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The Southern Company NYSE:SO

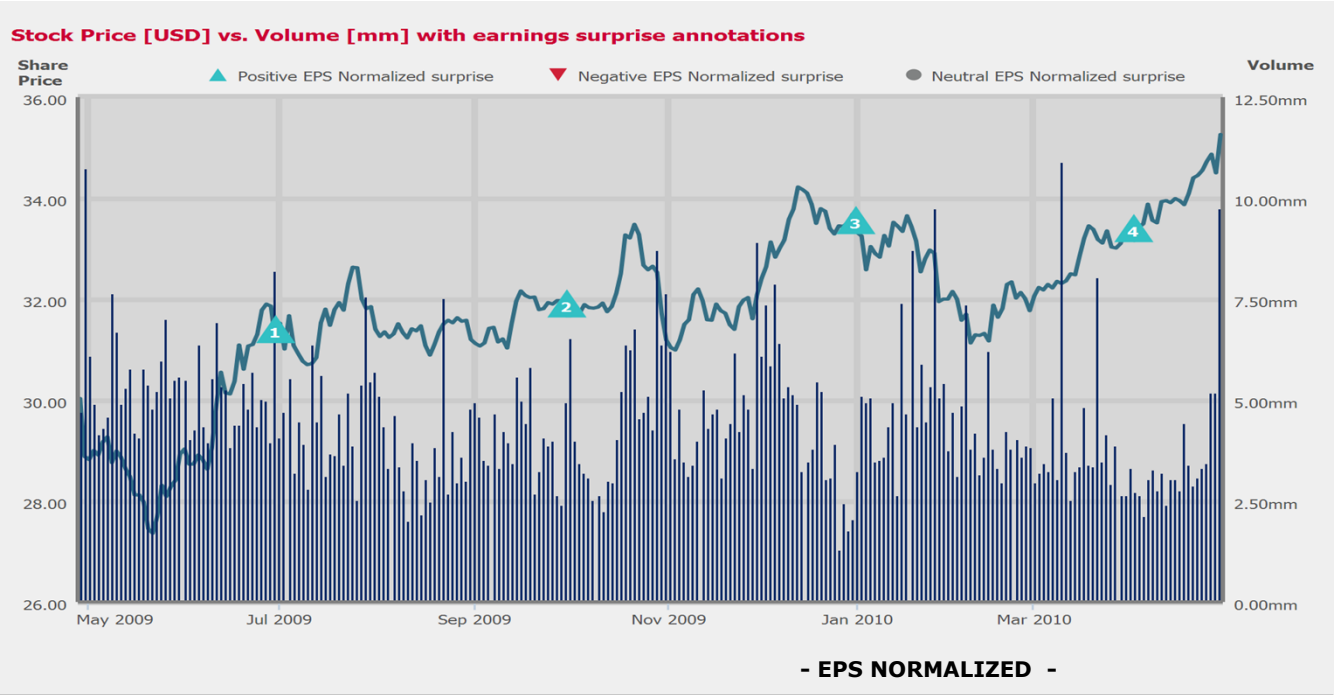
FQ1 2010 Earnings Call Transcripts

Wednesday, April 28, 2010 5:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2010-			-FQ2 2010-	-FY 2010-	-FY 2011-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.44	0.60	▲36.36	0.61	2.36	2.50
Revenue (mm)	3723.11	4157.00	▲11.65	4242.33	16906.12	17860.16

Currency: USD
Consensus as of Apr-28-2010 2:21 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2009	0.57	0.61	1 7.02 %
FQ3 2009	0.98	0.99	2 1.02 %
FQ4 2009	0.30	0.31	3 3.33 %
FQ1 2010	0.44	0.60	4 36.36 %

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Call Participants

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Former Chairman & CEO

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Vice President, Investor Relations

William Paul Bowers
Executive Vice President

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Presentation

Operator

Good afternoon. My name is Rachel, and I will be your conference operator today. At this time, I would like to welcome everyone to the Southern Company First Quarter 2010 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, Rachel, and welcome to Southern Company's first quarter 2010 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 in our Form 10-K and subsequent filings. We'll also be including slides as part of today's conference call. These slides provide details on the information that will be discussed in today's call. 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 all of you for joining us. Our excellent first quarter results were significantly influenced by weather and the slow but steady economic recovery here in the Southeast. On January 11, we set a new winter system peak demand of 37,224 megawatts. The average temperature across our service territory that day was 18 degrees. This winter peak surpassed our 2009 summer peak of 36,505 megawatts. As you know, our peak period on the southern system normally occurs in the summer. I'm pleased to note that our generation and transmission system performed extremely well during this period for our 4.4 million customers.

