S&P Global
Market Intelligence

The Southern Company NYSE:SO

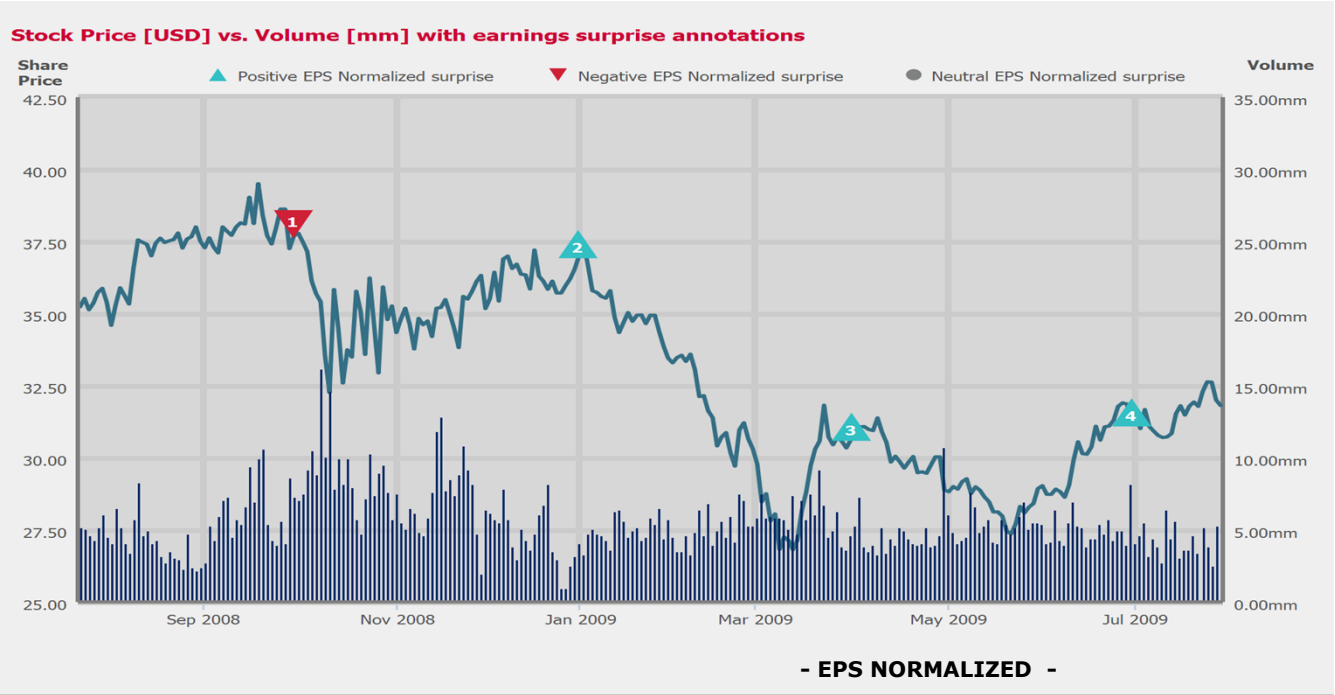
FQ2 2009 Earnings Call Transcripts

Wednesday, July 29, 2009 5:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2009-			-FQ3 2009-	-FY 2009-	-FY 2010-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.57	0.61	▲7.02	1.02	2.35	2.49
Revenue (mm)	4362.06	3885.00	▼(10.94 %)	5862.43	17455.39	18212.20

Currency: USD
Consensus as of Jul-29-2009 3:41 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2008	1.02	1.01	1 (0.98 %)
FQ4 2008	0.25	0.26	2 4.00 %
FQ1 2009	0.41	0.42	3 2.44 %
FQ2 2009	0.57	0.61	4 7.02 %

COPYRIGHT © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved

Table of Contents

Call Participants 3
Presentation 4
Question and Answer 8

COPYRIGHT © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved

Attachment to STF-238-7

Call Participants

EXECUTIVES

David Ratcliffe

Paul Bowers

ANALYSTS

Annie Tsao
AllianceBernstein

Ashar Khan
Incremental Capital

Dan Eggers
Credit Suisse

Dan Jenkins
State of Wisconsin Investment Board

Danielle Seitz
Dudack

Greg Gordon
Morgan Stanley

Leslie Rich
Columbia Management

Marc De Croisset
Macquarie Research

Mark Barnett
Morningstar

Nathan Judge
Atlantic

Paul Patterson
Glenrock Associates

Paul Ridzon
KeyBanc

Reza Hatefi
Decade Capital Management

Scott Engstrom
Blenheim Capital

Steve Fleishman
Catapult

Steve Gambuzza
Longbow Capital

Vedula Murti
CDP US

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

Presentation

Operator

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

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

David Ratcliffe

I'm pleased to be with you today for our second 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 we released this morning. Materials we released this morning represent a solid quarter performance but they do not fully portray the continuing challenge of this economy, as we will discuss later.

Before I turn the call over to Paul, I'd like to discuss the filing that Georgia Power made on June 29nt at the Georgia Public Service Commission; regarding a regulatory account, which has accumulated cost for removing certain assets from service. The Company requested approval to apply a $324 million surplus in the account to earnings from July 1, 2009 through December 31, 2010.</TAG>

The request was made because Georgia Power's retail return on equity is expected to fall below the bottom of their earnings band of 2.25% to 12.25% in 2009 and in 2010. As you know, Georgia Power is currently operating under a three year rate agreement, which went into effect in January 2008 and expires in December 2010.

