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The Southern Company NYSE:SO

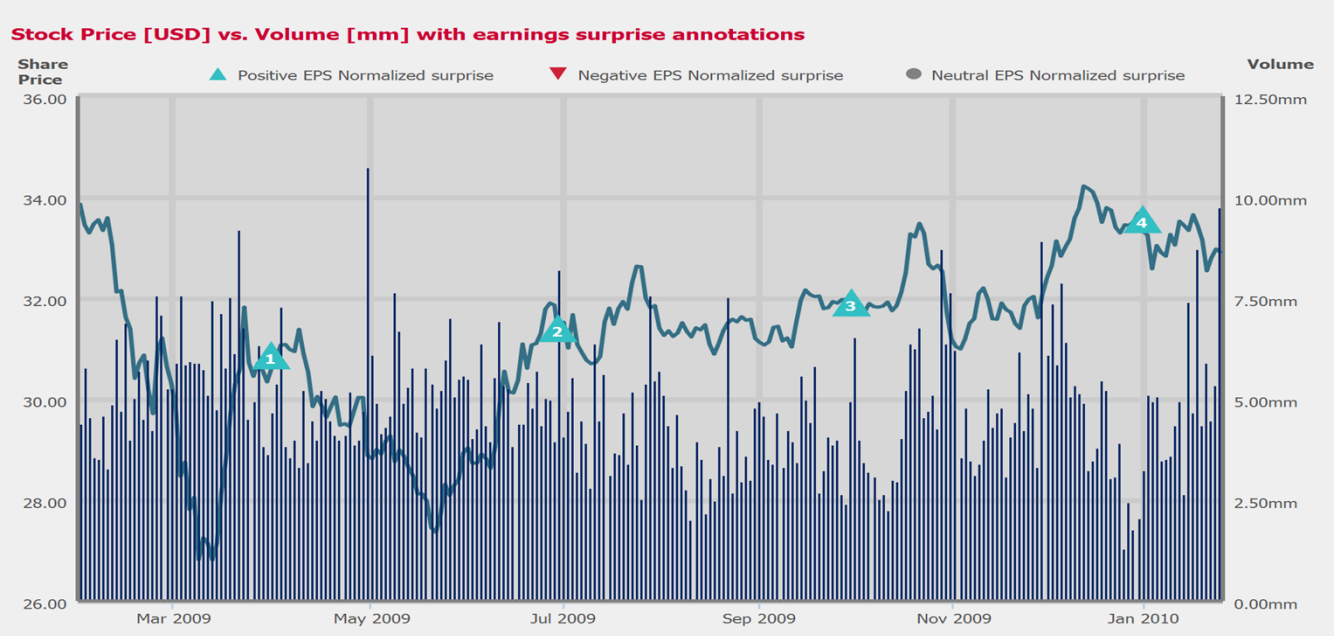
FQ4 2009 Earnings Call Transcripts

Wednesday, January 27, 2010 6:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2009-			-FQ1 2010-	-FY 2009-			-FY 2010-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	0.30	0.31	▲3.33	0.47	2.31	2.32	▲0.43	2.42
Revenue (mm)	4358.30	3510.00	▼(19.46 %)	3611.70	16784.96	15743.00	▼(6.21 %)	17503.06

Currency: USD
Consensus as of Jan-27-2010 2:10 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2009	0.41	0.42	1 2.44 %
FQ2 2009	0.57	0.61	2 7.02 %
FQ3 2009	0.98	0.99	3 1.02 %
FQ4 2009	0.30	0.31	4 3.33 %

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Table of Contents

Call Participants 3
Presentation 4
Question and Answer 9

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Attachment to STF-238-7

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Presentation

Operator

Good afternoon, my name is Sarah and I will be your conference operator today. At this time, I would like to welcome everyone to the Southern Company Fourth Quarter 2009 Earnings Call. [Operator Instructions] I would now like to turn the call over to Mr. Glen Kundert, Vice President of Investor Relations. Please go ahead, sir.

Glen A. Kundert
Vice President, Investor Relations

Thank you, Sarah and welcome to Southern Company's Fourth Quarter 2009 Earnings Call. Joining me this afternoon are David Ratcliffe, Chairman, President and Chief Executive Officer of Southern Company; and Paul Bowers, 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 on our Form 10-K and subsequent filings.

We'll be including slides as part of today's conference call. The slides provide details on information that will be discussed in today's call, such as our current three-year forecast for capital expenditures. In addition, these slides provide reconciliations for certain non-GAAP financial information that will be discussed on this call. You can access the slides on our Investor Relations website at www.southernco.com, if you want to follow along during the presentation. Now at this time, I'll turn the call over to David Ratcliffe, Southern Company's Chairman, President and Chief Executive Officer.

David M. Ratcliffe
Former Chairman & CEO

Thanks, Glen and good afternoon, and thank you to all of you for joining us. As you can see from the information we released this morning, we had a good quarter and a solid year of business results. Despite the economic headwinds of 2009, we continued to build out high-quality infrastructure and provide high levels of customer service at affordable prices. We also continued to set operational, regulatory and financial milestones, which are the hallmarks of our commitment to our customers and our shareholders.