Since our last earnings call in January, we've had some significant new developments related to our two new nuclear units under construction at plant Vogtle. In February, the Department of Energy announced that Georgia Power has been offered a conditional commitment for loan guarantees for the construction of Units 3 and 4 at Plant Vogtle. Both the Georgia Public Service Commission and the Georgia Legislature have been very supportive of our plans to build the nation's first new nuclear plant in more than three decades. We believe that the administration support for the nuclear energy is vital in helping meet our nation's future energy requirements.

Under the current DOE schedule, we have until mid-May to accept the nonbinding conditional commitment. Discussions are underway to secure a one-month extension to the schedule, which will give us additional time for further due diligence.

The loans are expected to cover approximately 3.4 billion or 70% of Georgia Power's eligible projected cost for Plant Vogtle. It's important to note that the execution of the loan guarantees and actual borrowings will not occur before the Nuclear Regulatory Commission issues the combined construction and operating license for the project. Although specific numbers cannot be determined yet, we expect the loans will save us approximately $15 million to $20 million per year. The loans will benefit our customers

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and the company through interest savings, as well as providing approximately $3.4 billion of committed debt financing.

At this point, I'll now turn the call over to Paul Bowers, our Chief Financial Officer, for a discussion of our financial highlights for the first quarter and our earnings guidance for the remainder of 2010.

William Paul Bowers
Executive Vice President

Thank you, David. As you mentioned, we are off to a good start this year. In the first quarter of 2010, we reported $0.60 a share compared with $0.16 a share in the first quarter of 2009, or an increase of $0.44 a share. The 2009 result includes a merit litigation charge of $0.26 per share. Excluding the 2009 merit charge, our earnings were $0.60 per share in the first quarter of 2010, compared with $0.42 per share in the first quarter of 2009, or an increase of $0.18 per share.

Let's turn now to the major factors that drove our first quarter numbers compared with the first quarter of 2009. First, the negative factors. Non-fuel O&M reduced our earnings by $0.03 a share in the first quarter of 2010 compared with the first quarter of 2009. Increased maintenance costs for our fossil hydro fleet , where five of our flagship units underwent scheduled maintenance in the first quarter of 2010, compared with one unit in the first quarter of 2009. Total plant outage days in the first quarter of 2010 were 94 compared to 11 outage days in 2009 for these large units.

At Southern Power, the expiration of contracts for two combined cycle units in Georgia reduced our earnings by $0.02 per share, compared with the first quarter of 2009. One of these units will be under contract beginning in June 2010, while the other unit will be sold into the spot-and-forward energy markets. It's important to note, however, that 84% of Southern Power's generation is currently under long-term contracts. Finally, an increase in the number of shares outstanding reduced our earnings by $0.03 a share in the first quarter of 2010, compared with the first quarter of 2009.

Now let's turn to the positive factors that drove our earnings for the first quarter of 2010. Colder-than-normal winter weather in the first quarter added $0.10 per share to our earnings for the period, compared with the first quarter of 2009. The first quarter of this year was the third coldest in more than 100 years for the southeast United States. The average temperature was 5.4 degrees lower than the 15-year average, resulting in a 10.3% increase in total energy sales as compared with the first quarter of 2009. Increased usage and better-than-expected economic activity, primarily in the industrial sector, added $0.03 a share to our earnings in the first quarter compared with the same period in 2009.

Other revenue effects in our Traditional business added a total of $0.04 a share to our earnings in the first quarter compared with the first quarter of 2009. This impact was driven primarily by revenue changes related to the recovery of environmental expenses and other investments at our operating companies.

Depreciation and amortization added $0.04 per share to our earnings in the first quarter of 2010, compared with the prior period. This increase was driven primarily by amortization of excess cost of removal obligations at Georgia Power approved by the Georgia Public Service Commission last year.

Increased wholesale sales and transmission revenues in our Traditional business added $0.03 a share to our earnings in the first quarter of 2010, compared with the same period in 2009. Recondition of certain State of Georgia tax credits added $0.02 a share to our earnings in the first quarter of 2010, compared with the same period in 2009.

In conclusion, we had $0.08 of negative items compared with $0.26 of positive items, or a positive change of $0.18 per share over the first quarter of 2009, excluding the 2009 merit settlement charge. So overall, our quarter came in at $0.60 per share.

