Certainly to the extent we have a need to go into the spot market those lower prices will help us. We've actually seen those prices come back to what I would consider to be a more normal range of about $50 for Central App and $9 for Powder River Basin, which makes sense long term. So I would hope that we could, as we replace supplies and renegotiate contracts, take advantage of some of that.

Your assessment of the EPA approach so far, I agree with. There seems to be a much more activist approach to deal with. Some of the Bush administration rules with regard to coal-operated facilities, like the NSR, like some of the other rules that they're reviewing, I at this point sense a desire for them to move more aggressively to try to push for best available control technology on existing technology and certainly their endangerment finding with regard to CO2 opens up a whole new ballgame of regulatory potential with regard to CO2.

So I think from our standpoint we will continue to operate the existing fleet that we have. At the same time, as we do continuously, we'll evaluate what any new rules and regulations might require economically to achieve compliance. And where it makes sense we may have to transition to other technology. But that's all an economic analysis process that we go through every year so until you get the rules in place or the modifications to the rules in place, it's pretty hard to change what we're currently doing.

We're working desperately to install, as you know, the capital technology required to meet existing requirements and we're on track with that. It's operating very well. So we're just going to have to wait and see, to some degree.

Leslie Rich
Columbia Management

As you look at the environmental capital spending program that you have under way, that's been under way for several years and it's probably got another year or two to go, when you're all said and done, how much of your overall coal generation will be scrubbed?

Paul Bowers

50%. When you look at the dissecting of our large coal [plate], 500 megawatts and above, all of those will be basically compliant with Clean Air Act or SOC/NOC and moving towards mercury as well. So that's 11,000 plus megawatts.

Operator

Your next question comes from Annie Tsao - AllianceBernstein.

Annie Tsao
AllianceBernstein

I have just one question regarding your industrial sales. I know the quarter's down 17%. Is there any way you can break it down by month in the quarter and also December of last year?

Paul Bowers

Annie, we can't right here, but we'll get back with you, if that's all right.

Operator

Your next question comes from [Vidula Murdy - CDP US].

Vidula Murdy
CDP US

Can you review for us right now capital markets activities for the rest of this year and next year and the level of incremental equity that's planned through your current DRIP programs and at what point in

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time, as we progress further into the new [inaudible] unit [inaudible] will incremental equity beyond DRIP potentially be required?

Paul Bowers

The debt financing standpoint, like I mentioned in our opening, we have financed - $1.3 billion were refinanced this year. We've issued under our current plan $151 million of additional equity via our plan. From a debt standpoint we have approximately $815 million remaining for 2009. Of that, $425 million is maturities and about $390 to $400 million is new money.

Now as far as any other discussion around equity, as we have said in the past, we plan to issue additional equity as necessary consistent with our investment opportunity and our capital expenditure requirement and to maintain our financial integrity. We continue to evaluate the need for the future and we'll keep you posted associated with any additional new equity.

Vidula Murdy
CDP US

Well, I mean, if you take a look at the current CapEx program, until we probably get out to, like, 2011, 2012, is there anything on the horizon otherwise that would necessitate equity outside of the current dividend reinvestment and other existing programs that are in place?

Paul Bowers

As I mentioned last year, we're continuing to evaluate our equity requirements. And really I'm restricted how much we really can say about it because of the restrictions of an SEC filing standpoint.

Operator

Your next question comes from Paul Patterson - Glenrock Associates.

Paul Patterson
Glenrock Associates

I just wanted to follow up with a few things. My understanding on the last call was that you guys had expected $0.10 for the entire year of 2009 - I'm sorry, the market response being $0.10 less than 2008 for the entire year - and I was a little confused by one of the previous questions. It sounded like maybe that was $0.10 for the reminder of this year plus the $0.04 that we've already had?

Paul Bowers

No, Paul, you're right and I clarify that, too, it is $0.10 for the whole year. We had $0.04 negative impact, if you will, on the market response rates for the first quarter and we have $0.06 remaining.

Paul Patterson
Glenrock Associates

Okay, so that hasn't changed?

Paul Bowers

No.

Paul Patterson
Glenrock Associates

And then on the work force reduction at Georgia Power, it was $55 to $60 million - I think Dan Eggers asked this question - for 2010 is the total savings that you guys expect from that, is that correct?

Paul Bowers

That's correct. Now the number is $40 million roughly for O&M and an additional $15 to $20 million associated with capital expense associated with that labor.

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Paul Patterson
Glenrock Associates

And then with respect to the $40 million, that's a delta of 2010 versus 2009?

Paul Bowers

That's right.

Paul Patterson
Glenrock Associates

In other words, how does employee reduction happen? Is it saying that they guys say okay, I'm going to leave at the end of this year or do you start seeing those savings in 2009 or is it just happening in 2010?