As a result of the current recession, base revenues are well below the amounts we forecasted back in 2007, when the three-year rate order was filed. Under its rate plan, Georgia Power could file a rate case this year.</TAG>

However, we requested permission to reverse a portion of the cost of removal regulatory account and apply it to earnings. We believe in this economy, when customers are struggling with their own finances, it's more prudent to avoid an early filing. We currently plan to file a base rate case in mid 2010 as required under our current three year rate order. I believe this constructive proposal is in the best interest of both customers and the Company.</TAG>

We expect a decision by the Georgia Public Service Commission on this matter by the end of August and if approved as filed, the accounting order would be in effect July 1, 2009.</TAG>

At this point, I'll turn the call over to Paul Bowers for the discussion of our financial highlights for the second quarter and our earnings guidance for the remainder of 2009.

Paul Bowers

As you mentioned, we had a solid quarter of results, despite the economy and the negative impact it is having on our sales. In the second quarter of 2009, we reported earnings of $0.61 a share; that is an increase of $0.07 a share over the second quarter of 2008, which included a charge of $0.09 per share due to the leveraged-lease tax issue.

Excluding this charge for 2008, our earnings were $0.63 a share, compared to $0.61 a share in the second quarter of 2009 or a decrease of $0.02 per share.

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

Let's turn to the major factors that drove our second quarter numbers excluding the leveraged-lease charge, compared to the second quarter of 2008; first, the negative factors. A reduction in usage and economic growth across all customer classes had a negative impact on our earnings of $0.06 a share compared to the second quarter of 2008. I'll provide additional information on how the economy is impacting our various customer classes in a few minutes. Other revenue effects had a negative $0.01 per share impact on our earnings in the second quarter of 2009, compared to the same period in 2008. Price changes and clause revenues were $0.07 a share positive but were offset by a negative $0.08 per share from a decline in retail revenues from commercial and industrial market response rates.

The impact of higher taxes, primarily from increased franchise fees, had a negative impact of $0.01 per share on our earnings for the second quarter of 2009, compared with the second quarter of 2008.

Increased depreciation and amortization, due primarily to increasing environmental transmission and distribution investments reduced our earnings by $0.01 per share, compared to the second quarter of 2008. Interest expense associated with additional investments in our traditional operating companies reduced our earnings by $0.02 a share, compared with the second quarter of 2008. Reduced demand in the wholesale markets had a negative impact of $0.01 per share in the second quarter of 2009, compared with the same period in 2008. As we have seen in the retail market, the economy has negatively impacted the wholesale business within our traditional operating companies.

Finally, an increase in the number of shares outstanding reduced our earnings by $0.02 a share in the second quarter of 2009 compared with the prior period. So, the total negative factors reduced our earnings by $0.14 a share in the second quarter of 2009, compared to the second quarter of 2008.

Now, let's turn to the positive factors that drove our earnings for the second quarter of 2009. Lower non-fuel O&M added $0.06 per share to our earnings in the second quarter, compared to same period of 2008. The early termination of two of our international leveraged-lease investments added $0.03 per share and lower expenses (inaudible) contributed $0.01 per share to our earnings in the second quarter of 2009. The revenue impact of more favorable weather added $0.01 per share to our earnings in the second quarter of 2009, compared to the second quarter of 2008.

Weather in the second quarter of 2009 was a positive $0.03 compared to normal, while weather in the second quarter of 2008 was a positive $0.02 compared to normal. Thus a positive variance of $0.01 per share. Finally, other income and deductions, primarily attributable to AFUDC equity, had a positive impact of $0.01 per share to our earnings in the second quarter of 2009 compared to the second quarter of 2008.

In conclusion, we had $0.14 of negative items compared with $0.12 of positive items. So overall, our quarter came in at $0.61 per share, $0.02 per share lower than the second quarter of 2008, excluding the leveraged-lease tax related charge for 2008.

Before I discuss our earnings estimates for the third quarter, I'd like to take a moment to discuss several items of [importance].

Earlier this month, I invited senior representatives from several of our major industrial customers, as well as economists from two major commercial banks and the Atlanta Federal Reserve to discuss their outlook on the economy. The group included representatives from key industrial and commercial sectors such as chemicals, aggregates, paper and wood products, primary metals, retailing, as well as rail transportation. Even with this diverse spectrum of industry represented, there was a consensus in three main areas.

First, the recession is likely to bottom out in the fourth quarter of 2009. Recovery is still expected to begin in 2010 but it will be slow and gradual, not a V-shaped spike. The economy is not likely to return to pre-recession growth levels until 2011 at the earliest.

Second, most industries reported that inventory levels of their customers are falling to normal levels, so there is minimal excess supply being maintained. Third, there is significant idle capacity ranging from 30% to 60%. For example, one industry representative said there is more capacity in his sector than will be needed in five years. As a result, his company is trying to find alternative uses for its products.

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

Turning now to our customer data; weather adjusted sales to industrial customers were 17.7% lower in the second quarter of 2009, compared with the second quarter of 2008. The most significant reductions from industrial segments were from primary metals, which was down 44% quarter-over-quarter, chemicals declined 30%; stone, clay and glass was down 20%.

The quarter-over-quarter declines in each 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 past three quarters, industrial sales from November through June have basically remained flat, indicating that we may have seen the bottom of the sales decline in this segment of our retail customer base.