Before I discuss our earnings estimate for the second quarter, I'd like to update you on the economy, our dividend policy and regulatory issues. The improving economy saw industrial sales increase by 6.7% in the first quarter of 2010, compared with the first quarter of 2009. Quarter-over-quarter, the most significant increases were in primary metals, up 35.5%; transportation, up 13.6%; and chemicals, up 9.5% as compared to the first quarter of 2009. The increased consumption by the primary metals sector reflects an

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improved demand for rolled steel by the transportation sector and steel piping for gas and oil exploration. In addition, the new ThyssenKrupp steel facility in Alabama has begun receiving steel slabs from Germany for processing.

All of the major automobile manufacturers in our service area are reporting stronger demand for their products. Year-over-year production at Honda has doubled. Hyundai has increased production by 65%, and Mercedes has increased output at its facility by 1/3. The Kia plant in West Georgia is now in full operation, whereas in the first quarter of 2009, it was still preparing to start up production.

Adjusting for weather, residential sales increased by 1.6% in the first quarter of 2010 compared with the same period of 2009. Building permits are up by 4.5% in the first quarter of 2010 compared to the same period last year. This increased activity showed influence in new connect, which we believe have bottomed out at an annual rate of 24,000. This activity combined with the fact that household creation in our service area is outpacing the U.S. by 40% and should result in positive customer growth for the future.

As expected, commercial sales remained our weakest sector, declining 0.3% on a weather-normal basis in the first quarter of 2010 compared with the first quarter of 2009. Customer growth in the commercial sector had seen a year-over-year decline as many small businesses have closed their doors as a result of this recession. The vacancy rate for offices of 22.6% has increased slightly from the year ending 2009 rate of 21.5%, due in part to the opening of three new commercial high-rise buildings in Atlanta, adding to an already oversupply of market for office space.

On the positive side of commercial sales, electricity demand by data centers is up 6.9%, reflecting the decision to locate these businesses in the southeast due to lower costs and reliable supplies of energy. In addition, electricity consumption by hotels increased by 11.2%, which indicate that convention activity and business travel has begun to increase.

In summary, the residential and commercial sectors are performing according to our forecast. Sales to the industrial sector in the first quarter are ahead of plan. However, it should be noted that a comparison to the first quarter of 2009 reflects a period in which industrial sales were experiencing a significant impact from the recession.

Now I like to take a few minutes to discuss our dividend increase. As you may have seen last week, we announced a 4% annual dividend increase effective with our second quarter dividend payment in June. The dividend is now $0.455 per share on a quarterly basis and $1.82 per share annually. This marks the 250th consecutive quarter that Southern Company has paid a dividend to its common stockholders. In fact, every year for the past 62 years, Southern Company has paid a quarterly dividend equal to or higher than the previous quarter's dividend. Our decision to raise the dividend this year reflects our confidence in the long-term future of our business.

While we are comfortable operating in its 75% payout range, our long-term objective remains to achieve a payout ratio at or below 70%. Our dividend and our long-term earnings per share growth, coupled with the stable A credit rating, are key components of our overall value proposition.

Finally, the last item addresses two system regulatory issues. As you may know, Georgia Power's current three-year rate settlement will expire on December 31 of this year. Georgia Power will file a new rate case on July 1. We expect a six-month proceeding with a decision sometime in December. As always, we will keep you updated on the progress of this important matter.

In Mississippi, the Mississippi Public Service Commission is expected to issue an order by Monday on our proposal to construct a 582-megawatt coal gasification facility. The commission has already approved the need for the additional capacity. This decision concerns a type of generation that will be built to meet that they need. We will, of course, communicate that decision to you after receipt of the commission's order.

Turning now to our earnings guidance for 2010. Our first quarter results exceeded our estimate by $0.18 a share. As we've discussed, the quarter was largely influenced by weather and, to a lesser extent, the gradual economic recovery we are seeing here in the southeast. We are, to be sure, off to a good start in 2010. However, questions remain about the strength and sustainability of the economic recovery. As you know, the majority of our earnings are derived in the warmer months during the second and third

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quarters. Therefore, our guidance will remain at $2.30 to $2.36 per share. Finally, our estimate for the second quarter is $0.56 per share.

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

David M. Ratcliffe
Former Chairman & CEO

Thank you, Paul. As Paul outlined, we're off to a good start in 2010. The economy, as shown by sales to industrial customers, appears to be gaining strength and momentum. While we're optimistic, we're still mindful that we're still in the early stages of this economic recovery.

In January, you might recall that we announced a strategic alliance between Southern Company and Ted Turner to proceed development of a renewable energy project in the United States. Last month, Southern-Turner partnership announced the Cimarron Project, a 30-megawatt facility capable of supplying electricity to 9,000 homes. That will be one of the nation's largest solar photovoltaic power plants. The plant will be built by First Solar Inc. and located in Northern New Mexico. The output from this facility will serve a 25-year power purchase agreement with the Tri-State Generation and Transmission Association.