On the Operational side of our business, our fossil and our hydro generation organization achieved an industry-leading peak season Equivalent Forced Outage Rate of 1.44% against the industry average E4 rate of approximately 7%. During 2009, we completed seven major environmental construction projects, including four scrubber installations and with an in-service cost of 29% below the industry average.

On the Transmission & Distribution side of our business, 2009 was the best year in our history for reliability performance. We also made significant progress on the installation of automated meters, installing more than 1 million smart meters, bringing the total number deployed to over 1.9 million, against our target of 4.5 million meters by 2012.

In our Nuclear business, the early site work for Units 3 and 4 plant Vogtle is well underway on support buildings, water pipe installation and concrete batch plant. We've removed more than 3 million cubic yards of dirt to an average depth of 54 feet for the reactor building.

On the regulatory side of our Retail business, we had a constructive year. At Alabama Power, base rates in 2010 will begin to reflect the recovery of costs associated with the return of 1,200 megawatts of fossil capacity to retail service. This capacity had been previously dedicated to our wholesale business. Retail base rates in 2010 will also begin to reflect the in-service status of four large scrubbers. This increases in the retail base rates will be more than fully offset by fuel rate decreases, resulting in a net 7.4% decrease in retail rates.

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At Georgia Power, we received certification for the Vogtle 3 and 4 units. Both the Georgia Legislature and the public service commission authorized the use of construction work in progress and rate base for nuclear construction. In addition, Georgia Power avoided an early rate increase request in 2009 by receiving approval from the Public Service Commission to amortize a regulatory liability account. This partially offsets the decline of retail revenues in 2009 and 2010.

Gulf Power Company received regulatory approval for the recovery of a major scrubber project at Plant Crist, and an 885-megawatt purchase power agreement. Rate impacts at Gulf Power in 2010 will be mitigated by a recently-approved fuel rate decrease of 3.5%.

Finally, Mississippi Power received a favorable outcome on the need to request for additional generating capacity. We've proposed to meet this need with the Kemper County IGCC facility, and expect a decision by May 1 of this year. If approved by the commission, construction could begin later this year with an in-service date targeted for 2014.

Turning now to Southern Power, in October, we announced that Southern Power agreed to acquire Nacogdoches Power LLC from American Renewables, the original developer of the project. We are moving forward with construction of the 100-megawatt biomass facility, with completion expected in 2012. The asset has a 20-year PPA with Austin Energy, which serves the city of Austin, Texas.

Also in December 2009, Southern Power closed on the acquisition of the West Georgia generating assets from LS Power, in exchange for our DeSoto facility and $144 million in cash. In addition, Southern Power completed the construction of Stanton B, a 300-megawatt combined cycle plant for the Orlando Utilities Commission, bringing the unit in ahead of schedule.

Finally at Southern Power, construction began last year on the Cleveland County Generation Plant in North Carolina, a 720-megawatt combustion turbine facility. Purchase power agreements are in place for the public power entities in North Carolina, and commercial operation is expected in early 2012.

On the financial side of our business, we also performed well. First on the cost-containment initiatives throughout the company, our cost-containment initiatives throughout the company resulted in the $230 million reduction in operation and maintenance expenses compared to 2008. During 2009, we issued $1.3 billion in new equity through our various plans, including the continuous equity offering program or dribble. On the debt side, we issued $3 billion in long-term debt, with an average interest rate of 3.6% at an average maturity of 19 years.

At this point, I'll turn the call over to Paul, who will continue to review our financial performance for 2009 and provide earnings guidance for 2010.

William Paul Bowers
Executive Vice President

Well, thank you, David. First, I'll review our fourth quarter and full year 2009 results. Then I'll discuss our capital budget, our financial results and requirements, our economic outlook, and conclude with guidance for the full year and the first quarter of 2010.

In the fourth quarter of 2009, we reported $0.31 per share, that's an increase of $0.07 per share from the fourth quarter of 2008. Excluding adjustments related to our leverage leases in 2008, we earned $0.31 per share in the fourth quarter of 2009 or an average increase of $0.05 per share, compared to the fourth quarter of 2008. For the full year, we reported $2.07 per share, a decrease of $0.19 per share over the prior year. Excluding adjustments related to our leverage leases in 2008 and a merit settlement in 2009, we earned $2.32 per share in 2009, or a decrease of $0.05 per share over our results for 2008.

Now let's turn to the major factors that drove our numbers for the full year compared with 2008, excluding leverage leases adjustment in 2008 and the merit settlement in 2009. First, I'll cover the negative factors, here's a breakdown. The reduction in retail sales had a negative impact of $0.19 per share on our earnings in 2009 compared to the full year in 2008. Lower usage in sales was particularly evident in the Industrial segment, which I will cover in more detail in a few minutes. Higher interest expense in 2009 reduced our earnings by $0.05 a share, compared to the prior year.

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Weather reduced our earnings by $0.02 per share in 2009 compared with 2008. Weather in 2009 was a negative $0.03 per share compared to normal, and weather in 2008 was a negative $0.01 per share, for a total of a minus $0.02 per share. Taxes other than income taxes reduced earnings $0.02 per share in 2009, compared to 2008.