Turning to the residential markets; housing activity continues to be slow with new connects remaining flat compared with the first quarter. Building permits have contracted further in the second quarter, indicating slow residential activity for the next three to six months. While weather adjusted electricity sales to residential customers declined by 1.7% quarter-over-quarter, it's worth noting that most of the decline in residential sales is being heavily influenced by increased vacancy rates.

In the commercial sector, customer counts are down as smaller commercial customers close their doors. Weather adjusted sales to commercial customers declined 0.5% in the second quarter of 2009 compared with the second quarter of 2008.

Still, even in this economic environment there is positive news. Across our four states service area, there are approximately 300 active economic development projects, which is a normal level of activity. We're also seeing positive developments in our industrial segments with capital investments and maintenance dollars being spent in preparation for resuming normal or expanded production.

Specifically, in the transportation sector, two suppliers to Kia Motors expected to begin production in 2010. The Hyundai facility has resumed a five day workweek. The Honda has moved and is now producing the V6 model Accord at its facility in Alabama.

As one of our economic panel members pointed out, the average age of the auto fleet in United States is approximately 10 years, and is approaching the time for replacement. This certainly bodes well for the four international auto manufacturers and scores of secondary suppliers located within our service territory.

Finally, the south is still the lowest cost area [actually] and is well positioned for future growth. As evidence of this regional expansion, of our service territory alone is expected to experience a 23% increase in population by 2020.

Turning now to our earnings guidance for 2009. Our second quarter results were $0.61 per share compared to our second quarter estimate of $0.55 to $0.60 per share. On a GAAP basis we have concluded the first six months of 2009 at $0.77 per share, compared to $1.01 or first six months of 2008. Excluding the 2009 Mirant settlement and the 2008 leveraged-lease tax charges, we earned $1.03 in the first half of 2009 compared to $1.10 for the first six months of 2008. Given the uncertainty over the timing and strength of the economic recovery and assuming a positive regulatory outcome in Georgia, we expect to be at the lower end of our guidance range of $2.30 and $2.45, excluding the Mirant charge.

Finally, our estimate for the third quarter is $0.93 to $0.99 per share.

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

David Ratcliffe

As you've heard, the economy continues to impact our business and has changed our financial outlook. What has not changed is our continued strong belief in our business model and our commitment to our customers in the region we serve to provide high reliability, customer satisfaction and low prices.

Performance of our generating assets is among the best in the industry. Our prices remain about 10% below the national average, despite the fact that we are in an environment of increasing cost. Our

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

customer satisfaction continues to be in the top quartile. Going forward, we will maintain our commitment to deploying new technology and to world-class research, despite the challenges of this economy.

Moving beyond the recession, we believe that our long-term earnings growth rate projection of 6% and our commitment to the dividend is supported by the (inaudible) and its components, a constructive regulatory environment, capital investment to meet customer growth, an economically vibrant region where people want to live and work and a proven business model. All of these factors give us confidence in the long term sustainability of our business.
At this point, Paul and I are ready to take your questions.

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

Question and Answer

Operator

(Operator Instructions). Your first question comes from Dan Eggers with Credit Suisse.

Dan Eggers
Credit Suisse

I was wondering if you could follow up just on the 2009 guidance towards the lower end. Is that assuming that Georgia gets addressed the way you guys are requesting for the $324 million?

Paul Bowers

That is correct. We are assuming that in our projections.

Dan Eggers
Credit Suisse

If we were to layer that in for the year, would it basically be just a third of that $324 million is what you'd assume to be contributing on a pre-tax profit basis for the year?

Paul Bowers

That's exactly right.

Dan Eggers
Credit Suisse

Obviously, we had some intervener testimony that was not so supportive of that decision process. Can you just give your thoughts on the schedule from here and anything we should be thinking about relative to what the intervener said?

David Ratcliffe

If I am correct, what you're referring to was the initial reaction of the adversary staff that exist in the Georgia regulatory process. It's fairly typical that they would quickly oppose something like this. So we were not surprised at their rather quick response. The matters before the Commission, like I said, we expect to get a ruling by the end of August.

Paul Bowers

I'll add, the process within Georgia you'll go through different administrative committee meetings or sessions that they will review this and determine the process from there.

Dan Eggers
Credit Suisse

You made reference to the notion of your people thinking they might have permanently excess production capacity in the industrial sphere. Should we be reconsidering or rethinking long-term demand growth in your service territory or what the right starting point is if some of these industrial customers apparently aren't coming back again?

Paul Bowers

One of the issues that we are dealing with is economic forecasts for the remaining part of this year. As you'll recall in our plan, we said we would be roughly 2% down year-over-year. Based on our performance thus far this year being 6% down, we're projecting roughly a 5% down on retail sales total for the year.

The issue about capacity, what we're seeing is small non-competitive industrial customers close their doors, but some of these industrial customers are gearing up to expand capacity. So I don't think we make

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

any adjustments in terms of growth. It's just a matter of when demand returns for the products in the marketplace.

David Ratcliffe

As Paul said, one of the things we've seen in this period of time is that some of these customers have taken this opportunity with lower production to make major maintenance modifications to their existing facilities or in some cases make major new capital investments to expand their capacity. Remember, we think that the region and the cost structure that exists in our service territory is still very likely to be at a place where people expand their capability, witnessed by the Honda decision to move production of several of their vehicles to the facility that we serve in Alabama.

Operator

Your next question comes from Greg Gordon with Morgan Stanley.