The Cimarron Project is an example of our entry into renewable energy projects, which fit our overall business strategy and risk profile. We will take a measured and disciplined approach to potential growth in this business, while remaining true to the business model that we use in Southern Power, that is, long-term contract for output with credit-worthy counterparties.
At this point, Paul and I are ready to take your questions. So, Rachel, we'll now take the first question.

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Question and Answer

Operator

[Operator Instructions] Your first question comes from Rudy Tolentino with Morgan Stanley.

Gregory Harmon Gordon
Morgan Stanley, Research Division

Actually, it's Greg Gordon. What factors in the data that you see at the end of the first quarter are those that give you the most pause in terms of not wanting to sort of annualize the momentum you're seeing in sales until you actually see some traction going into second or third quarter in terms of earnings guidance?

David M. Ratcliffe
Former Chairman & CEO

This is David. I think from my perspective, we saw great results as Paul indicated from the primary metals sector. And associated with that, the transportation sector, which sort of says this is part and parcel of the automotive rebuild and restock, if you will. What I want to see is continued expansion of that into the rest of the industrial customer base. I'd like to see the typical industrial supplies to the residential portion of our customer base begin to gear up. We think, as Paul said, that the residential situation has bottomed out, and we're back on a positive note. We talked about our rate of 24,000 new connects. That's a long way from where we were several years ago, a couple of years ago. So I'd like to see a little more strengthening across the entire industrial -- I know that if we get the consumer re-engaged in automobiles and housing, then obviously that industrial sector will follow. We also know that the commercial sector typically is the last to go in and the last to come out. So we would expect, as we've said, for it to continue to be fairly stagnant, even decline some more before we see it rebound, hopefully, late this year or early next year.

William Paul Bowers
Executive Vice President

Greg, additional make to that is when you look at the Transportation segment, we saw an increase in production of over 73% across our automobile manufacturing facilities. However, when you look at the industrial sales overall, we're still below the '08 peak period. And that's one of the items that we're really watching.

Gregory Harmon Gordon
Morgan Stanley, Research Division

One other question on the regulatory front. Can you refresh our memories on what the sort of flexibility of the process is in terms of -- I know that historically, you had the ability to file for accounting orders instead of base rate cases. Do you still expect to go through a formal base rate making process here, or is there a possibility of a settlement? And if so, at what point in the process does that become viable as we sort of gear up to monitor your process in going through this rate-making year? What are the milestones we need to look for and what flexibility do you have in the process?

David M. Ratcliffe
Former Chairman & CEO

Greg, we will always, and as we have in the past, we'll always file a traditional rate case. We may also file for alternatives to that, such as an accounting order. But it's hard to say what the milestones will be. Obviously, when we file, it would be a period of interrogatories and questions. And then they'll schedule the public hearings. I think when we get to the public hearings, probably in the September-October timeframe, that's when you'll all see what the mood is and the temperature is.

Operator

Your next question comes from Jonathan Arnold with Deutsche Bank.

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Jonathan P. Arnold
Deutsche Bank AG, Research Division

I was just wondering, I may have missed this, I apologize, but the drivers in Southern Power is a couple of cents in the quarter. But when you actually look to the net income numbers, it was down very materially percentage-wise. Could you just help frame that a little bit?

William Paul Bowers
Executive Vice President

Jonathan, when you look at Southern Power as compared to last year, you have two units that Southern Power that came off-contract. One of those units will not go back on-contract until June. So you have a period where these two units are just uncovered.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

So this is kind of consistent with expectations?

William Paul Bowers
Executive Vice President

Exactly.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

And then I'm wondering if David might provide us some insights into what your expectations are regarding potential revival of the tripartite climate after recent events?

David M. Ratcliffe
Former Chairman & CEO

Jonathan, my crystal ball is not any better than yours there. I think obviously, the dynamic in the Senate is pretty fluid. And you've read all the commentary. I think the question is whether that leaves the area where we'll re-engage in the discussions. And even if he does, remember, that's still a very steep hill to climb in a short period of time. They've made significant progress in making what came out of the house much better. But we've said very clearly at this point this has all been very behind the scenes discussions of concepts. And we haven't seen any legislative language. We've been clear as a company, as an industry that until we get the actual legislative language, which they had talked about, releasing this week as opposed, that was prior to sort of the derailment they had over the weekend. Until we get that, it's awfully hard to get comfortable that we actually understand the specifics of what we think has been improved. That means that it's going to be difficult to keep this on track in a short period of time. I think they have something like 40 to 45 legislative days left. They say they're going to try to do this in immigration. Remember, this has to be scored through the OMB process. So it's got a long way to go, even if Lindsay does re-engage.

