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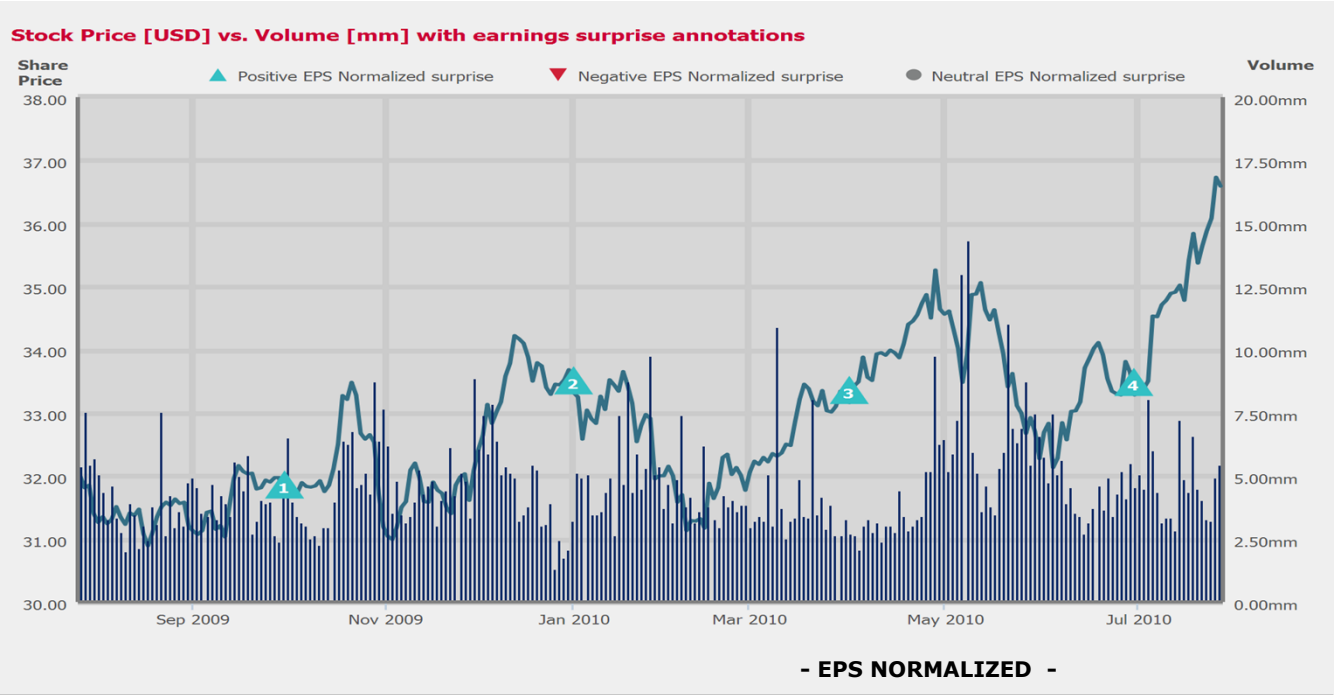
FQ2 2010 Earnings Call Transcripts

Wednesday, July 28, 2010 5:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2010-			-FQ3 2010-	-FY 2010-	-FY 2011-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.59	0.62	▲5.08	0.99	2.39	2.52
Revenue (mm)	4177.76	4207.00	▲0.70	5314.41	17243.23	17701.20

Currency: USD
Consensus as of Jul-28-2010 5:07 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2009	0.98	0.99	1 1.02 %
FQ4 2009	0.30	0.31	2 3.33 %
FQ1 2010	0.44	0.60	3 36.36 %
FQ2 2010	0.59	0.62	4 5.08 %

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Call Participants

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Chairman, President & CEO

William Paul Bowers
Executive Vice President

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Presentation

Operator

Good afternoon, my name is Michael, and I will be your conference operator today. At this time, I would like to welcome everyone to the Southern Company's Second 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, Michael, and welcome to Southern Company's Second 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 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 also be including slides as part of today's conference call. These slides provide details on the 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 Mr. David Ratcliffe, Southern Company's Chairman, President and Chief Executive Officer.

David M. Ratcliffe
Former Chairman & CEO

Thanks, Glenn, and good afternoon, and thanks to all of you for joining us. I'm sure most of you are aware by now the changes in our senior management team that we announced yesterday. With my retirement from Southern Company on December 1, we have begun a transition in the office of the Chief Executive. Tom Fanning, who many of you know very well from his four years as Chief Financial Officer, will become President of Southern Company on August 1. Tom is also with us on the call this afternoon. Paul Bowers will be moving to Georgia Power on August 13 as Chief Operating Officer, while Art Beattie, who is also with us today, will become the Chief Financial Officer. Tom, Paul and Art are key members of our management team and are well prepared for their new assignments, and I know will do an outstanding job for us.

As you can see from the materials we released this morning, we had a good second quarter, which was influenced by favorable weather and the continuing economic recovery here in the Southeast. Since our last earnings call in April. We've had three significant new regulatory developments in our Retail business, including a rate case filing by Georgia Power. Paul will cover the rate case filing in more detail in a few minutes.

First on May 26, the Mississippi Public Service Commission approved the construction of our 582-megawatt coal gasification project in Kemper County, Mississippi. Yesterday, the South Mississippi Electric Power Association signed an agreement to purchase 17.5% of the plant to fill the projected capacity requirements of its members.

The plant, which will use Mississippi lignite coal is scheduled to be placed in service in May 2014. The facility has a construction cost estimate of $2.4 billion. The project, which will feature 65% carbon capture capability has qualified for nearly $700 million in federal incentives, including $412 million in investment tax credits and $270 million in clean coal power initiative funding. In addition, we're in advanced due diligence discussions for federal loan guarantees.

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Mississippi Public Service Commission has also approved the construction work in progress mechanism, which will begin in 2012 and continue through the end of May 2014. We're pleased to now be under construction with the Kemper County project. We believe this plan is clearly the best choice for our customers. And to repeat what Secretary of Energy, Steven Chu, wrote recently and I quote, "The project is of national importance because it provides a viable option for using our abundant coal resources in a cost-effective manner and reducing power plant emissions."