Greg Gordon
Morgan Stanley

Just to make sure I understand what the accounting treatment you've asked for, if you were to get approval for the filing you would reduce your amortization expenses by that amount over the July 1, 2009 to December 31, 2010 period?

Paul Bowers

That's correct. That's roughly a $54 million impact.

Greg Gordon
Morgan Stanley

This is a way for you guys to get back into your ROE band without actually having to raise rates because you've over collected the amount you need for these removal costs, correct?

Paul Bowers

That's correct.

Greg Gordon
Morgan Stanley

On the non-fuel O&M line you were successful in pretty meaningful reductions in the quarter. Can you talk about what types of cuts those were, whether they are deferrals or whether you've been able to find leaner ways to operate the company and in which subsidiaries you found those savings?

David Ratcliffe

It's all of the above in terms of looking for efficiencies within our business. We have made some improvements in operational efficiencies around some of our key areas like supply chain. We are looking at improvement on aspects of our deployment of advertising, as an example. We're also looking at efficiencies through one-time cuts in merit pay, looking at cutting business expenses for the year, those type of activities.

Greg Gordon
Morgan Stanley

When I look at the industrial sales down 17.6% on a volume basis quarter-over-quarter, can you tell me what the actual revenue decline was from industrial. because I know on the one hand, large customers pay fixed capacity payments, so there shouldn't be a linear decline in revenue, but on the other hand, some of them are on market response rates, and so probably some things that cause the revenue not to move sort of linearly with sales?

Paul Bowers

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

When you look at the retail base rate contribution by the class, industrial contributes roughly around 20% and it contributes roughly a third in sales.

Greg Gordon
Morgan Stanley

We'll see more when we get the details in the Qs, but when we look at the revenue contribution year-over-year, were revenues from industrial down about the same amount that sales were down?

Paul Bowers

They were down They were a little lower. They were about 22% down.

Operator

Your next question comes from Mark Barnett with Morningstar.

Mark Barnett
Morningstar

Just a quick question. Industrial sales have been largely flat the past two quarters here. How much of this last quarter could be related to weather?

Paul Bowers

None. Associated with industrial, very limited.

Mark Barnett
Morningstar

Without the accounting order, you are looking to miss your ROE band at Georgia Power. What are your expectations at the other regulated subs?

David Ratcliffe

We expect to be on target with the earnings projections that we developed for them. I think they all will be in pretty good shape.

Operator

Your next question comes from Scott Engstrom with Blenheim Capital.

Scott Engstrom
Blenheim Capital

I guess just following up on that last question a little bit, mine was you look up and down the operating companies, and Georgia is sort of really sticking out as the lone source of weakness this year. Is that more about how good of a year they had last year or is it something specific about Georgia relative to the other service territories that they are sort of laggard this year?

David Ratcliffe

Let me remind you the remarks I made in my statement that remember Georgia operates under a three-year accounting order and remember we implemented the current accounting order in January of '08, but it was based on a 2007 forecast of the economic reality. Nowhere close to what we see today, but prices were fixed in that accounting order for a three-year period. Fundamentally, Georgia operates with fixed pricing for that three years as it relates to base rate. It's obvious that in this kind of declining economy, the need for rate increases becomes more obvious.

The other operating companies have forward-looking annual filings. Alabama made a filing earlier in the year and you remember implemented about $168 million of increased base revenues. So it simply is a matter of timing associated with rate increases that are required particularly in a declining economy.

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

Scott Engstrom
Blenheim Capital

So it's more a question of lag. The market response rates, for example, are not playing a disproportionately bigger factor for Georgia.

Paul Bowers

They did play a role in the underperformance thus far this year. As we mentioned in the script, it had an impact roughly of $0.08. $0.02 of the $0.08 was a refund back to the customer. So $0.06 in the second quarter were attributable to the rates themselves.

Scott Engstrom
Blenheim Capital

Last question, just a small detail, you mentioned the $0.03 positive from the leveraged lease. I wasn't clear if that was relative to last year, I know you also had the $0.09 special charge, or was that something specific to second quarter '09 and would that be then sort of non-repeating?

Paul Bowers

It is not related to 2008. Remember, last year we took the charge related to ongoing tax litigation with the IRS. The question of tax deductibility was in play. We had to basically go through a process of determining, is it more likely than not that we would win the litigation or not. In June of last year, we determined based on the preceding court cases that we had seen that more likely than not we wouldn't prevail. So we took the charge.

In 2009, this leveraged lease is really the opportunity that existed in the marketplace. We have a portfolio of financial investments that we assess and provide value to our shareholders. We were approached by one of the owners of two of the companies in the international arena and wanted to terminate the leases, which we did and were able to provide that value in this quarter.

Operator

Your next question comes from Vedula Murti with CDP US.

Vedula Murti
CDP US

A couple things. One, if we take a look at Southern Power, can you remind us if we look forward towards '10 what kind of roll off of some of the existing longer term contracts is going to happen and how that balances with new contracts or incremental assets that are going to be coming online in 2010?

Paul Bowers

One of the aspects of Southern Power, as you recall, we said for the next three years will be flat year-over-year earnings. Now with '08, '09 and '10 and as we look beyond '10, we do have some new contracts that come into play. We can get you more details associated with that but there's a balancing, if you will, associated with the new contracts coming in and the demand out of some of the requirement contracts that they have. To-date, we have roughly 90% of our capacity covered in contracts through 2013.