David Ratcliffe

The real benefit is we are paying for these employees to leave. We realize the contribution, if you will, in the first quarter. So there's a one-year payment for those individuals to leave the business, the voluntary attrition program. And basically the savings that we will achieve during this year will pay for that cost and then we'll start seeing the benefit of those employees leaving in 2010.

Paul Bowers

But those employees are gone.

Paul Patterson
Glenrock Associates

Okay, they're gone but the fact that you're paying for them to leave is offsetting the benefit that you'd see in 2009?

David Ratcliffe

That's correct.

Paul Bowers

That's right.

Paul Patterson
Glenrock Associates

Okay, but it sounds like there's a bigger benefit in 2010, right? I thought you said it was $29 million to get them to leave?

Paul Bowers

That's right.

David Ratcliffe

That's right.

Paul Patterson
Glenrock Associates

And now you're saying a $40 million O&M benefit.

Paul Bowers

That's right.

David Ratcliffe

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That's right.

Paul Patterson
Glenrock Associates

Okay, so why is it better, I guess?

David Ratcliffe

They were here the first quarter.

Paul Patterson
Glenrock Associates

Okay, they were here for the first quarter. Okay, I got what you're saying. Okay, sorry to be so slow.

And then you also mentioned that you might see additional opportunities for this kind of deal at the other companies. Is that right?

Paul Bowers

We just said that opportunities for improved efficiency and to continue to stress O&M costs in our business.

Paul Patterson
Glenrock Associates

Okay, but you're not necessarily planning on anything like this?

Paul Bowers

No, it's up to the individual companies to pursue the actions they need to take to meet their objectives.

David Ratcliffe

We do have in place a higher freeze, meaning that we're working hard not to replace anybody who leaves, but that's up to each individual management leader in that particular part of the business.

Operator

Your next question comes from [Ryan Moody - Attain Capital].

Ryan Moody
Attain Capital

I was wondering if you could comment on your expectations for the timing implementation of a federal renewable energy standard? And, David, I also think you mentioned that it wouldn't be your expectation that nuclear would be included in the baseline for those standards. Would that include new nuclear as well?

David Ratcliffe

Let me back up just a minute and try to clarify that.

What I was saying was that what we have been trying to get done in the discussions with policymakers is to have nuclear included in the definition of renewable and that's what I was speaking to about Senator Bingaman's idea of a clean energy concept. So that was what I was talking about there.

There has been, to your point, also a discussion about taking nuclear out of the total baseline when you calculate how much renewable energy under a 15% or 25% standard would actually have to be produced, so that would lower the amount if you took nuclear out. We would certainly support that.

I think that your question with regard to when this gets done, you know that Waxman and Markey made a decision to put all of this together in one bill, which makes the thing more complex and more difficult

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to move. They believe they can get it done by Memorial Day and perhaps get it out on the floor between Memorial Day and July 4th. That's a very aggressive schedule.

I think it would be much easier for them, clearly, to focus only on a renewable portion and get that done pretty quickly because it's been around longer, it's much easier to understand. It just has a lot more understanding and support. But as long as they put that in the larger bill and try to pass the entire bill, I think it's going to be problematic because, as you know, this is going to be a very costly proposition for the United States to undertake and some of the more moderate Democrats are beginning to pushback around the cost impact on this economy.

Ryan Moody
Attain Capital

And a separate follow up question as well. I think you also mentioned that you've seen some coal prices rebound here. Could you comment on the dynamic of coal to gas switching within your region specifically and is there any benefit there for Southern Power? I know there tends to be capacity contracts at those assets.

David Ratcliffe

I don't see any benefit from a Southern Power perspective except that, to the extent gas prices have come down below $4, I suspect that under their contracts they are running more and being called on more to replace coal in those areas where they can do that in a particular dispatch regime.

Paul Bowers

The other piece of that is when you look at Southern Power being a capacity contract-based company, it is really, with the dispatch of gas in the marketplace, there's a little bit of upside and margin around the variable [inaudible] component of their contract.

Operator

Your next question comes from Steve Fleischman - Catapult Capital.

Steve Fleischman
Catapult Capital

It looks like in the quarter you mentioned there was about a $0.10 benefit of rate relief if you exclude the Georgia market response rates?

Paul Bowers

Right.

Steve Fleischman
Catapult Capital

Is that right?

Paul Bowers

That's right.

Steve Fleischman
Catapult Capital

Could you first of all give me a sense of that $0.10, could you break that out by the subs?