My second update concerns our Vogtle nuclear project. Last month, we announced that Southern Company and the Department of Energy agreed to conditional terms on the nuclear loan guarantees in the 3 and 4 Plant Vogtle. Under the conditional agreement, the loan would not exceed 70% of the company's eligible projected cost or approximately $3.4 billion, and is expected to be funded by the Federal Financing Bank. The loan would be full recourse to Georgia Power and secured by lien on the company's 45.7% interest in the two new units.

The loan is expected to save Georgia Power's customers between $15 million and $20 million annually in interest costs. The actual amount of the interest savings will depend upon the final terms and the timing of this specific borrowing. Final approval and issuance of the loan is subject to the receipt of the combined construction and operating license from the Nuclear Regulatory Commission and satisfaction of other conditions.

NRC's current schedule calls for finalization of its design-control document review by October 2011, and we would expect to receive the COL by the end of 2011. As you know, the company received an Early Site Permit and Limited Work Authorization from the NRC in 2009, and site work has been underway since that time.

At this point, I'll turn things over to Paul for a discussion of our financial highlights for the second quarter and our earnings guidance for the remainder of 2010.

William Paul Bowers
Executive Vice President

Thank you, David. First of all, let me say how much I've enjoyed working with all of you as CFO during the past two and a half years.

Now as David said, our second quarter performance was good. The results continue to highlight the consistency of our business plan to provide regular, predictable and sustainable performance over the long term. In the second quarter 2010, we reported $0.62 a share compared with $0.61 a share in the second quarter of 2009 or an increase of $0.01 a share. Let's turn now to the major factors that drove our second quarter numbers compared to the second quarter of 2009.

First, the negative factors. Non-fuel O&M reduced our earnings by $0.07 a share in the second quarter of 2010 compared to the second quarter of 2009. This change is primarily due to a return to normal maintenance spending in 2010 for both our fossil and hydro generation fleet and our Transmission and Distribution network. On the generation side, approximately 3,000 more megawatts were involved in plant outages in the second quarter compared to the second quarter of 2009.

In the second quarter of 2009, we had the early termination of two of our international leveraged-lease investments which resulted in a gain. For the second quarter of 2010, we now show a reduction of $0.03 per share compared to the second quarter of 2009. Finally, an increase in the number of shares outstanding reduced our earnings by $0.03 a share in the second quarter of 2010 compared with the second quarter of 2009.

Now let's turn to the positive factors that drove our earnings for the second quarter of 2010. Warmer than normal weather in the second quarter added $0.04 per share to our earnings for the period compared with the second quarter of 2009. While the first quarter of this year was the coldest winter in 20 years, the second quarter was the warmest spring in 20 years and the fourth warmest in more than a century. Clearly, weather has been a major factor this year and has added $0.14 per share to our earnings compared to the first six months of 2009.

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Increased usage in better than expected economic activity primarily in the Industrial sector, added $0.04 a share to our earnings in the second quarter compared with the same period in 2009.

Other revenue effects in our Traditional business added a total of $0.02 a share to our earnings in the second quarter, compared with the second quarter of 2009. This impact was driven primarily by revenue changes related to the recovery of environmental expenses and other investments at our operating company.

Reduced depreciation and amortization added $0.01 per share to our earnings in the second quarter of 2010 compared with the same period last year. This increase was driven primarily by the continued amortization of excess cost of removal obligations at Georgia Power, approved by the Georgia Public Service Commission beginning in the third quarter of last year. The increase was partially offset by additional depreciation from increased environmental, transmission and distribution investments.

Lower interest expense also added $0.01 per share to our earnings in the second quarter of 2010 compared to the same period in 2009. Increased Transmission revenues in our Traditional business added $0.01 per share to our earnings in the second quarter of 2010, compared with the same period in 2009. Investment tax credits at Georgia Power added $0.01 per share to our earnings in the second quarter of 2010, compared with the same period in 2009.

In conclusion, we had $0.13 of negative items, compared with $0.14 of positive items or a positive change of $0.01 per share over the second quarter of 2009. So overall, our quarter came in at $0.62 per share.

Before I discuss our earnings estimates for the third quarter, I'd like to update you on the Georgia Power rate case filing, the economy and the impact of the oil spill.

On July 1, as required by its current accounting order, Georgia Power filed a retail rate case with the Georgia Public Service Commission. The requested increase is necessary to cover additional cost of required environmental control and continued investment in new generation, transmissions and distribution facilities to support growth and ensure reliability.

During the past 15 years, Georgia Power has operated under three-year negotiated rate settlement. The 2010 rate case filing contains proposed enhancements to the current structure. The requested increase of $615 million or 8.2% will be effective January 1, 2011, and is based on a retail return on common equity of 11.95%. The increase would be recovered through Georgia Power's existing base rate tariff, including its environmental compliance cost recovery tariff, the demand side management tariff and the municipal franchise fee tariff.

The filing also proposes an alternative rate plan, which enhances the existing tariffs and proposes two additional base rate tariff. The first proposed new tariff is an Adjustable Cost Recovery tariff or ACR. If approved, beginning January 1, 2012, the ACR will work to maintain Georgia Power's projected earnings within the ROE band established by the Public Service Commission in this proceeding. The ACR tariff proposal has a symmetrical sharing mechanism, should the company's actual earnings exceed or fall below the approved ROE band.

The second proposed new tariff is a Certified Capacity Cost Recovery tariff. This tariff is designed to recover certified generation and associated transmission costs, as well as capacity costs of certified Power Purchase Agreement.

If approved, these new tariffs, along with the annual resets of the three existing cost recovery mechanisms would allow the company's rate to adjust more gradually in under another three-year accounting order. Testimony and hearings on the request will begin this fall, and the company expects the Georgia Public Service Commission to issue a final order on the matters during December. We will keep you updated as the case moves forward.