Vedula Murti
CDP US

My second question is, given what's happening with commodity prices, have you been backing off on coal generation and using more gas-fired purchased power or your own gas-fired generation or can you talk a little bit about how your fuel mix and dispatch has been altered given the current commodity situation?

Paul Bowers

When you look at generation for us quarter-over-quarter we were down in coal generation by 26%. Gas generation, we're up 93%. What that basically says to you is that we are dispatching our gas resources

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

right behind our cheaper Powder River Basin resources. Then, the Central App, Columbian coal resources come in after the gas combined cycle resources.

Operator

Your next question comes from Steve Fleishman with Catapult.

Steve Fleishman
Catapult

I have a question regarding the share count. It looks like you've done about 18 million shares year-to-date, if you are doing your drip ratably, it would seem to be you've done well more than just your drip and maybe actually gotten heavily into your dribble plan. By my rough calculation, if you had the drip over the year you would have only done about $8 million of drip, which means you might have already done $10 million of dribble, which seems like a lot compared to a $20 million plan.

Is that basic math right and it sounds like maybe you'll have gotten this plan done a lot sooner than expected, potentially?

Paul Bowers

When you look at that, we've had the dividend reinvestment, employee stock option plan, the savings plan, the Southern investment plan and the dribble has provided roughly $500 million of additional equity. So your math is basically going the right direction.

Steve Fleishman
Catapult

Can you update us on where you are on this dribble plan?

Paul Bowers

No, we cannot.

David Ratcliffe

It's an ongoing plan. By nature, you're trying to take advantage of the opportunities that you have. So you don't want to foreshadow any of that.

Steve Fleishman
Catapult

Maybe to ask in a different way, should we assume that everything but the dribble kind of comes in ratably through the year for the most part?

Paul Bowers

As we said in the past, we plan to issue additional equity as necessary consistent with our investment plans. That will be feathered in as we deem necessary to maintain our financial integrity of the business.

Steve Fleishman
Catapult

Has there been any changes in your overall balance sheet plan, financing plan, et cetera?

Paul Bowers

No.

Steve Fleishman
Catapult

It just looks like you've gotten a lot more done already than I was expecting, which I think actually is a good thing.

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

Paul Bowers

We do too.

Operator

Your next question comes from Danielle Seitz with Dudack.

Danielle Seitz
Dudack

In light of the economy and the sharp slowdown that you are experiencing, I was wondering if you anticipate to review your outlook in terms of new capacity or if this is pretty much firm for the next three or four years and there won't be any changes at all.

David Ratcliffe

I don't think there are any near term changes. Remember ours is a long-term planning horizon and we maintain pretty good reserve margins in order to respond to changes in the market. The long-term capacity investments are pretty well fixed.

Danielle Seitz
Dudack

So no changes expected? You are not looking over or anything?

David Ratcliffe

No.

Operator

Your next question comes from Nathan Judge with Atlantic.

Nathan Judge
Atlantic

I just wanted to ask a follow-on question on the market response rates for the third quarter. I think it added $0.17 in third quarter of '08 versus third quarter of '07. As we saw in the second quarter, much of that was given back. Is it potential that there could be more than just $0.17 or what would be your guidance as far as market response rates in that quarter?

Paul Bowers

When we looked at our plan this year, we had estimated an impact year-over-year of roughly $0.10 for the market response rate. Given the new projections that we're coming out with relative to the economy and the downturn, specifically in the industrial area, we're estimating another $0.10 for the year. So, roughly $0.20 year-over-year decline based on the market response rate.

Nathan Judge
Atlantic

So if we had something on an $0.08 measure on the second quarter, then could we expect $0.12 for the remainder part of the year is what you are suggesting and perhaps maybe more weighted to the third quarter?

Paul Bowers

It's roughly $0.10. When you look at the second quarter results for market response rate, $0.02 of that is just a refund back to the customers based on an applied methodology within the rate that was incorrectly done. So we had to reverse roughly $19 million.

Nathan Judge

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

Atlantic

Asking the question perhaps a little bit differently on long-term growth, you now expect perhaps the economy to be weak, I think you said until 2011, to get back to where we were. How does that play out as far as your growth rate for the next 18 months or so thinking beyond 2009?

Paul Bowers

When you look at the variability in scenarios that we are looking at for our financial plan, it's really predicated on growth rates after we get back out of this recession. For the next 18 months, we are in the middle of a financial planning scenarios right now to say, "Okay, what is the possibility of continued stagnant or anemic economic growth and what will that do to our overall growth plans year-over-year?" We'll be coming out with some of that, as you know, in January but that we are in the middle of our planning process right now.

Nathan Judge
Atlantic

If it were to remain anemic though there would be some positives coming in 2010 as far as the continued add from your rate base additions. Would that be somewhat accurate to think of?

Paul Bowers

Yes.

Nathan Judge
Atlantic

More on a Federal level, could you just give us any insight you have as far as CARE is concerned? Then, on more recent and notable topic, renewable energy portfolio standards/carbon that would be appreciated.

David Ratcliffe

Let me say that the CARE situation continues to be just a matter of discussion and effort by EPA. I don't have any particular insight into where they may go or when they may try to move forward with trying to put something in place that would replace CARE or an alternative. The RES situation, as you know, the House climate bill had an RES provision in it. The Senate actually passed an energy bill what we would consider to be a much better RES provision.