Operator

Your next question comes from Ali Agha with SunTrust Robinson.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Paul or David, come back to Georgia Power and the way 2010 is supposed to work as I understand it, you've got the amortization that you can take out. And then you have an ROE threshold as well, which I believe gets tooled up at the end of the year. So it appeared to me that in the first quarter, you had the best of both worlds. The amortization was taken out, as well as the strong sales. And I'm just wondering as you look through the year, are we in a situation where either you run into that ROE cap or you have to stop using the amortization deduction, given the strength we saw in the first quarter?

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William Paul Bowers
Executive Vice President

Absolutely. And finally, you have that opportunity. As last year, if you recall, we had in the fourth quarter an adjustment that we didn't use all that opportunity among those CLR or this call to removal amortization. So you do have the potential depth of this year.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

But it's fair to say if we were to annualize our Georgia Power under the first quarter that you probably would have been above that threshold, the ROE threshold?

William Paul Bowers
Executive Vice President

No. And remember this year we have $216 million or $54 million per quarter that is amortized. And as you look at the stream of activity one, being the O&M spend at each one of the companies, there is from plan, they're a little bit below plan on O&M spend. So when you true up O&M spend, I can't make that assumption at all.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

One other question going back to Mississippi Power and the IGCC project, obviously we'll get some clarity on that by early next week. But is your sense, I mean that is the commission relatively favorably inclined to the IGCC option based on the hearings and the feedback, et cetera? Can you give us some color on how you think it's positioned there?

David M. Ratcliffe
Former Chairman & CEO

I think it is positioned extraordinarily well. I think Anthony Topazi and the Mississippi Power team has done an outstanding job of a very thorough presentation of the opportunity. It has all the kind of benefits that you would want from this kind of project. We think it is positioned very, very well. The industrial customers and the co-ops are very supportive of going forward with the project. So I don't know that there's anything else we can do. But as you know, this is a process of the three people, who are commissioners, have to decide. And until they decide, there is not much way to predict.

Operator

Your next question comes from Michael Lapides with Goldman Sachs.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

First of all, can you talk a little bit of guidance just year-over-year 2010 versus '09 expectation for consolidated O&M cost? And second, can you talk a little bit about what other rate actions you have coming up across your jurisdictions outside of Georgia?

William Paul Bowers
Executive Vice President

Okay, when you look at O&M, Michael, we have, as you recall on the January earnings presentation, the O&M's cost escalation would increase approximately 2.7%, if you look at annual growth rate from, '08, '09 and '10. We look at '09 to '10, and you see the amount of maintenance activity that we have within the system, it's approximately 12% to 13%. It all depends on how you want to treat environmental O&M, but there is escalation between '09 and '10 of that much. The other piece, as you recall in '09, we were focused on reducing O&M significantly to manage, if you will, the activities of the business to ensure that we provide earning stream that meets our guidance. The other item that I will address is really that, when

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you look at normal O&M, go back to the escalation rate, that's really the normal activity we have on year-by-year basis, with an escalation of 2.7%.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

So it strikes me that the year-over-year hike between '09 or '10 is much greater than the normal. Just a little bit surprised because when I look at the first quarter O&M, to be blunt, we came in well above your expectation -- where you guys actually reported, and I just wanted to know if we are missing a big picture trend or is this just a quarterly fluctuation, not having as big of an increase as we would've thought?

David M. Ratcliffe
Former Chairman & CEO

Let me just add to what Paul said. By definition, we made a conscious decision to move some of the maintenance that would normally have occurred in '09 in to the first quarter of '10. What Paul said was we should be back on a more normal track of routine O&M, so...

William Paul Bowers
Executive Vice President

The other piece, Michael, that Georgia Power, as you recall, we had a voluntary attrition program that also was enacted in 2009. So the benefits are now showing up in the first quarter as well.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

And can you address any potential rate filings or rate actions in the coming 12 months outside of Georgia?

William Paul Bowers
Executive Vice President

When you look at end of year, you have the process within Alabama that starts the RSC, the rate stabilization and equalization filings, that will be at the end of the year. We have the same going on in Mississippi with their PEP filing. And then, you have cost filings at Gulf Power, better-than-normal process they go through every year.

Operator

Your next question comes from Paul Ridzon with KeyBanc.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

You're looking for a down quarter in the second quarter, can you talk about some of the drivers?