Last week, we had convened another Economic Summit with executives from several of our Industrial segments, including a rail transportation company as well as economists from a major private bank and the Atlanta Federal Reserve to discuss the outlook of the economy. Even with a diverse spectrum of industries represented, there was a consensus of opinion in three main areas.

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First, a double-dip recession is unlikely. However, the momentum of the economic recovery is slowing. The general view is that the Southeast is still well positioned for economic growth outpacing the U.S.

Second, residential and commercial construction remains depressed, but the trend shows stabilization in the residential market. Apartment rentals and unoccupied homes are moving in a positive direction.

Third, inventory restocking is slowing from the first quarter and is not expected to be a major economic driver going forward. Most economists, including those in our group, see modest growth in the second half of 2010. So the conclusion of our panel was that the recovery continues, but it is far from robust. Several of our participants mentioned that their industries will basically muddle through for the next six months.

Turning now to our own customer data. Industrial sales increased by 13% in the second quarter of 2010 compared with the second quarter of 2009. Quarter-over-quarter, the most significant increases were in: primary metals, up 60.7%; chemicals, up 25.9%; transportation, up 14.5%; and paper, up 16% compared with the second quarter of 2009. Year-to-date, we are seeing positive growth in every segment except Pipeline, Rubber and Apparel.

The ThyssenKrupp steel manufacturing facility in Alabama, hired approximately 1,000 people at its new facility and its continued commission production equipment which will acquire approximately 200 megawatts. In addition, Hyundai Heavy Industries announced a facility in Montgomery, Alabama to build high-voltage transformer, which is expected to add another 500 jobs.

All of the major automobile manufacturers in our service area continue to report steady demand for their products with an increase in production in Alabama alone of 71%. Adjusting for weather, residential sales increased by 1.4% in the second quarter of 2010, compared with the same period in 2009.

New connects have climbed to approximately 36,000 a year in the second quarter, which represents a 47% increase over the first quarter of 2010. In addition, we are seeing positive customer growth of more than 7,000 new residential customers.

As expected, commercial sales remained our weakest sector, declining at 1% on a weather-normal basis in the second quarter of 2010 compared with the second quarter of 2009. Year-to-date, 2010 commercial sales are down 0.7% on a weather-normal basis, which is in line with our forecast.

Commercial activity continues to lag with vacancy rates for offices of more than 22%. On the positive side, electricity demand by data centers increased by 7% in the second quarter, reflecting our most active account in the commercial sector.

In summary, the commercial and residential sectors are performing according to our forecast, while sales to the industrial sector in the second quarter are ahead of our plan.

Turning now to the impact of the oil spill in the Gulf. We know many of our customers along the Gulf Coast have been financially impacted by this accident. However, at this point from both an energy demand and operational standpoint, we have not seen a measurable impact on our company.

From an energy sales standpoint, the major impact will be seen in the commercial sector, primarily in tourist-related businesses such as hotels and restaurants. Gulf Power in Northwest Florida has the largest exposure with some 125 miles of coast line along the Gulf.

While few beaches from Pensacola to Panama City have been affected by the oil, thus far, we have not been able to identify any impact to our energy-related sales, that's only at about 5% of Gulf Power sales are to Customers and Tourist-related segment. Another factor is that oil spill workers are occupying hotel rooms, which otherwise would have been filled by tourists. On the generation side, our plants along the Gulf Coast are operating normally and coal shipments by barge have not been interrupted by the oil spill.

Turning now to our earnings guidance for 2010. Our second quarter results exceeded our estimates by $0.06 a share. As we discussed, the quarter was largely influenced by weather and the gradual economic recovery we are seeing here in the Southeast, particularly from certain segments in the industrial sector. While we ended the first six months at $1.22 per share, it's important to remember that $0.14 per share of those earnings were due to weather.

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In addition, for the remainder of the year, it's important to remember that three major factors will continue to have a delimiting effect on our earning.

Number one, the third year of a modified accounting order at Georgia Power. Number two, a more than normal level of O&M spending. And three, an increase in the number of shares outstanding.

Given these factors and since a significant portion of our earnings are derived in the third quarter, our guidance will remain at $2.30 to $2.36 per share with an emphasis on the top end of that range. Finally, our estimate for the third quarter is $0.94 per share. 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. And as Paul explained, we had a good quarter and a solid first six months, but we are mindful if weather has been a major contributor to our earnings. And that the economic recovery, while encouraging, remain somewhat fragile.
It's important to re-emphasize that the foundation of our business plan is a commitment to provide our investors with regular, predictable and sustainable financial performance over the long term. At this point, Paul and I are ready to take your questions. So Michael, we'll now take the first question.

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Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Greg Gordon with Morgan Stanley.

Gregory Harmon Gordon
Morgan Stanley, Research Division

The first question is the $0.01 benefit from the lower amortization, was that lower than it otherwise would've been because you had the flexibility to reduce it vis-a-vis just having a strong weather quarter?

William Paul Bowers
Executive Vice President

No, Greg. This is Paul. When you look at that $0.01 benefit, remember you had the COR or call for removal benefit from Georgia Power. At the same time, we're recognizing increased depreciation and amortization from environmental equipment and T&D equipment.

Gregory Harmon Gordon
Morgan Stanley, Research Division

And then I know you commented in your scripted remarks that you're still very cautious about prospective acceleration of demand. But for the first six months of the year, we've seen quite a dramatic recovery. And shouldn't that benefit you in your dialogue with the regulators? Because obviously, the better the sales levels are, the easier it is to amortize and needed rate increases across the customer base, right?

William Paul Bowers
Executive Vice President

That's correct, Greg.

Operator

Your next question comes from the line of Daniel Eggers with Crédit Suisse.

Daniel L. Eggers
Crédit Suisse AG, Research Division

Just touching on Kemper a little bit more, can you just talk a little bit about the contract on the E&C side that give you confidence so you can stay within the top end of the allowed cost or the investment level the commission provided given the overruns that you've seen so far?