I would hope that if the legislative agenda evolves such that the Senate energy bill and the House climate bill winds up being simply an energy bill without climate that the conference would move towards the Senate version with a lower standard, say, with every 15% with 4% or 5% being allowed for efficiency, and then a $0.021 alternative compliance payment, which is a much more reasonable proposition than what the House passed. So, my hope is that we move the RES discussion towards the Senate version.

With regard to climate, I think it's really terribly difficult to determine whether climate is going to be done. Obviously, they are spending a lot of time right now on healthcare. They keep saying that the Senate is going to finish their committee work by the end of September and move to try to pass a bill in the Senate side sometime after that. You know that the legislative agenda gets very crowded nearing that time of the year.

It will just depend on how far they get on healthcare and then what else is going on. They've still got to do appropriations. So, I don't have any particular wisdom. I'd say it's a 50-50 chance that the Senate could pass something this year.

Nathan Judge
Atlantic

With regard to any updates on mergers and acquisitions, given I know a very different situation, but the failed attempt by another utility in the north, could you just update us what your view is now and the positives and negatives going forward on anything?

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

David Ratcliffe

Our view hasn't changed from what it has always been. We always tell you folks that we are alive and well and we have an active radar screen. We pay attention to who is doing what and what opportunities may emerge for us. We are continuously evaluating those opportunities. We have a pretty rigorous discipline around the criteria that we use to decide whether or not something makes sense, and it really goes to the fundamentals of it has to be something that fits our business model, it has to be accretive to our earnings in a short period of time rather than long period of time, months not years. It is not something that we would want to use up our credit quality and our financial strength without a significant opportunity associated with it.

So I think those criteria have served us well and kept us from what I would consider to be wasting time in chasing things that don't make sense. So these things are extraordinarily difficult to do as witnessed by the example that you referenced. I think in this regulatory environment and in this economic environment, they are even more difficult to do.

So we will remain judicious about our evaluations and our considerations of M&A activity.

Operator

Your next question comes from Annie Tsao with AllianceBernstein.

Annie Tsao
AllianceBernstein

Your 17.7% industrial sales drop, do you have the monthly data, the April to June data by month?

Paul Bowers

Month-to-month breakdown for industrial sales, when you look at the total for the system on industrial, it's running between 3,600 to 3,900 gigawatt hours per month. I have that information, but I don't have any further information. We'll be glad to follow up with you if you want some additional detail.

Annie Tsao
AllianceBernstein

Do you see the industrial sales decline stabilized?

Paul Bowers

Like we said in the opening, for the last eight months, we've seen basically a stable consumption pattern for our overall industrial group, and that's that 3,600 to 3,900 gigawatt hours.

Annie Tsao
AllianceBernstein

Can you also comment on your uncollectible, because I remember last quarter it was 0.33 to 0.38? Is that right?

Paul Bowers

0.38 is the charge-offs through March and we've moved to 0.40 for overall Southern thus far this year.

Operator

Your next question comes from Leslie Rich with Columbia Management.

Leslie Rich
Columbia Management

I apologize if you've discussed this before. I think you touched on it in Steve Fleishman's question, but in light of the slowing economy, are there adjustments you could make to 2009, 2010 capital spending

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

levels, either sort of proactively or sort of out of necessity, due to lower new customers, et cetera? Could you defer or delay spending until economic activity returns to more normal levels?

Paul Bowers

When you look at the breakdown for our capital spend, operating companies for the next three years are spending roughly $14.4 billion. We are also targeting roughly $2.2 billion for Southern Power. If you further dissect those numbers, we're spending roughly $4 billion in the transmission and distribution arena. Of that area of spend, we have some flexibility that will track our growth requirements and capital spend for meeting that growth. That's basically all the flexibility we have.

Within Southern Power, it's driven by opportunistic capital spend in the asset acquisition arena and we have allocated roughly $1.6 billion of that for new business opportunities. That is flexible and as opportunities exist, we'll spend it. That's the only piece that we could say we could turn off, if you will, but there, you would end up foregoing opportunities in growth for the future.

Leslie Rich
Columbia Management

Okay. So that $4 billion T&D spend that was over the 2009, '10, '11?

Paul Bowers

That's exactly right.

Operator

Your next question comes from Marc De Croisset with Macquarie Capital.

Marc De Croisset
Macquarie Research

A quick follow-up on Southern Power, which I understand is a small part of your business. There is about a 12% decline in earnings in that segment. Can you give us just a little bit more color on what's taking place there?

Paul Bowers

Sure, Mark. When you look at Southern Power, year-over-year, we had some events that occurred in 2008 that shows an uplift in the income. That was a bid fee that they were able to achieve of roughly $6 million and they sold a plant site in Florida as well. So year-over-year, those had to be taken out and they're relatively flat year-over-year on their business.

What we're seeing within Southern Power is the gas generation assets have been dispatched more frequently, so there's uplift on energy margins. There is a little bit of issues around site acquisition market that we had assumed as well for them and we continue to look at assets. We just haven't caught any new deals this year.

Marc De Croisset
Macquarie Research

So, if I were to normalize for nonrecurring income last year, you're seeing improvement in volumes at Southern Power. So, is it fair to say that you do get some uplift there due to these volumes or has the profitability been offset by changes in contractual prices in some portion?

Paul Bowers

Contracts are not changing. It's just the energy margins that exist in the business for them, but I would assume a flat year-over-year assumption.

Operator

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

Your next question comes from Paul Ridzon with KeyBanc.

Paul Ridzon
KeyBanc

Would you ever consider pursuing decoupling in Georgia where you don't have formulaic true-ups?