Increased depreciation and amortization due primarily to increased environmental, transmission and distribution investments reduced our earnings by $0.05 per share in 2009 compared with 2008. Finally, an increase in the number of shares outstanding reduced our earnings by $0.06 per share in 2009, compared to the prior year.

Now let's turn to the positive factors that drove our earnings in 2009. Lower, non-fuel O&M expenses added $0.15 per share to our earnings in 2009 compared to the prior year. We were able to reduce O&M spending in our traditional operating companies by $187 million compared to 2008, and as David said, $230 million in the overall business. Going forward, we expect to see a permanent O&M reduction of $100 million, which will affect the rate of growth in our O&M overtime.

Other revenue effect, that is $0.11 per share in 2009 over 2008, primarily due to increased monthly service charges and revenues associated with the recovery of investment in environmental equipment, partially offset by lower market response rates to lower it's commercial and industrial customers, which had a negative impact of $0.25 per share, so the net effect was a positive $0.11 per share.

Other income and deductions, mainly AFUDC, contributed $0.04 per share to our earnings in 2009, compared to 2008. Parent company and other added $0.03 a share compared to 2008. Finally, Southern Power added $0.01 per share to our earnings in 2009 compared to the prior year. This increase was due primarily to new contracts, energy margins and construction performance on the Stanton B project. So in conclusion, we had $0.39 per share of negative earnings drivers and $0.34 per share of positive earnings drivers, compared to 2008. Overall, excluding leverage lease adjustments in 2008 and the merit settlement in 2009, our year came in at $2.32 per share compared to $2.37 per share, or a decrease of $0.05 per share.

Turning now to our capital budget. Our capital expenditures for the three-year period of 2010, 2011 and 2012 are expected to be $16.4 billion. In this budget, we have included $14.5 billion for our traditional operating company. The major categories in this budget are: $2.1 billion for the construction of Units 3 and 4 at Plant Vogtle; $800 million for the completion of the three McDonough combined cycle units in Georgia; $1.8 billion for the construction of the Kemper County IGCC project in Mississippi; $4.2 billion for maintaining and expanding our transmission and distribution network, including Smart Grid investment; $2.4 billion for environmental controls, which includes weapon $1.4 billion for seven scrubber installations.

As you can see, we've included $1.9 billion of capital at Southern Power. However of this amount, some $1.2 billion is targeted for potential acquisitions, so this should be considered discretionary capital. So the overall capital budget for 2010 through 2012 is $16.4 billion, reflecting the requirements needed to meet the long-term growth of the region plus environmental and reliability requirements.

Our external financing needs continue to be driven, primarily by our capital expenditures. We expect to issue a mix of fixed income securities and equity that support our A-credit rating. As David mentioned earlier, we issued $1.3 billion of new equity in 2009. As we evaluate our overall 2010 cash flow forecast, including potential benefits, such as bonus depreciation which could arise from the stimulus legislation, there is a possibility that we will be able to meet our equity needs solely through our traditional employee and southern investment plan. These plans have historically provided $400 million to $500 million equity per year. However, we will keep our continuous equity offering program in place in order to provide flexibility in how we meet our needs in 2010 and beyond. On the debt side, we plan to issue approximately $6.9 billion in long-term debt over the three-year period, with $3.7 billion in new money and $3.2 billion in maturities.

Turning now to a discussion of the economy. We'll begin with our customer sales data, which will all be reported as weather adjusted. Total sales decreased by 4.5% in 2009, compared to the full year in 2008. Industrial sales were down 11.7% in 2009 compared with 2008. We had an increase in industrial sales in

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the third quarter due largely to the Cash for Clunkers program. In the fourth quarter, sales declined by 6.8% as compared to the third quarter of 2009.

Commercial sales declined 1.2% in 2009, compared to the prior year. As expected, sales in the commercial segment continued to weaken in the fourth quarter, declining by 1%, compared to the fourth quarter of 2008. Residential sales in 2009 remained basically flat in relation to 2008, with a slight decrease in sales of 0.7%.

Southern Company benefits from a strong customer mix with a good balance between residential, commercial and industrial sectors. On the industrial side, nearly two-thirds of our sales have derived from six major categories. Non-manufacturing, which is our largest segment, is driven by energy used from pipelines, coal mining and natural gas processing facilities. On the commercial side, office buildings and retail outlets account for nearly 40% of the sales.

Traditionally, the Southeastern economy has been driven by vibrant and expanding industrial base that has been supported by relatively low cost of business, an excellent transportation network and a modern infrastructure. In turn, a growing economy has encouraged strong migration to the region, which has helped drive residential and commercial activity. The great recession, as it has been called, has interrupted these trends, but we do not believe it has permanently altered the competitive advantages of the region.

For 2010, we are forecasting an increase in total retail sales of 1.8%, which reflects the continuing recovery in the economy. We are forecasting a 2.6% increase in industrial sales in 2010 compared to last year. This increase should outpace U.S. industrial activity, reflecting newer, more efficient manufacturing facilities in the Southeast, as well as an increase in export activity. Residential sales are expected to increase by 2.5% in 2010 over 2009, as we continue to work off excess housing inventory and see more inward migration to the region.