William Paul Bowers
Executive Vice President

Dan, this is Paul. Both David and I will comment on this. When you look at the contract that we just signed, actually yesterday, with the meatball [ph] organization. It is an opportunity for them to get low-energy cost capacity for their customers that they serve, the E&Cs in the southern part of the state. From the standpoint of where we stand from a Kemper County instruction and execution, we've already secured about 20% of the cost already under contract. And by the end of year, we expect to have 50% of that cost contracted for. So we're real confident that we can make the contracted or the target price, the 2.4, but we have the $2.88 billion cap that's available to it.

Daniel L. Eggers
Crédit Suisse AG, Research Division

And I guess, if you could give a little more color on the customer growth you saw in the quarter, the $36,000 kind of run-rate level, where are those bodies coming from? And are you seeing an acceleration over the year that might give you confidence that number's going to continue to rise from here?

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William Paul Bowers
Executive Vice President

Dan, remember I mentioned that customer growth was only 7,000 customers in the residential class. When you look at the 36,000, that's new connects. So it's people leaving, connects now being re-established in existing facilities and/or new facility. In fact, new connect is a determinant, if you will, of the growth that we might be experiencing in the marketplace. So we having positive quarter-over-quarter numbers is an indicator that we are having inward migration, and that jobs are being established in the Southeast. The other point I'll make is that when you look at our normal new connect from 2000 to 2007, that number usually runs around $80,000 to $88,000. So we're significantly below normal.

Daniel L. Eggers
Crédit Suisse AG, Research Division

But are you seeing an acceleration in that 36,000 number? Where was it the last couple of quarters on a run-rate basis? And when do you think you get back to something closer to the historic level?

William Paul Bowers
Executive Vice President

Last quarter, it was around $30,000. So that 47% increase is 36,000 over to 30,000. The aspect of when we get back, we're looking at 2012, when you have the residential market returning to something more than normal or more-than-current normal.

David M. Ratcliffe
Former Chairman & CEO

There's a few normal out here somewhere, Dan, we're trying to find it. I just think that what we're trying to do is to celebrate the fact that we see a little positive here. I still think the long-term reality is a bunch of job creation. And we're still struggling with unemployment rates that are too high. And until we get those numbers headed in the right direction, we're going to be pleased with what we get. But I don't think we can talk much about an accelerated pace here.

Daniel L. Eggers
Crédit Suisse AG, Research Division

As it goes to the Georgia filing, remind on the ability of the Commission to approve an ACR or some sort of alternative rate-making mechanism. Is that something that they have the power to do, or is that something that would also need legislative attention perspectively to get approval?

William Paul Bowers
Executive Vice President

No, they can clearly do that.

Operator

Your next question comes from the line of Paul Ridzon with KeyBanc.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

I think you already mentioned this, but I didn't quite catch it. Did you take full advantage of the accounting order on the depreciation?

William Paul Bowers
Executive Vice President

Yes, Paul. When you look at it, $54 million per quarter. So yes, we did recognize that this quarter.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

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And as we look at the third and fourth quarter of 2010, should we expect similar O&M step-ups of $0.05 to $0.07?

William Paul Bowers
Executive Vice President

When you look at O&M spend, overall, yes. We're at normal spending. Remember last year, we had depressed spending in our company, so we respond to the economic realities that we're facing.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

So we should see similar step-ups?

William Paul Bowers
Executive Vice President

Yes.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

And then what's weather been like, June 30 forward?

William Paul Bowers
Executive Vice President

It continues to be warmer than normal.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

And your 3Q guidance assumes normal today going forward or normal June 30 going forward?

William Paul Bowers
Executive Vice President

Normal weather for the third quarter, including July.

Operator

And your next question will come from the line of Ali Agha with SunTrust Robinson Humphrey.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Going back on to the guidance for the year, understand the bunch of folks made of the $0.14 help from the weather and the negatives that you've outlined in the second half does effect on the share count, et cetera, those that are also well known. So I was just wondering, assuming normal weather for the rest of the year, and you picked up $0.14 through the first half, why would you not be raising your guidance for the year? What's the other negative that you may not have accounted for that's causing you to remain at these levels?

William Paul Bowers
Executive Vice President

Well, remember, Ali, when you have, like I said, there's three things. The normal O&M expenditures that we have is getting back on reliability schedules associated with our generation fleet, the vegetation management activity that we have around our T&D facility. So there will be a higher spend on an O&M level. The other piece is, if you recall, that we have the modified accounting order at Georgia. That limits, if you will, the capability of that company to earn over a certain amount.

Ali Agha

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SunTrust Robinson Humphrey, Inc., Research Division

With Georgia, I sort of understand that, that limits them, but the O&M step-up and the share count increase, those are only -- they're budgeted into their original numbers to begin with, right? How much of that -- that's not incremental. I understand the limit on Georgia. But is there anything else out there that is beyond these factors that is causing you to keep your numbers?

David M. Ratcliffe
Former Chairman & CEO

I think we disclosed the planning that we're doing on increased O&M spending and the increased number of shares and the Georgia order. Those are the things that are the major factors. There's always uncertainty around weather. I mean, we've seen the weather go the other way too.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Secondly, could you remind us how much equity did you folks raise in the second quarter? And where are you now versus your plan for the year?

David M. Ratcliffe
Former Chairman & CEO

We have raised $344 million, so far this year. [indiscernible]. Ali, one other thing too is when you look at our drivers, and like we've said on the opening of this call, the third quarter is our largest quarter in terms of our revenue and earning. After the third quarter, we'll make adjustments as necessary to our guidance, but not until then.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

And the $344 million, Paul, that sure is in the bulk, above roughly about 500 [ph] or so you have planned for the year?

William Paul Bowers
Executive Vice President

Point 500 [ph], that's correct.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Any initial feedback from the Commission to those new debits that you're proposing? Any initial chance of -- are they receptive to it or not?

William Paul Bowers
Executive Vice President

I think the early indications are that they're receptive to considering the concepts, but it's really early in that discussion.