David Ratcliffe

I'm reluctant to answer a ever consider kind of question, because I think in these times you always have to be willing to consider anything. But fundamentally, we don't think that the decoupling concept works in our regulatory environment. And fundamentally, I've said I don't particularly like the notion. I think there is good reason to keep the cost of the product connected with the use of the product and make sure that our customers are as informed as we can possibly make them about how to use a product and the service efficiently and effectively to control their costs. I like that model a lot better than I like disconnecting what I think ought to go together.

Paul Ridzon
KeyBanc

With regards to the lease termination, what tenure would you expect it to pull this $0.03 in or am I thinking about this wrong?

Paul Bowers

Paul, would you repeat that?

David Ratcliffe

What time frame would the leases have covered?

Paul Bowers

'13 through '18 for the two leases and then we have two more cross-border leases that run out to 2030 time frame.

David Ratcliffe

The one that represents the $0.03 were the '13 to '18.

Operator

Your next question comes from Reza Hatefi with Decade Capital.

Reza Hatefi
Decade Capital Management

I'm sorry if I missed this earlier, but you mentioned a 6% load decline year-to-date and your expectation is 5% for the year, so does that sort of imply second half you expect a little pick-up in load?

Paul Bowers

When you look at compared loads for the fourth quarter, remember, that's when we experienced the downturn in the industrial segment, a significant downturn. So quarter-over-quarter, we should see relatively quarter-to-quarter comparisons that are improved.

Reza Hatefi
Decade Capital Management

Could you maybe elaborate a little bit on your O&M cuts and where you expect to be relative to last year in terms of total O&M and how we should think about the sustainability of the cuts going into 2010?

Paul Bowers

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

When you look at the actual results for last year, compared to what we project for this year, we will be about 2% down year-over-year. So, we're taking out any escalation in the budget and coming underneath the '08 actual. What we've been able to do is really evaluate all aspects of our business for efficiency gains and that is an ongoing process. David instilled a process in 2008 that really directed us to look at every piece of the business, every function.

Is there a way to capture efficiencies? Be it in supply chain, looking at environmental affairs, our labs. Can we consolidate lab work, what about fleet optimization? Are we idle on our trucks, can we save fuel based on idle requirements? Looking at our call centers throughout the service territory, where we have four call centers, is there opportunities to consolidate there? So all those aspects were reviewed and ongoing, we expect to continue to have $100 million plus in savings from our O&M budgets.

Reza Hatefi
Decade Capital Management

And how should we think about the 2% savings going into 2010?

David Ratcliffe

I think it's early to project 2010. Remember, some of what we've done in O&M reductions this year is not permanent, as Paul has just said. It's a matter of timing and a matter of deciding to postpone some things. We'll have to get those back into the budget, because they have to do with our ability to reliably operate on an ongoing basis. So, we are in the process of formulating the '10 numbers. We'll share that with you later in the year or first part of next year, but we would expect to get back to a more normal level of O&M spending next year.

Paul Bowers

Even with these reductions that we're seeing in O&M, we're still performing extremely well with our operations. Our plants are running extremely well, they're top performers. Our reliability metrics on our wire business is top quartile. Our safety numbers continue to improve. So, we're not impacting the business from these cuts.

Operator

Your next question comes from Jeff Lambert with Morgan Stanley.

Greg Gordon
Morgan Stanley

It's Greg Gordon again, sorry. When I think about the capital expenditure budget as it pertains to the economic backdrop, you've answered several questions about that. Just to summarize, you do have some flexibility on the T&D side, because that's really a function of economic growth. There's a pretty big number in the budget for growth at Southern Power.

So, when I think about the math, I mean, if you've got the accounting order you were asking for in Georgia, you'd be able to hit a reasonable return on equity number in the short run, but that would still mean that you would be slightly skinnier on a cash flow basis. So, should I assume that you'll manage the capital structure to your credit rating and defer and/or modify the capital expenditure budget if necessary to maintain your credit quality?

David Ratcliffe

Financial integrity, like we've spoken about before, is important. So the answer is, yes.

Operator

Your next question comes from Steve Gambuzza with Longbow Capital.

Steve Gambuzza
Longbow Capital

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

I think you mentioned that your guidance now embeds a $0.20 decline in the real-time pricing margin in 2009. I believe there was roughly a $0.20 positive benefit in 2008 versus 2007, from real-time pricing. So, I'm just trying to figure out, as we kind of go into 2010, how much margin is left in your 2009 guidance from real-time pricing, so we can kind of understand that the balance of risk for further declines moving into '10?

David Ratcliffe

We're trying to figure that out too. If you can tell us what you the economy is going to do and what dispatch prices are going to be and what these industrial customers will do, we can give you an answer but we're in the process of planning also.

Paul Bowers

When you look at RTP in general, as you know, there is a base component of that rate and a marginal dispatch component of that rate. When we see the performance of the customers that are on that rate versus the body of customers in the industrial class in general, they're performing a little bit better. The rate gives an incentive for production and keeps them competitive but in terms of the margin, it's variable. When you look at what we've been able to see, total base rate revenue out of the rate, it's ranged from $600 million to $850 million over time. So, we just had to make a projection in '10 and we'll come to that at the end of the year.

Steve Gambuzza
Longbow Capital

Can you just kind of let us know what's in there for '09 right now?

David Ratcliffe

We had assumed a $0.10 reduction overall, which is basically half of the margin going away from last year.