The commercial sector will continue to be sluggish, but we expect to see a slight increase in 2010. In 2009, we focused on providing you with as much transparency on the economy as possible. We wanted you to know what our economic data and our customers were telling us.

Earlier this month, we reconvened our panel of economists and industry representatives to get their latest perspective on the economic outlook for 2010. The observations of the panel can be summarized with four major conclusions. The economy seems to have stabilized over the past four to five months, sales of existing cones [ph] have increased and some industrial sectors such as primary metals and chemicals are seeing high rates of capacity utilization.

Economic activity in 2010 will be muted with a GDP growth rate between 2% and 3%. Unemployment will continue to remain high as businesses are reluctant to hire new workers and consumers are hesitant to spend. As a result, there was little enthusiasm on the part of the panel for robust growth in the next six months, but more optimism over the next 12 to 18 months. A sustained economic recovery will require the growth of the private-sector jobs who support consumer spending and industrial production. At least 3% GDP growth will be needed to increase employment.

Worldwide, economic growth and the low value of the dollar are creating export opportunities for manufacturers, which means the Southeast is still better positioned than most other regions of the country. So in conclusion, as we've been saying, a slow recovery slope resembling a Nike swoosh is still the best way to describe this economic recovery.

Turning now to our earnings guidance for 2010. I should note that despite the economic challenges we faced in 2009, we delivered on the guidance range of $2.30 to $2.45 per share. Last January, we expanded the range of our guidance due to the uncertainty of the depth and severity of the recession. Today, while we believe there is less uncertainty over the economy than there was at this time last year, it's important to remember that we are still in early stages of the recovering from this major recession. In addition, we are in the final year of a three-year rate plan at our largest subsidiary, Georgia Power. So for 2010, our guidance range is $2.30 to $2.36 per share, and our earnings estimate for the first quarter of 2010 is $0.42 per share.

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Turning now to our financial goals. To achieve our objective of providing shareholders a superior risk-adjusted return over the long term, our financial plan assumes top quartile ROE performance, which in turn supports a strong stable dividend and industry-leading financial integrity. Our goal is to grow the dividend in a regular, predictable and sustainable manner consistent with a long-term target payout ratio of approximately 65% to 70%, since 2005, we've grown our dividend annually by 4%. Finally in the long term, we remain focused on growing earnings-per-share at an average of 6%.

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

David M. Ratcliffe
Former Chairman & CEO

Thank you, Paul. As you've seen, despite 2009's economic challenges, it's a year of significant operational, regulatory and financial achievement. Furthermore, we budgeted some $14.5 billion over the next three years to continue investment at our traditional business, consistent with our vision of a cleaner fleet of existing facilities, more than 4,000 megawatts of new generation with a lower carbon footprint and a smarter, more efficient electric grid. This commitment reflects our strong and unwavering belief about the long-term future growth and development of our region.

Finally, looking outside of our traditional business, you may have seen the announcement yesterday that we are partnering with a visionary business leader, well-known environmentalist, Ted Turner, to pursue the development of Renewable Energy projects in North America. Southern Company and Turner Renewable Energy, a company owned by Ted Turner, have signed a memorandum of understanding and formed an alliance for the development of Renewable Energy projects in the United States. The initial focus will be on large scale, solar photovoltaic projects. As you may know, that is the largest individual land owner in the United States, and owns approximately 2 million acres of land. The Southern Turner alliance will bring together the project development, financial and operating shrinks of Southern Company, with the land resources and constructive environmental leadership of Ted Turner. We believe the partnership unites two visionary parties in the goal to develop a new generation of energy projects.
At this point, Paul and I are ready to take your questions, so Sarah, we will take the first question.

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Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Daniel Eggers with Crédit Suisse.

Daniel L. Eggers
Crédit Suisse AG, Research Division

On the long term 6% EPS growth rate, obviously you're in the first half of this year is feeling slow. Do you think 6% is the rag [ph] growth rate off of the new 2010 guidance or do you think, wherever we settle out for '11, that's where you're going to see that 6% growth rate?

David M. Ratcliffe
Former Chairman & CEO

Off of 2010 going forward.

Daniel L. Eggers
Crédit Suisse AG, Research Division

And this will be the new baseline and we'll it grow it from here?

David M. Ratcliffe
Former Chairman & CEO

That's exactly right.

Daniel L. Eggers
Crédit Suisse AG, Research Division

As it relates to Gulf, you have no need or plans to file a rate case in Florida given the, there we say, challenging regulatory environment?

David M. Ratcliffe
Former Chairman & CEO

I think, Dan, our objective would be to stay out of that environment as long as we can.

Daniel L. Eggers
Crédit Suisse AG, Research Division

Any lessons to be learned from what we saw in Florida as far as it applies to regulatory proceedings for you guys in the same region, particularly Georgia this year?

David M. Ratcliffe
Former Chairman & CEO

I think the situation in Florida is particularly complex and driven more by the political dynamics than it is the real need to those companies and the regulatory realities. I mean, I think our folks -- one of the things that we've done in the jurisdictions where we've been more active from a regulatory standpoint is a lot of work on the front end to try to create transparency and understanding by commissioners and staff members of the realities of our business. And I think the situation in Florida, with the restrictions on the ability to communicate with commissioners and staff, make that extraordinarily more difficult. So I think we have a better situation in the other jurisdictions than we do in Florida.