Operator

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

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

On Kemper County, what, if any, do you expect in the way of litigation going forward? I mean, usually the environmental groups continue to kind of battle it. And what precedent, if any, in Mississippi exist in terms of whether injunctions ever get granted?

David M. Ratcliffe

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Former Chairman & CEO

I think the most aggressive challenge we will continue to experience will come from the Sierra Club. Most of the other environmental questions have been answered. The Sierra Club, as you know, has filed an appeal. That appeal will be heard in the Supreme Court. We're confident that we have addressed all of their concerns adequately, so we expect a good outcome there.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

And when you think about the Southern Power subsidiary, how should investors think about kind of the long-term prospects of that business relative to your Utility businesses, meaning, higher growth, lower growth, similar growth, when we just kind of think about it as a piece of the larger puzzle?

William Paul Bowers
Executive Vice President

Michael, when you look at Southern Power, like we said before, it is a surrogate of a regulated model. It has long-term contract and capacity for its generation unit. And what we also said is it was going to remain flat over the next three years because of the contracts that are evolving during this time. One of the issues that Southern Power is also facing is the downturn from the economy and having capacity that was allocated towards a requirement contract that is really not needed for another year or so.

Operator

Your next question comes from the line of Jim von Riesemann with UBS.

James von Riesemann

Did I hear you correctly that on the industrial sales, all the restocking efforts that the industrial's were doing in the first half is basically now over? Did I interpret that correctly?

William Paul Bowers
Executive Vice President

Jim, what we said is from the Economic Summit, the participants basically said that the hop that we had in the first half of the year resulted from much of the activity around restocking, and that they did not anticipate restocking to drive the second half of the year.

James von Riesemann

I'm confused about the fourth quarter. I know we're jumping ahead here. But if your guidance remains the same, with the emphasis on the upper end, that means you're supposed -- you would report somewhere in the $0.19 or $0.20 range in the fourth quarter. Can you tell us what would be the big drivers in 4Q? And would they be considered, call it, onetime in nature, step-up in maintenance or anything?

William Paul Bowers
Executive Vice President

Jim, when you look at -- like what we said earlier, ongoing O&M is going to be in normal areas. We're going to be looking at maintaining the reliability of our network and ensuring that we provide the necessary maintenance on our systems to meet our customers' expectations on reliability and price for the future.

James von Riesemann

Now that the economy is -- we're in a new normal phase and some of the temporary O&M cuts have lapsed, what should we be expecting in terms of, call it, a normalized O&M growth year-over-year, so looking at 2011 and beyond?

William Paul Bowers
Executive Vice President

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Well, Jim, each year, you have to assess the O&M spend based on the environmental equipment that comes in. So I can't give you a smooth, 3% growth rate on O&M or 4% growth rate, because some of those numbers are driven by the scrubbers that come online during any individual year. They drive O&M significantly for us.

Operator

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

Agnieszka Anna Storozynski
Macquarie Research

On the Georgia rate case, could you tell us a little bit more about the timeline for the rate case, especially in association with the management changes? Could we imply for instance, that come early December or late November, we could have a potential settlement or some resolution to the rate case?

David M. Ratcliffe
Former Chairman & CEO

By definition, the rate case has to be finalized by the end of the year, by December. And as you know, the scheduled calls for the hearings begin in October. Usually, they're completed in October, and then the Commission takes another advisement in November, and we try to finalize it in December.

Agnieszka Anna Storozynski
Macquarie Research

Second question is about your coal plants and then dispatching of different coal plants, given there were forward prices for Central Appalachian coal are -- are you already switching to natural gas? And what's your view about the future given the natural gas and coal prices are?

William Paul Bowers
Executive Vice President

I think we've explained before the economic dispatch regime that we use. So we're dispatching our units on the basis of the lowest cost. And that's a function of, as you suggest, price of coal and price of natural gas. So as it changes then the dispatch changes. We're still continuing to burn some of our coal piles in a managed fashion, so that we're managing the inventory. We have the opportunity as gas prices go down and take advantage of that, and we will do so.

Operator

Your next question comes from the line of Steven Fleishman with Bank of America.

Steven Isaac Fleishman
BofA Merrill Lynch, Research Division

Do you have a sense on when this Moody's review of the credit rating's going to end? And is there any new date or other stuff you've been able to give them to kind of make the case on how they're looking at new nuclear?

David M. Ratcliffe
Former Chairman & CEO

We do have plans to meet with Moody's folks in the next couple of weeks and explain to them with as much granularity as we can about the current reality and what we're doing to manage the risk in the business, not just the nuclear risk but others too.

Steven Isaac Fleishman
BofA Merrill Lynch, Research Division

But is it fair to say that you would still plan to keep your financing plan as it is and not change it just because of the way they're looking at new nuclear?

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David M. Ratcliffe
Former Chairman & CEO

Yes, Steve. That's exactly right.

Steven Isaac Fleishman
BofA Merrill Lynch, Research Division

Also, I think last we talked, there were some movement on the bonus depreciation in Congress. Could you just update us on that?

David M. Ratcliffe
Former Chairman & CEO

I'm not sure of your question.

William Paul Bowers
Executive Vice President

The bonus appreciation associated with the financing bill. It was attached to the Agricultural Bill, but we have not had any update of late. It's now in the small business still is what I understand, and we'll see if it gets any traction.

Steven Isaac Fleishman
BofA Merrill Lynch, Research Division

And if that does not end up passing, does that change your financing plans at all?

William Paul Bowers
Executive Vice President

No, it doesn't.

Operator

Your next question comes from the line of Nathan Judge with Atlantic Equities.

Nathan Allen Judge
Atlantic Equities LLP, Research Division

Just wanted to start with a question with regard to environmental legislation. Clearly, there's been some delay in passing potential carbon bills or and renewable energy bills, do you have a point of view of when that could come back to Congress, and what's the likelihood of something being passed in the future?