Steve Gambuzza
Longbow Capital

Presumably, you were at kind of that $850 million revenue level last year?

Paul Bowers

Yes.

Steve Gambuzza
Longbow Capital

Okay. It's just hard because I don't know what the margin was last year, the dollar margin.

David Ratcliffe

Steve, can we get back with you on this level of detail and we'll be glad to discuss that with you. Leave it to say that we're basically taking that incremental gain that we had last year off the table.

Operator

Next question is from Ashar Khan with Incremental Capital.

Ashar Khan
Incremental Capital

Paul, could you just tell us when you mention that you'll be earning at the bottom end of your range for an ROE basis for retail purposes at Georgia Power with accounting order; could you give us what that translates into a dollar net income number, approximately?

Paul Bowers

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

I don't have that.

David Ratcliffe

We can get it to you. I don't think any of us have it right off the top of our head.

Ashar Khan
Incremental Capital

If I'm right, you're saying that you'll be still at that same level in 2010. How much does rate base grow in from '09 to '10 at Georgia Power?

Paul Bowers

At Georgia Power, across the system rate base growth is between 8% and 9%. Specifically for Georgia, it will grow roughly in that same arena, I would expect but we'll get back with you and give you that exact number.

Ashar Khan
Incremental Capital

I think that Nathan asked this question, you are expecting the economy to pick up late next year, and you said you can go back to your growth rate, so does that imply that 2010 growth rate might not be the same 6%?

Paul Bowers

That's exactly what we're saying. Based on the economy and if the economy persists at a sluggish level, then that will impact our growth rates.

Operator

Next question comes from Paul Patterson with Glenrock Associates.

Paul Patterson
Glenrock Associates

I think Ashar asked my question. Just to sort of clarify here, it seems that we might have a lower than 6% growth rate in 2010 but longer term, you guys are expecting to get back on track. Is that right?

Paul Bowers

Absolutely.

Paul Patterson
Glenrock Associates

My recollection was that $0.10 for the year was what you guys previously estimated for market response and I wasn't clear, I apologize if I missed it. Has that changed now?

Paul Bowers

Yes, Paul. We are now projecting a $0.20 decline overall for our market response rate.

Paul Patterson
Glenrock Associates

Then, next year, do we have an idea about that or is it just too early to say?

Paul Bowers

It's too early to say. As we go through the financial planning process at the end of the year, we'll make a new projection. It's based more on what's going on in the economy, as well as what's going on in the marginal costs in our market.

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

Operator

(Operator Instructions) Your next question comes from Dan Jenkins with the State of Wisconsin Investment Board.

Dan Jenkins
State of Wisconsin Investment Board

I was curious; we talked a little bit about the market response rates. I think you said in your opening remarks that that was somewhat offset by some higher rider recoveries. I was curious what you kind of expect for those rider recoveries going forward? Does at some point that boost kind of fall off on a year-over-year basis or how should we think about that?

Paul Bowers

Dan, you need to think about that as ongoing revenue. When we made the reference offset by increased revenues, we are talking about changes in customer charges at Alabama that equated to $168 million. We have clauses at Gulf Power and the other companies associated with environmental CapEx spend, so those are ongoing.

Dan Jenkins
State of Wisconsin Investment Board

When you talked about the residential and commercial, you said that you were having some increased vacancy rates and some businesses closing down. Do you have what the customer growth rates were in residential and commercial year-over-year?

Paul Bowers

Overall, the residential growth rate was 0.7%, commercial was down 3.2%; residential up, 0.7%, commercial down 3.2%. Now, within those numbers there are some reclassifications from commercial to residential and overall, our growth rate was 0.2%, roughly 7,000 new customers.

Dan Jenkins
State of Wisconsin Investment Board

Then I noticed you have I think $375 million that matures in August of debt. Is your financing plan pretty much the same as you've outlined before?

Paul Bowers

It is, Dan. We've been able to place $1.9 billion this year. And as you said, we have a little bit more to go for the remaining part. Thus far, we've received great treatment in the market associated with rates. For $1.9 billion, we were able to get an average rate of 4.36%.

Operator

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

David Ratcliffe

Let me just say thanks again to everybody for joining us. We appreciate always your attendance at these conferences. Look forward to talking with you in third quarter. Thank you.

Operator
Thank you, sir. Ladies and gentlemen, this does conclude the Southern Company second quarter 2009 earnings call. You may now disconnect.

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

Copyright © 2019 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

These materials have been prepared solely for information purposes based upon information generally available to the public and from sources believed to be reliable. No content (including index data, ratings, credit-related analyses and data, research, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P Global Market Intelligence or its affiliates (collectively, S&P Global). The Content shall not be used for any unlawful or unauthorized purposes. S&P Global and any third-party providers, (collectively S&P Global Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Global Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON "AS IS" BASIS. S&P GLOBAL PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Global Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages. S&P Global Market Intelligence's opinions, quotes and credit-related and other analyses are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P Global Market Intelligence may provide index data. Direct investment in an index is not possible. Exposure to an asset class represented by an index is available through investable instruments based on that index. S&P Global Market Intelligence assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P Global Market Intelligence does not act as a fiduciary or an investment advisor except where registered as such. S&P Global keeps certain activities of its divisions separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions of S&P Global may have information that is not available to other S&P Global divisions. S&P Global has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P Global may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P Global reserves the right to disseminate its opinions and analyses. S&P Global's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P Global publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.
© 2019 S&P Global Market Intelligence.

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.