Operator

Your next question comes from the land of that Jonathan Arnold with Deutsche Bank.

Jonathan Arnold

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Merrill Lynch

I was wondering -- we noticed that the depreciation charge in the quarter picked up from the third quarter. And I'm just wondering, can you shed any light on how much of the regulatory liability amortization in Georgia you'd may have taken in Q4 and for the year as a whole? And how that calibrates versus think there was a 975 ROE floor?

William Paul Bowers
Executive Vice President

Jonathan, this is Paul. As you know, the reversal allowed for $108 million to be realized in 2009, with the, if you will, 975 retail return target. Georgia Power utilized $36 million of the $108 million in 2009.

Jonathan Arnold
Merrill Lynch

And if I could on a similar topic, as you've calibrated your guidance, what are you assuming in terms utilization of the same mechanism in 2010, and how does that sit with 10.15% ROE?

William Paul Bowers
Executive Vice President

As we look and contemplate this year, we assume that the company will utilize all $216 million to offset operating expenses of the company because of the downturn in revenues. And as I mentioned in the opening comments, when you look at Georgia Power, you have the last of the three-year rate plan. And what we contemplate it in 2009 is to try to avoid at filing of a rate case during these tough economic environment. We were able to strike the deal with the Public Service Commission in terms of looking at ways to mitigate that need. This reversal allows for that $216 million in 2010. And in that, it provided a, if you will, a target of 10.15% ROE on the retail side of the business. Now we're assuming that Georgia Power can come close to getting that 10.15%, and that's what we're targeting for now.

Jonathan Arnold
Merrill Lynch

Is it reasonable to assume, as you didn't use at all in '09, that you did add a 9.75% ROE and that you're more or less guiding to a 10.15% ROE in '10?

William Paul Bowers
Executive Vice President

It's correct to assume that in 2009 because we had some benefit of revenue in the fourth quarter. From a retail standpoint, I can't say it's going to be exactly because we were returning to some normal O&M expenditures for Georgia Power. And I would tell you, we will try to get to the 10.15% where we have scenarios of them earning around '10 in the retail.

Jonathan Arnold
Merrill Lynch

Even with the $216 million?

William Paul Bowers
Executive Vice President

Right.

Operator

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

Leslie Rich
Columbia Management

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Could you give a little color on the wholesale sales number? For the fourth quarter, it was down almost 19%, just sort of what the primary drivers were there? And then, also, what you're seeing in terms of fuel mix. Are you still running your gas plants more than your coal or has that sort of -- that fuel mix change?

William Paul Bowers
Executive Vice President

Leslie, on the wholesale market, primarily the revenues have been driven by lower fuel price, so you're seeing that show up. Also opportunity sales in the marketplace with the decline in the economy just are not there, so that also have an effect. From a standpoint of our dispatch, gas prices did move up in the fourth quarter. So we started seeing coal generation being dispatched ahead of gas. And as we project going forward, that dynamic will change on a day-to-day basis based on the forward prices of both coal and gas. But gas is a little higher, almost $1 higher, than last year.

David M. Ratcliffe
Former Chairman & CEO

I think the other thing, Leslie, is that we got off to a great start with cold weather in the first two weeks of January. And any time you get that kind of demand, I think you may read where we said it. Record-winter peak, it was actually higher than our peak last summer, not a record peak, totally, but it was higher than our peak we had last summer. We got off to a really good start from a load standpoint. That always helps the dispatch because we run everything we got.

Operator

Your next question comes from the line of Steve Fleishman with Bank of America Merrill Lynch.

Steven Isaac Fleishman
BofA Merrill Lynch, Research Division

First, with 2009 and 2010 now being kind of flattish to down earnings years, I think your payout ratio is now above your target-payout range. So should we expect that you might slow the level of dividend growth? Is there a chance you halt the dividend growth? How are you thinking about dividend growth in the payout?

David M. Ratcliffe
Former Chairman & CEO

You should expect us to answer that like we always do, later in the year, Steve.

William Paul Bowers
Executive Vice President

Well Steve, let's do this simple math. When you think about it, the payout ratio for this year, excluding MCAR, our merit settlement, was roughly 75%. And you can go through the scenarios of zero payout, 2% payout, 4%, but it doesn't change that payout ratio that much by going 4& versus 0%. So again, it's purview of our Board, and our Board will be making a consideration of that in April. But again, we have to look at the long-term nature of our business, and our prospective of what we think growth will be in the long term.

Steven Isaac Fleishman
BofA Merrill Lynch, Research Division

And then secondly, just from the standpoint of thinking about equity issuance and what you might need or not need, going forward. Could you give us a sense where the balance sheet equity ratio ended for the company at the end of 2009? And what you're targeting to keep the A rating?

William Paul Bowers
Executive Vice President

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We ended 2009 at 41.5%. From a target standpoint, we're focused on maintaining that A credit quality and that financial integrity. So thinking of the equity is part of that. Like I said in the opening statement, we are focused on maintaining that A credit rating, and we think we can meet our needs through our internal programs, but we have to wait and see what other cash-flow opportunities might present themselves in 2010.