William Paul Bowers
Executive Vice President

We are not expecting a down quarter in the second quarter, Paul. When you look at the second quarter of last year, we had lease revenues that provided some uplift to the $0.61 that we achieved in the second quarter. And we had $0.03 of weather in the second quarter of 2009. So you take those out, we're within the same bandwidth of what we did last year.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

Yes, $0.03 of favorable weather relative to normal last year.

William Paul Bowers
Executive Vice President

That's right.

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Operator

Your next question comes from Steve O'Connell [ph] with UBS Investments.

Analyst

$0.10 of it because of the cold weather, so that would lead me $0.60 minus the $0.10, that'd be $0.50. So that will be about 20% upside from the $0.42 that you were expecting for this quarter, if my math is correct. Obviously, you can't control weather. How much of that, I guess, upside would be from the industrial production, because last quarter, it was down about 11.7%, industrial sales? So I guess I'm just looking for some color in terms of, if industrial production will, hopefully, as the economy gets better, increase as you've seen a little bit with the numbers you reported for the automobile industry and the re-engagement in the housing sector, what could that do to your earnings per share going forward?

William Paul Bowers
Executive Vice President

Dave, you want me to get my crystal ball out for that one? When you look at the...

Analyst

Or another way to phrase it is, if you were down 11.7% last year, year-over-year, how is it this year? I assume that the industrial sales are getting better.

William Paul Bowers
Executive Vice President

Yes, Dave, when you look at our industrial sales forecast for 2010, we said that the industrial sales will increase by 2.6%. But then if you compare that increase to 2008 actuals, that would show still a decline of 3% in overall sales. So we are now seeing more positive sales growth in our industrial sector, but I want to be cautious about being too optimistic about that sustained growth.

Operator

Your next question comes from Danielle Fits [ph] with BEDIC Research [ph].

Analyst

I was just curious, what does it cost in the plant, that project in Mississippi? Just wondering, what was the cost per kilowatt?

William Paul Bowers
Executive Vice President

The total cost of the project is $2.4 billion. Average cost for the plant's in the $3,500 a kW.

Analyst

And same thing for the solar plant that you're planning with Ted Turner?

David M. Ratcliffe
Former Chairman & CEO

No, we really don't have any numbers on that, that we'd make public.

Operator

Your next question comes from Annie Tsao with AllianceBernstein.

Annie Tsao
AllianceBernstein

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Can you give me more color in terms of your commercial sales, in terms of kilowatt sales? You mentioned on the call that, that's the sector you still see some weakness. Do you see that bottom out or you see continued weakness going forward?

William Paul Bowers
Executive Vice President

Annie, if you recall, when we set the forecast for 2010, we said that the sales year-over-year would increase by 0.5% in our forecast. If you were to normalize the first quarter, we're down 0.3%. So relatively, we're on target to our forecast. There are some sectors that are showing some improvement. However, there are the big sectors, if you will, in terms of their overall sales in the commercial sector that are still very weak. I want to point out that grocery store segment is down 2.2% year-over-year.

Operator

Your next question comes from Paul Patterson with Glenrock Associates.

Paul Patterson
Glenrock Associates

I hope I didn't miss this, but the ROE in Georgia last 12 months, could you give us a flavor for that?

William Paul Bowers
Executive Vice President

Paul, when we look at the ROE for Georgia, remember, we had the cost of removal account that was approved by the Georgia Public Service Commission with a 9.75 cap for them on a retail basis. So that's what they earned in retail for the company last year. And then, you add 110 basis points to that for the wholesale activity. So roughly, right at 11%.

Paul Patterson
Glenrock Associates

Can you give us any flavor for -- I know that we're talking a little ways away on the upcoming rate case. But can you give us a sense as to what you'll be looking at in terms of the potential, I guess, increase? Or how we should think about the ROE going into that rate case, or projected forward test year issues or anything that we should be thinking about?

David M. Ratcliffe
Former Chairman & CEO

It's too early to really get into that discussion. The Georgia folks are still working on the details of the filing. So I think we ought to wait until we actually make the filing. When we make the filing, we probably will have a separate call just to go over the fundamentals of the filing.

Paul Patterson
Glenrock Associates

Has there been any change in the RTP outlook or -- with this sort of this boost in industrial usage and all the other many factors that go into RTP, which is sort of hard for us to -- at least hard for me to model. Could you give us a sense if there's any change in that? Or if you guys have pretty much thought the same outlook as you had earlier?

David M. Ratcliffe
Former Chairman & CEO

Paul, it's pretty much the same outlook. As you recall, in January, we said it'd be relatively flat to a positive $0.01 for the year. If you look at the first quarter, it's $0.02 on an earnings per share basis for the quarter. And that's really driven by just increased usage.