David M. Ratcliffe
Former Chairman & CEO

As I have noted, we don't have any particular view beyond what's been reported in the press. As you know, it's a very complex piece of legislation. And the time associated with trying to deal with very complex bill like that is problematic in Congress when they really don't have enough time. If you look at their calendar, they've got a lot of things they've got to do in the fall and trying to get it back on the agenda in the fall will be a difficult challenge, not impossible. But I think the biggest challenge remains trying to get the 60 votes that they need to pass anything of that magnitude in a clearly growing political season. So I wouldn't give it very high chances of coming back this Congress. I think it's jump ball until we get through the midterm elections and see what the new Congress will look like and whether or not there's an ability to move something in a new Congress.

Nathan Allen Judge
Atlantic Equities LLP, Research Division

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With regard to the EPA and the recent transport rule, do you have any sense as far as magnitude of what that could mean, an additional CapEx for Southern Company? And if whether the more difficult thing in that proposed rule that would make it difficult for you to, I guess, comply?

David M. Ratcliffe
Former Chairman & CEO

No, we really don't. Like everybody else, we're trying to do the analysis on the concepts that have been proposed. And I emphasize the fact that it is a proposed rule-making. And it is a difficult one to understand, because it has some complex provisions with regard to interstate and intra-state trading, whether you can use allowances and whether you can't. The bottom line of all of that is, as we lower these numbers, the ability for us to continue to backfit additional equipment is fairly limited. We've already made, as you know, significant investments. We've invested, by the time we finished in '12, I think about $10 billion. And you get to the point where there's not enough space and you can't continue to achieve reductions with existing technology. So until we see and understand exactly what the requirement is, and how it's going to be implemented, it's awfully hard to figure out exactly what we might be able to do to continue to reduce emissions of SOx and NOx, primarily.

William Paul Bowers
Executive Vice President

Taken from a capital standpoint, it's a trade-off relative to environmental put [ph], and like, David was talking about or a replacement with new generation. So from a capital budget standpoint, it's relatively level.

Nathan Allen Judge
Atlantic Equities LLP, Research Division

Do you have an idea when you will know? I guess, as the finalization of the rules?

William Paul Bowers
Executive Vice President

The rule is going to be challenged, I'm sure. I think it'll be well into next year, by the time we get some definition on exactly what's required. And then, as part of that you're running into, what I think is just an impossible date from a compliance standpoint. As I understood it, they're talking about a 2012 kind of compliance. So if there is any additional control equipment required, the timing and the ability to put that in place is extraordinarily limp.

Nathan Allen Judge
Atlantic Equities LLP, Research Division

Final question on the ECA, the recent one-hour, particular rule that's been finalized, does that have any impact on any of your plans?

David M. Ratcliffe
Former Chairman & CEO

No, I think we've done work again on installing major scrubbers, and we've got additional scrubbers that are going into service this year. We pretty much have committed. I think the longer-term questions are: What are the entire portfolio of additional regulations, whether it's transport rule or whether it's fine particulates, ash, mercury, additional HAPs, all of that, as we said many times, needs to be coordinated in a fashion that allows us to preserve reliability going forward.

Operator

Your next question comes from the line of Vedula Murti with CDP U.S.

Vedula Murti
Tribeca Global Management

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You alluded to the interest savings associated with the nuclear loan guarantee. Can you tell us what that $15 million to $20 million annually is in relationship to what the alternative is that you're using as the benchmark for the compilation?

David M. Ratcliffe
Former Chairman & CEO

Yes, we're looking at a spread and made an assessment of about 50 basis points between what we could borrow from the Federal Financing Bank versus what we get in the marketplace.

Vedula Murti
Tribeca Global Management

Secondarily, in terms of the proposed rate mechanisms, if they are approved or can be implemented in some fashion similar to what you proposed, will this then kind of carry you through the Vogtle construction facility without having to be discreet on specific updated cases. Is that basically the object?

David M. Ratcliffe
Former Chairman & CEO

I think the objective would be to create a mechanism that would allow us to make routine filings throughout the entire period rather then these massive rate cases to deal with increased costs or decreased costs in much smaller increments over the period of time, really, not just during the construction but through the future.

Vedula Murti
Tribeca Global Management

I'm wondering in terms of load growth. What are you seeing in terms of normalized usage per customer? Have residential customers and some of the smaller customers started returning perhaps to more normal usage behavior? Or have you noticed that conservation in other types of activities are persisting such studies that even with the existing customer base getting back to prior usage or users growth levels may be challenged?

David M. Ratcliffe
Former Chairman & CEO

If you look at residential market, it is. We're seeing an uptick in terms of use per customer or roughly about 1.2% for the quarter. We have seen that trend for the year. The year-to-date number is 1.3%. From a commercial standpoint, the small commercial group, it's really an economic question, not a use-per-customer question because the issue is economic viability, are we going to remain in business. And we're seeing some of the small convenient-store-type entity really close up shop.

Vedula Murti
Tribeca Global Management

If that 1.2% and 1.3%, those are weather normalized, then take out the weather effect?

David M. Ratcliffe
Former Chairman & CEO

That's right.

Operator

Your next question comes from the line of Andrew Levi [ph] with Tudor, Pickering.

Analyst

I don't know if your nuclear construction kind of precludes it, but are you looking to add any generation to the acquisitions in any of your areas on the non-reg side?

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William Paul Bowers
Executive Vice President

Andrew, we always evaluate the market to assess opportunities out there. And as you know, Southern Power has a piece of the capital budget that's associated with market opportunities for acquisitions and new generation assets. So that is out there, and we constantly look at the marketplace.

Operator

Your next question comes from the line of Carrie Saint Louis with Fidelity.

Carrie Saint Louis
Fidelity

I just wanted to follow up on a couple of questions about balance sheet and credit quality. So if I heard you correct, there's this $500 million of equity issuance plan for the year?

David M. Ratcliffe
Former Chairman & CEO

What we said, Carrie, at first of the year, is we would look at between $500 million to $600 million, and that we would see if our internal frame program could provide that given some opportunities even with bonds depreciation out there.

Carrie Saint Louis
Fidelity

If I remember correctly, I think it was roughly double that amount last year?