Steven Isaac Fleishman
BofA Merrill Lynch, Research Division

Instead of just looking at one year, I was thinking more in terms of what kind of balance sheet target you might need to keep the A rating with the nuclear build? Do you want to stay 41.5%? Are you targeting 45%, like mid-40s?

William Paul Bowers
Executive Vice President

Between 42% and 43%.

Operator

Your next question comes from the line of Ali Agha with SunTrust Robinson.

Ali Agha

Looking at the fourth quarter results, the effective tax rate looked unusually low at 20.5%. Could you just remind us why that was so low? And what should we assume for full year 2010?

William Paul Bowers
Executive Vice President

Ali, when you look at the tax rate for 2009, overall, for the year, it was 34.4% or effective tax rate, if you will, excluding the merit settlement was about 31.7%. So when you think about our quarter comparison, it's not unusual for us to see lower effective tax rates in a given quarter. While our income is seasonal and you see annual tax deduction that you see for the whole year, so that creates that aberration if you will, from a quarter-to-quarter standpoint. One of the drivers for the fourth quarter was, from a book standpoint, is AFUDC equity. From a CWIP [current-work-in-progress] standpoint, we have increased the CWIP balance by almost a $1 billion. Long term, our tax rate should run around 34%.

Ali Agha

And also, Paul, for the guidance that you've given for '10, can you just also, remind us what is the average share count that you assume for the per-share guidance?

William Paul Bowers
Executive Vice President

We can give you the ending share count, but we're not going to give you the share count for 2010.

Ali Agha

The ending share count for '09 that you have in the release?

William Paul Bowers
Executive Vice President

That's right.

Ali Agha

But you're not talking about the '10 share count?

William Paul Bowers
Executive Vice President

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No, because that will adjust based on the capital spend of the year and the cash flow requirements of the business.

Ali Agha

Right. But ask another way, I guess should we just assume, as you said, that the normal cost of equity issuance from your internal programs is what you're currently expecting will be the case in '10?

William Paul Bowers
Executive Vice President

That's exactly right.

Operator

Your next question comes from the line of Michael Lapides with Goldman Sachs.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

When I just think about the regulated subsidiaries and with the rate relief granted in Alabama, it seems like Alabama would likely to be up pretty decent, year-over-year. Can you talk about whether I'm mistaken in that? And also, which of the subsidiaries could face more challenging times in 2010 versus '09?

David M. Ratcliffe
Former Chairman & CEO

Michael, obviously, you read Alabama right. They had a very good year. They were able to go into the year with rate increase, as you know. But they were working hard to maintain their current regulatory environment, which means to try to stay out of here. There will be some -- I'm sure there'll be some clause [ph] opportunities that occur periodically. But we don't expect any unusual regulatory activity in Alabama. Mississippi, as you know, the biggest thing in Mississippi is the Kemper County decision. I mentioned that we expect about May 1, the hearings beginning next month and Mississippi on that. Obviously, the Georgia rate case. As know, Georgia has a fuel case that's on file now. As we said earlier, we don't expect any activity in Florida with Gulf Power company.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

I may have missed something, I thought Alabama has already gotten a pretty sizable rate relief for 2010, for both the formula rate plan and environmental cost recovery, so that should help 2010 over 2009? And if your guidance was roughly flat year-over-year, which of the ones therefore, face kind of more challenging 2010 versus '09?

David M. Ratcliffe
Former Chairman & CEO

Well clearly, Georgia is the biggest challenge we have. We don't expect activity in Florida and [indiscernible] except what's on the radar stream [ph] Mississippi.

William Paul Bowers
Executive Vice President

From the Alabama Power standpoint, Michael, you really look at them staying within their range. As David mentioned in the opening comments, Alabama has moved 1,200 megawatts of wholesale capacity into retail, which has a downward pressure from a retail-contribution standpoint, but also that keeps them within their range, so that's a benefit. Overall, the customers in Alabama are seeing a decrease in overall rates by almost 7.5%.

David M. Ratcliffe
Former Chairman & CEO

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Driven by the fuel-cost decreases.

Operator

Your next question comes from the line of Abdullah Murphy [ph] from CDPUS[ph] .

Analyst

You mentioned that in addition to the programs that you have, an expectation of some cash associated with the federal stimulus, and the receipt of that would then obviate the need for incremental equity beyond the current plans. Can you tell us what type of number you're currently planning or working on for that assumption?

William Paul Bowers
Executive Vice President

From a bonus depreciation, right now, we have roughly about $200 million, $250 million of benefit from that. There are some other provisions that are being proposed that it can incrementally increase that, and we don't have a final number on that. But there is some opportunities there. Given what we were able to do in 2009, from an equity standpoint looking at 2010, it does reduce our overall equity requirements.

Analyst

So right now you're simply working with the $250 million, and there is no assumption of incremental from there?

William Paul Bowers
Executive Vice President

Not yet, no.

Operator

Your next question comes from the line of Paul Patterson with Glenrock Associates.

Paul Patterson
Glenrock Associates

The demand response expectation for 2010, what was that again?