Operator

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Your next question comes from Dan Jenkins with State of Wisconsin.

Dan Jenkins
State of Wisconsin Investment Board

I was wondering if you could update us on how much CapEx you spent in the first quarter. And then, how lumpy do you expect that spending to be going forward?

William Paul Bowers
Executive Vice President

When you look at the first quarter, Dan, we spent $1.1 billion. And it really is lumpy relative to the addition of new environmental projects coming online and the spending curve of Plant Vogtle as well.

Dan Jenkins
State of Wisconsin Investment Board

Will it mostly be in the second and third quarters? Is it somewhat seasonal due to the construction? Or how should we think about that?

William Paul Bowers
Executive Vice President

No, it is for the year. We're spending for Vogtle about $700 million for the year. And it really just a timing question. It's not back-end loaded or summer loaded. Projects associated with Kemper County, you'll see costs of about $341 million during the year. You have projects associated with environmental controls that are sort of close to $600 million per year. So it's really the timing. First part of the year, January through April, you'll see the major capital expenditures around environmental. And then, during the latter part of the year, you have the environmental CapEx spend. Transmission, distribution is relatively spread throughout the year, except for the summer months. That's when you do not want to mess, if you will, with the lines during our peak period of use.

Dan Jenkins
State of Wisconsin Investment Board

Kind of related to that, what's the financing plans? Will it kind of correlate with the CapEx plans or...

William Paul Bowers
Executive Vice President

When you look at our slides, in the appendix, we have an update on where we are relative to the capital that we've spent plus the financing of that capital. We have gotten to -- for debt financing, we have achieved roughly $525 million so far this year on a basis of $1.6 billion that we'll need for the year.

Dan Jenkins
State of Wisconsin Investment Board

I'm trying to get a little more color on the industrial. I think you mentioned that you have Kia plant that wasn't in production last year that's now in full production and then a steel plant in Alabama. How much of the additional industrial sales is related to those new facilities as opposed to just increased demand from prior customers? Do you have a sense?

William Paul Bowers
Executive Vice President

Not much, Dan. Most of the demand is from our prior customers. Kia, if you look at it on a quarter-by-quarter basis, it's a huge number, almost 426% increase year-over-year. So that tells you about the ramping up during the year until the fourth quarter, when Kia came online. But in general terms, those kilowatt hours for those automobile manufacturing facilities are not real arge in terms of total megawatts that we produced for industrial sector. The chemical sector, your pulp and papers group and the steel group are the primary drivers, overall for us, in terms of our sales.

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Dan Jenkins
State of Wisconsin Investment Board

And then the last thing, I was wondering, I just want to verify, I thought I heard you say that you did more maintenance in the first quarter on the fossil plants, that some things that maybe have been deferred in '09. Is that pretty much caught up in? Are you saying the maintenance, going forward, will pretty much be comparable to what we saw in '09 for the last quarters?

William Paul Bowers
Executive Vice President

Well, Dan, it will not be comparable to '09. We're back on schedule in terms of our overall maintenance plan for the company relative to our plants and our distribution, transmission activity.

Dan Jenkins
State of Wisconsin Investment Board

How should we think about them comparing 2010 to 2009 going forward? Is what we saw in the first quarter similar to what we'll see going forward?

William Paul Bowers
Executive Vice President

Again, some of that is timing. But go back to the response we just had on O&M spend, when you look at our O&M spend on an annualized basis over '09, it's going to be increasing by 13%. Again, we're back on the average. If you look at '08, '09 and '10, that's 2.7% compounded average annual growth rate if you take the '08 and compound it, 2.7%.

Operator

[Operator Instructions] Your next question comes from Nathan Judge with Atlantic Equity.

Nathan Allen Judge
Atlantic Equities LLP, Research Division

There's been more transactions done for various natural gas generation plants across the country, and I believe you still have some monies allotted for potential transactions despite doing some recently. Could you just give us an idea, update on your view on that potential?

David M. Ratcliffe
Former Chairman & CEO

Nathan, we're always looking for a good deal. And if we find one, we're willing to make an acquisition. It has to meet our conservative criteria. We won't buy something just to own an asset. We want to buy contracts with creditworthy counterparties. That's sort of our disciplined approach. We maintain a pretty active radar screen, as you know, looking at opportunities. And we have made acquisitions in the past. We're certainly willing to do that. As you point out, I think we budgeted money if and when we find the right opportunity.

Nathan Allen Judge
Atlantic Equities LLP, Research Division

The recent transactions, some of them don't have backing with contracts. It sounds like to me that, that's not even an area of interest that Southern would be willing to consider, even though those multiples seem to be fairly low. Is that right?