William Paul Bowers
Executive Vice President

It's $1.3 billion last year.

Carrie Saint Louis
Fidelity

Okay. And kind of tied in to the Moody's review, I guess it just seems to me that if you're trending kind of lower on equity issuance that, that's not real supportive of maintaining your current ratings.

William Paul Bowers
Executive Vice President

Remember, Carrie, we said last year that we sped up some of the equity issuance so we could take advantage of the market. It probably went that way. So we pre-funded some of the equity requirements for this year last year.

Carrie Saint Louis
Fidelity

Right. But where are you, you guys don't give out any balance sheet information in the release? Where are we now in kind of the equity ratio?

William Paul Bowers
Executive Vice President

31.8%.

Carrie Saint Louis
Fidelity

Okay. And if I remember correct, you guys were hoping to be kind of closer to the 42% to the 43% level?

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William Paul Bowers
Executive Vice President

Over the longer term, that's correct.

Carrie Saint Louis
Fidelity

Okay. And based on the comments I heard, I guess, the view is just that you guys are struggling to kind of figure out is there a level of equity at Moody's that would allow you to maintain your current rating. Is that fair?

William Paul Bowers
Executive Vice President

Carrie, the issue really is more of a business environment relative to the issue that we're addressing, more on being the nuclear construction risk. The economy is at risk and the regulatory environment was pointed out in Florida as a risk. So the business-environment issue is what we'll be addressing and how we're mitigating some of those risk, either through contracts or through things that are just naturally occurring and improving the economy.

Carrie Saint Louis
Fidelity

Do you feel that you've been provided with that Moody's a level of equity that you guys could obtain that would allow you to attain or stabilize your ratings? Or do you feel that, that number has not been provided to you?

William Paul Bowers
Executive Vice President

Well, from an equity standpoint, it's not an equity issue.

Carrie Saint Louis
Fidelity

Or cash flow regard [ph]. I guess what I'm saying is, of course, you guys can choose to keep your rating. If you make a decision to add equity, de-lever, there are choices that you have to keep your rating and you may choose not to do that. So that's what it sounds like to me today. And I'm just trying to understand it because you guys feel that it's unclear at Moody's what level ratios as you need to have or is that you just chose in that, like their giving you numbers, but you're choosing not to get there?

William Paul Bowers
Executive Vice President

Let me make one point, Carrie. We're not choosing to reduce our ratings. We're very much steadfast [ph] in trying to provide Moody's as much information about the future cash flow metrics that we see, the opportunities that we see in the marketplace from an improved economy, plus the risk mitigation measures that we have put in place around collection of costs around nuclear plants in our Kemper County. So we are pushing those issues in terms of providing Moody's with additional information. Financial integrity is critical to us, and we are going to focus on maintaining that credit quality. Now we have done some assessment on what it will take to impact a downgraded Moody's, and it looks like a 10-basis-points impact on a 30-year bond. Our objective, though, is to maintain our credit quality.

Carrie Saint Louis
Fidelity

Okay. I missed the beginning of the call, is Tom Fanning up on the call or available for questions?

Thomas A. Fanning
Chairman, President & CEO

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Yes, Carrie. I'm here.

Carrie Saint Louis
Fidelity

It's been some time that we've spoken, and I know maybe there's not a dramatic change in view. But I, obviously, with you taking into the role, I mean, do you have any thoughts about balance sheet and credit quality that you could expand on?

Thomas A. Fanning
Chairman, President & CEO

Listen, I think it's just very consistent with what you've heard Paul described. The only other thing I would just add is that I think we're in solid shape with S&P and Fitch. If this really is a discussion with Moody's about the business environment, it's as Paul described. So David, Paul and I and others will go up there, and we'll have a good chat with them and try to make them see the world our way.

Operator

Your next question comes from the line of Mark de Croisset with FBR Capital Markets.

Marc de Croisset
FBR Capital Markets & Co., Research Division

Number one, I don't think you've given cash flow guidance for 2010. If you have them, do you see a step-up in cash flow from operations in 2010 versus 2009?

William Paul Bowers
Executive Vice President

Yes.

Marc de Croisset
FBR Capital Markets & Co., Research Division

A meaningful step-up?

William Paul Bowers
Executive Vice President

What I'd like to do is just have our team call you back before I dig into the details of that.

Marc de Croisset
FBR Capital Markets & Co., Research Division

I don't know if you can answer this, but it may be the case in industrial sales are just starting to slow down year-on-year in July. Is there any indication of that as a result of better comps last year?

William Paul Bowers
Executive Vice President

That's exactly the point. Remember, the third quarter of last year had the benefit of the Cash For Clunkers run-up. And what we saw was the segment of our industrial customers associated with our automobile manufacturing really tick up. And we moved to our average monthly consumption in the industrial sector to above 4,000-gigawatt hours per month. We're running currently around 4,300-gigawatts hours per month. So from a standpoint of differences between July, August, September of '09 versus this quarter, you won't see that much of a difference, I don't think, in terms of percentage change.

Operator

Your next question comes from the line of Daniele Seitz with Dudack Research.

Daniele Seitz

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Dahlman Rose

I was wondering if you had the ROE for the different subsidy rates, especially Georgia Power on the 12-month basis? Do you have that, excluding weather if you have that, that would be even better.

William Paul Bowers
Executive Vice President

Let us call you back, and we'll have -- me or Glen call you, if that's all right.

Operator

Your next question comes from the line of Raymond Leung with Goldman Sachs.

Raymond Leung
Goldman Sachs

Just a quick question on financing plans, for what you expect. I know Georgia Power adjusted a bond issue. Can you talk about what you're expecting this year or maybe give us a preview for 2011?

William Paul Bowers
Executive Vice President

Raymond, we were expecting roughly -- we've already financed $1.146 billion this year. We expect another, roughly, another $1 billion before the end of the year. From 2011, we will be on the market on the debt side, around $2 billion.

Raymond Leung
Goldman Sachs

Can you break it down by operating units?