William Paul Bowers
Executive Vice President

We didn't give it. But as you heard on the call, earlier on our opening comments, when you look 2009 versus 2008, we have basically a negative 25% per share impact from our RTP or realtime pricing or market response rate. When you look at 2010, we were basically looking at a flat year for it with the potential $0.01 upside on that rate.

Paul Patterson
Glenrock Associates

How much was the total amount that was realized in 2009, I know it was $0.25 delta. But what's the baseline, I guess, to think about going into 2010?

William Paul Bowers
Executive Vice President

Roughly when you look at 2009, and this is all-in base rate, including the customer baseline, it is roughly $550 million.

Paul Patterson
Glenrock Associates

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So even with the industrial pickup that you guys see happening, I guess because of the fuel arbitrage and what have you, we just don't see much of a change there, is that the right way to think of that?

David M. Ratcliffe
Former Chairman & CEO

And there's a number of effects on that rate. One is, of course, the fuel aspect of it. But as you go through the year and Georgia increases their fuel component on their fuel cost, that's spread, if you will, between marginal prices and average fuel prices create a squeeze on the margins that RTP can produce. So you are looking at the spread element associated with the contribution to the company.

Paul Patterson
Glenrock Associates

Then on the GDP growth of 3%, you said is necessary, to have positive employment growth. That seems like a quite a high-growth rate that you need to have economically -- if I understood that correctly. I can't see the slides right now, but I think that's what I gather from reading them, and could you just go over that a little bit?

William Paul Bowers
Executive Vice President

Sure, Paul, and it's an interesting point. As I mentioned, we had our economic panel a couple of weeks ago and we had the chief economist, one of the chief economists out of the Atlanta Fed and we had some economists from some of the banks around the region. And one of the points that they made is, when you look at a 2% GDP growth, you remain constant in a 10% plus unemployment rate. When you went to 3% GDP growth, you started moving towards a 9% unemployment rate. And if you went to 4% GDP growth, you started really having an impact on employment rates and it drops below 8%. And that's the driver, if you will, in terms of creating the economic opportunity for citizens to get jobs.

Paul Patterson
Glenrock Associates

Is that because the workforce is growing a lot? It does sounds like that's seems the credit strong growth rate that you need to get a decrease in unemployment?

William Paul Bowers
Executive Vice President

What the other point that they made is, in the interim, Jill [ph], we get to sustain economic activity that most of the factories are going to just increase the hours work, not the number of jobs created. So that's what's going on is, in particular, one of the companies from the steel-manufacturing standpoint, is that we're going to drive up hours work. And then once we see a sustained economic growth and demand of our product, then we'll add the jobs. So in the short term, that's what's going to happen.

Paul Patterson
Glenrock Associates

So basically, this is what you would need to see in the short term as time goes on, if you would have a lower growth rate theoretically, your unemployment rate would begin to tick down over time, I would think, correct? Even if there...

William Paul Bowers
Executive Vice President

That's correct.

Paul Patterson
Glenrock Associates

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Then finally, Ted Turner, other than being a big landowner, what exactly is the -- what does he actually bring to the table, I guess? And what do you expect to come out of this? How should we think of this JV, so to speak?

David M. Ratcliffe
Former Chairman & CEO

Well there are three things that, in my judgment, Ted brings. One is he has, as I said, a great reputation as being an environmentally-conscious businessman and willing to invest money. He certainly has money to invest, number two. And third, as we said, he has the largest private land holdings in the United States. And they are in excellent places for renewable energy in the form of wind and solar, unlike what we have in the Southeast. So the fact that he is a neighbor and a friend from a business standpoint, made that an easy conversation for us to engage in. I think you also are probably aware, I think we said it in the press release, that they had some experience with, for solar, as one of the leading suppliers in the world of thin-film solar photovoltaic technology. So all of that comes together to provide a fairly unique partnership from their standpoint.

Paul Patterson
Glenrock Associates

And then in terms of what is contribution will be to you guys? When do you think it would be something that would be noticeable on a rather large share base and what have you? When do you think we should see something come out of that I guess, from a shareholder perspective?

William Paul Bowers
Executive Vice President

When you look at some of the projects we have evaluated, really is not going to make that much of a difference, in terms of our overall growth. It's going to be over a long-term, when we get into larger projects, that you will start seeing some contribution. Let me make another point associated with what David said, as you look at the different technologies in renewable, solar fits better for us in terms of deployable in this region. It has performance guarantees from the manufacturers that guarantee the output versus wind where it's more volumetric and you're taking a lot of risk in terms of any type of contract you get on the offtake. So this really does set us up well going forward, from a solar-exploration standpoint.

Operator

[Operator Instructions] Your next question comes from the line of Glen Bechtold [ph] with Raymond James.

Analyst

I missed your first quarter '10 guidance, what's the number?

William Paul Bowers
Executive Vice President

It's $0.42.

Analyst

And how much of that will come from industrial? You said it's going to be a challenging time with the economy and jobs. How much of that $0.42 comes from industrial sales?

William Paul Bowers
Executive Vice President

Glen, we didn't break it out that way. We look at our traditional operating company. What we did say for 2010, that we're expecting growth in our industrial sales sector for the year of 2.6%, year-over-year.