Paul Bowers

It's roughly $0.05 for GPC and Alabama Power relative to their environmental clause, $0.03 relative to Alabama's customer charge increase under their corrective rate plan, and $0.02 relative to block rates in the industrial class. When you look at industrials, as they use less they are stepping up, if you will, in their

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block rate. As you know, these block rates encourage use and as you produce or consume more kilowatt hours, the average rate goes down.

Steve Fleischman
Catapult Capital

And do you have some sense that you could give us of what the full year benefit is expected to be of this kind of rate relief category? Is $0.10 a quarter a rough number? Is it more skewed to the third quarter?

Paul Bowers

It's more skewed to the third quarter.

Steve Fleischman
Catapult Capital

Okay, so it's $0.05 for the environmental recoveries, $0.03 for the Alabama customer service charge, and then $0.02 related to some kind of sharing of the industrial?

Paul Bowers

Well, it's the block rates. It's a rate [break in audio]. Yeah.

Operator

(Operator Instructions) Your next question comes from Dan Jenkins - State of Wisconsin.

Dan Jenkins
State of Wisconsin

I was curious just what your CapEx was in the first quarter and if you revised CapEx plans any given the economic situation for the rest of the year?

David Ratcliffe

We have revised them slightly as a function of the CapEx that's devoted to new customer growth. Obviously, as the new customer growth has declined somewhat, we've been able to take a little bit of that capital out of the numbers. But that was reflected in the numbers that we put out.

Paul Bowers

Actually, Dan, when we issued our CapEx plan we reflected approximately $250 million reduction already. We spent the first quarter $1.1 billion.

Dan Jenkins
State of Wisconsin

Then, you know, you mentioned you still have $815 million of debt to issue. Is that primarily going to be at the operating companies or is some of that at Southern Power as well?

Paul Bowers

Right now primarily at the operating companies, with a little bit - roughly $250 million - at Southern Holding.

Dan Jenkins
State of Wisconsin

And then I'm just curious, you talked a little bit - and Steve's question about - this rate relief. Are those right of recoveries and the Alabama customer rate charge, are those going to be year-over-year gains in every quarter or at some point does it match up with what happened last year? How should we kind of think of those going forward? Does environmental recoveries [inaudible] or are they adjusted as you spend more on environmental costs and so forth?

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Paul Bowers

Well, it's year-over-year in terms of the reflection of the increase, but they're adjusted on an annual basis to give a projection of what they expect to spend during that year.

Dan Jenkins
State of Wisconsin

So there should essentially be an additive effect, then, for each of the quarters going forward on a year-over-year basis?

Paul Bowers

That's correct, Dan.

Operator

Your next question comes from Daniele Seitz - Dudack Research Group.

Daniele Seitz
Dudack Research Group

I just was wondering, given the Vogel authorization for 3 and 4, are there any costs that you are going to be able to rate base that have been already spent or everything is already accounted for?

Paul Bowers

We expect expense this year of around $500 million - we're accumulating that - but until we start construction, the rates would not be effected until roughly 2011.

Daniele Seitz
Dudack Research Group

So the cost of getting licenses and all that, this is included in rates or not?

Paul Bowers

$50 million of it is including rates.

David Ratcliffe

But all of it has been certified, meaning it is certified as recoverable assuming there's no imprudence in any of the spending. Again, the rate increase is in 2011.

Daniele Seitz
Dudack Research Group

Okay, okay. Great. No, I thought there was maybe a catch up of costs that could be rate based at this time.

Paul Bowers

No, Daniele.

Operator

Your next question comes from Greg Gordon - Citigroup.

Greg Gordon
Citigroup

Can you comment on how your view of the strategic landscape has evolved? I think it was probably two quarters ago on the call that you talked about not being opposed to looking at growing the business through acquisition and that you weren't necessarily inhibiting yourself to opportunities within the region.

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Are you still - despite the fact that the stock is down, it's still at a strong relative premium to almost every peer comparable company in the group - so how do you view your currency and your strategic opportunities in this environment?

David Ratcliffe

Greg, pretty much the same way I viewed them a couple of quarters ago. Nothing's changed. We continue to monitor the landscape.

Operator

Your last question comes from Daniel Eggers - Credit Suisse.

Daniel Eggers
Credit Suisse

I might be dense on this, but if I look at the $0.02 of industrial block rate increase and then I look at the $0.06 of down volumes, it seems like industrial was kind of a net flat, even with a lot worse volumes, because of the rate relief. Is that a reasonable translation?

Paul Bowers

Partially that's correct, Dan. If you look at it, there is some offset to the downturn in overall sales; I wouldn't say it's totally a wash.

Daniel Eggers
Credit Suisse

But it sounds like it's pretty close. Is that fair?

Paul Bowers

Yes, that's fair.

Operator

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

David Ratcliffe
Just to say thank you, again, to all of you for joining us.

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