David M. Ratcliffe
Former Chairman & CEO

It would be unusual for us to do that, very unusual. I think we did make a swap of sorts with West Georgia asset, purchase it, didn't have backing. But we felt like it was a much better strategic play for us than

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just an outright acquisition like you're describing. So it would be very unusual for us to make that kind of acquisition.

William Paul Bowers
Executive Vice President

Nathan, let me add to that. When you think about assets that are uncovered, the question immediately comes to the front where, can we place a contract with that asset very quickly? That's one of our business drivers, as we have set these assets. The other, on the West Georgia, if you recall, we swapped two uncovered assets in Florida for these assets in West Georgia.

Nathan Allen Judge
Atlantic Equities LLP, Research Division

Could you give some commentary on the derivative legislation that's shuffling through Congress? And as a kind of associated question, if there is a requirement for industrial users to post collateral for the customers in Georgia that do shop, could that potentially be a positive catalyst for Southern? Or how would that play out for Southern Company generally and even Southern Power?

William Paul Bowers
Executive Vice President

Nathan, when you look at the industrial customers in Georgia, they do not shop, if you will, after they have one-time decision. So the competitive platform is for the in-state utility suppliers to compete for loads over 900 kW. And once that decision is made, they are locked for that supplier.

Nathan Allen Judge
Atlantic Equities LLP, Research Division

Do you have a view on how the derivatives legislation will play out? And is there any potential impacts if there is a requirement for customers to post collateral?

William Paul Bowers
Executive Vice President

Nathan, we have assessed that legislation, but it's done primarily from a focus of what it would do in our fuels market and posting any collateral associated with that. As you recall, we have, through EEI, been active to try to carve out that element, which I think we have succeeded in carving that out. And seeing the final language on this proposed legislation. But I think everybody recognizes that we have these types of transactions on an ongoing basis.

David M. Ratcliffe
Former Chairman & CEO

And without that exception, then we would seize the hedging program in all likelihood.

Nathan Allen Judge
Atlantic Equities LLP, Research Division

And actually as it comes to your fuel situation, can you just give us an update on where you stand with coal inventories and what you see in the coal markets?

William Paul Bowers
Executive Vice President

Currently, we're at 52 days of inventory for the system. We were at a peak at the end of the year at 59 days, so the weather has benefited us in terms of coal burn. As we look at the fuel markets, they have moved up in terms of overall price. Some of that is driven by Central App for export markets, primarily for the met market, metallurgical coal. So that is sustaining their higher price right now in Central Appalachian market. And as you've seen, the gas markets continue to fluctuate in the $4 to $5 range.

Operator

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Your next question comes from Michael Lapides with Goldman Sachs.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Someone asked, I wasn't sure I understood the answer. How do you think about what your earnings guidance sensitivity is to every percentage change in realized demand?

William Paul Bowers
Executive Vice President

When you look at 1%, it's roughly -- it depends on what sector associated with the residential commercial or industrial. When you look at industrial, the impact of 1% is roughly $0.02 earnings per share. And if you look at 1% for the residential, commercial, it's significantly higher, around $0.04 per share.

Operator

Your next question comes from Danielle Fits [ph] with BEDIC Research [ph].

Analyst

Wondering, and maybe you already have that, but in order to recover the cost of the nuclear project, would you ask for a write-off [ph] so that you do not have to file as often? Or this has already been considered? I'm confused.

David M. Ratcliffe
Former Chairman & CEO

I'm not sure exactly what you're speaking to. We did -- the Georgia legislature passed the Construction Work in Progress bill, which allows us the opportunity to recover some of that money, as we are building the plant.

Analyst

You have file a rate case for that?

David M. Ratcliffe
Former Chairman & CEO

No, we will file with the Commission a status report every six months on the status of the construction project and the cost against the budget. At some point in the future, obviously, when the plant is commercially operable, then it will be the subject of a rate case.

Operator

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

David M. Ratcliffe
Former Chairman & CEO

Thank you, Rachel. Let me just say again, thanks to all of you for joining us. And thanks to those of you who are complimenting. We were fortunate with a very strong first quarter. And as we've said, we're comfortable and off to a good start. We think we can see some legs in the economy that we're optimistic about. We look forward to another call with you on the Georgia rate case. We'll also keep you informed about the decision with regard to Kemper County. And then, we'll be back again with the second quarter call in July. So thank you very much.

Operator
Thank you, sir. Ladies and gentlemen, this does conclude the Southern Company First Quarter 2010 Earnings Call. You may now disconnect.

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