Analyst

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Compared to minus 11.7% negative from last year? So basically minus, let me have this correct, minus 9.1%?.

William Paul Bowers
Executive Vice President

Right. If you look at -- you go off of 2008, you still have a lower sales volumes in the industrial sector versus the 2008 baseline.

Analyst

And secondly is how do you see the demand in the private sector upcoming for this quarter? You said that you had a good start with having the cold winter the first two weeks, but going forward?

David M. Ratcliffe
Former Chairman & CEO

I think we said overall, we're planning for about 1.8%, total growth.

William Paul Bowers
Executive Vice President

1.8% overall sales growth. When you look at, Glen, the question about general demand out there, weather has an effect on that. But when you look at normal weather over the year, you have modest growth at 1.8%. You have some sectors performing better than others. Industrial, a little bit better than residential. Residential growth, about 2.5%. Now go back to your point about of what baseline, residential is showing growth over 2008, which was a positive year.

Analyst

Last question would be in terms of possible acquisition, trying to write a little bit of color in terms of possibly getting a little bit more in natural gas?

David M. Ratcliffe
Former Chairman & CEO

Don't have any plans.

Operator

Your next question comes from the line of Angie Storozynski with Macquarie Capital.

Agnieszka Anna Storozynski
Macquarie Research

I have two questions. One, about your cost-containment efforts. It sounded like a portion of your cost was simply delayed in time and simply, they will be incurred in 2010? And is that embedded in your guidance? And secondly, your assumption for growth, especially for retail, 1.8% and then looking at the weather-adjusted sales, they were down only about 0.7%. And while I can understand the industrial pickup driven by exports, why would we think that migrations should resume into Georgia or into the other southeast?

David M. Ratcliffe
Former Chairman & CEO

Angie, I'll start with cost-containment, first. We began the year, as we talked about in earlier calls, a pretty aggressive effort to try to minimize O&M cost. Remember that we had our hiring freeze, and also decided not to grant any base salary increases. We did pretty significant work in our supply-chain management area and in other areas. You're right in that some of the effort was simply to postpone expenses, so that ultimately, you have to do maintenance or you have to do vegetation management. And if you look at our numbers that we've put together this year for O&M, as Paul said, we're returning for a normal levels of O&M. For example, we're moving back to normal salary increases, and we are also back to normal O&M levels on our fleet and on our transportation and distribution system. So we can postpone things for a

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while. We will continue to maintain our vigilance around the opportunities for productivity and efficiency and delaying or trying to avoid to travel and meeting expenses and things like that. So we want to be aggressive about cost containment. But the fact of the matter is that the O&M levels have to go back up to more normal levels.

William Paul Bowers
Executive Vice President

And Angie, going to the other parts of your question around migration and growth. When you look at the industrial sector, we can point to you some specific expansions and/or new facilities. Kia is now up and running. You have expansions at Chevron, you have a steel-manufacturing facility that will come online in 2010 in Alabama. So you have those activities. Honda has announced that they're bringing the Accord production into the facility in Alabama. Mercedes is going to have the new C-Class line come into Alabama. You have plants that have made some modernization investment that were off-line during 2009, now are coming back online in 2010, so there's job creation. But migration really never stopped, it's at that of level that it was coming in. Our household creations outpaced the U.S. by almost 30%. That's what we've seen on the excesses in the residential market in terms of inventories. We had a high of 4.5% inventory volumes. Now we're down about 3.5%. So that household creation and inward migration is taking care of some of those excesses in the marketplace. So that's why we say, residential should start seeing positive growth in 2010.

Agnieszka Anna Storozynski
Macquarie Research

Is there a chance you could guide, for instance, give us some sort of sensitivity, ways for instance this growth is not for all of the retail sales is 1.8% right? So what is such 1% -- what kind of an impact does it have on your guidance?

William Paul Bowers
Executive Vice President

Well that's why we gave you the range on the guidance of $230 million to $236 million with a midpoint of $233 million. The down side would be exactly that, what if the sales don't materialize?

Agnieszka Anna Storozynski
Macquarie Research

So the down side assumes flat sales?

William Paul Bowers
Executive Vice President

The down side assumes negative sales that we don't achieve the 1.8%.

Operator

Your final question comes from the line of Michael Lapides with Goldman Sachs.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Just a clarification on O&M. If I think about O&M from '09 to '10, how should I think about either the dollar million or the percentage increase year-over-year, consolidated or corporate-wide?

William Paul Bowers
Executive Vice President

When you look at -- the better -- the best way to look at it from a '08, '09, '10 perspective, you have a growth rate of about 3.10% [ph].

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

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Meaning from '08 to '09 and then '09 to '10 like on the average, it's 2.7% because '09 is down from '08, right?

William Paul Bowers
Executive Vice President

That's right, that's the best way to look at it. Michael, I also need to tell you roll the pad [ph].

Operator

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

David M. Ratcliffe
Former Chairman & CEO

Sarah. Thanks for all of you for joining us this afternoon. We look forward to the first quarter earnings op key [ph] later in the year. Thank you.

Operator
Ladies and gentlemen, this does conclude the Southern Company Fourth Quarter 2009 Earnings Call. You may now disconnect.

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