William Paul Bowers
Executive Vice President

We can call you back and provide that to you.

Operator

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

Dan Jenkins
State of Wisconsin Investment Board

I think you said your requested ROE in the Georgia case is 11.95%. How does that compare to the current allowed? What's the current allowed ROE and what would like a delta of 1% do to your revenue request in Georgia?

William Paul Bowers
Executive Vice President

The current range right now, Dan, this is Paul, is 10.25% to 12.25% is the range, with the midpoint set at 11.25% and a 1% change, about $100 million.

Dan Jenkins
State of Wisconsin Investment Board

Okay. On the O&M, the higher, the more normalized level of spending, when will that cycle -- so that, you said that Q2 is a normalized level. Will that cycle in Q4 or first quarter next year or when does that, the comparisons, become more comparable?

William Paul Bowers
Executive Vice President

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It will be the first part of next year, Dan. When you get into the January first quarter of 2011, you will have more of a comparable O&M level. Remember also, the amount of O&M reductions that we had last year are in the range of $230 million for '09. So you're seeing that come back, plus the normal activity that we have around our plant and maintenance.

Dan Jenkins
State of Wisconsin Investment Board

Okay. And then just wondering if you could give a little more color on the weakness you're seeing in commercial. You mentioned that, that was according to your expectations. But at some point, do you see higher activity out of the commercial sector? Or is that business just going to be weak well into 2011?

William Paul Bowers
Executive Vice President

As you recall, when we set out our forecast for this year, we expected a positive 0.5% growth rate in commercial, which is relatively flat year-over-year. With the results that we've seen so far, we still see it being relatively flat year-over-year. There are some negative signs that are really showing up in our numbers relative to the Grocery Store segment, which is a big segment for us that is a negative year-over-year result. And some of that is in a small category. When I say small Grocery Stores, it's convenience stores, or the smallest of the box stores, which are materially being reduced in numbers. The other piece in the commercial sector, our year-over-year assessment of customer growth is down 0.5%. So that segment, we expect to start picking back up in the fourth quarter. But again, we'll be watching it from a cautious standpoint.

Operator

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

Paul Patterson
Glenrock Associates

What I wanted to ask you was really basically back on the economy. I believe you guys said that your expectations for growth in the second half remain at or below the experience in the first half. Could you tell us what -- I mean, you also mentioned that you thought that Southeast was going to be doing better than the rest of the national economy. Could you give us a flavor for what you actually are expecting for the second half of 2010?

William Paul Bowers
Executive Vice President

When you look at the industrial sector, in terms of just growth, Paul? Is that what you're...

Paul Patterson
Glenrock Associates

GDP, actually.

William Paul Bowers
Executive Vice President

GDP, when you look at the data that we've received from the economic summit that we had, they were basically saying a 2% to 2 1/2% growth rate.

Paul Patterson
Glenrock Associates

And that's for the Southeast?

William Paul Bowers
Executive Vice President

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That's a national number.

Paul Patterson
Glenrock Associates

That's a national number. But you guys think the Southeast is doing better. I mean, what my understanding was that the economy there is better situated. I thought that you guys are indicating as opposed to, to the U.S. economy as a whole.

David M. Ratcliffe
Former Chairman & CEO

That's correct.

Paul Patterson
Glenrock Associates

What comes way [ph] after that?

William Paul Bowers
Executive Vice President

When you look at the economic data, it also -- and the economists said that 2%, 2 1/2%, I had an assessment of the Southeast around 2.9% as well. So you get some numbers that are skewing on the upside, if you will, the GDP numbers for the Southeast. But again, as we said in the first quarter, we're going to be cautious about making new prediction. The numbers are positive, but we also see indicators where inventories did drive some of that. We've had some robust growth out in the steel manufacturing sector, and I'm sure, you saw the Wall Street article that said, "Prices are starting to come down." So those are the signals that we have demand for these products. On our Automobile segment, like I said in the opening statement, the production level of the unit is up 71%. But remember, at the peak of Automobile production, we were producing almost 14 million units. At a 71% increase, we'll be at 11 million, 11.5 million units for the country. So we're still not back all the way to normal.

Paul Patterson
Glenrock Associates

So you're thinking about 2.9% for the second half. What did the economic summit suggest you guys have to look at in terms of 2011?

David M. Ratcliffe
Former Chairman & CEO

No, I don't have that in front of me.

Paul Patterson
Glenrock Associates

The RTP, any change in that or is it pretty much what you guys saw last quarter as well and what you guys projected for the year?

David M. Ratcliffe
Former Chairman & CEO

It's pretty much on track as far as what we projected.

Operator

And your final question will come from the line of Andrew Levi [ph] with Tudor, Pickering.

Analyst

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Just to start back on the equity question. Why not do a chuck equity and shred the balance sheet and move on. What's the taking on kind of trying to do the drift in the East out and not just doing one big chunk and kind of making the debt holders happy, fixing the balance sheet and making nobody sappy?

William Paul Bowers
Executive Vice President

Andrew, we've had that discussion last year, when we opened up the dribble program, our continuous equity offering. And what we said at the time, which is true as well as today is one that provides us a lot of flexibility to time the market appropriately for the value that we can get for our shares in the marketplace. Like last year, our total program provided $1.3 billion, of which about $700 million was associated with the dribble program. I think that is the right mechanism to match our needs in the capital additions that we see to put equity into the marketplace.

Analyst

And on the dribble program, do you have to authorize more, or basically, you can just continually do it without any type of board increase or anything like that?

William Paul Bowers
Executive Vice President

Each year, we issue a shelf associated with the number of shares that we can put up in the marketplace.

Analyst

And where are we right now on that?

William Paul Bowers
Executive Vice President

I believe we have 10 million shares on the shelf right now.

Operator

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

David M. Ratcliffe
Former Chairman & CEO

Yes, thank you, Michael. I appreciate your help. Paul Bowers just breathed a huge sigh of relief that this is his last earnings call. I want to take this opportunity to say thank you to him. He's done an outstanding job in his role as Chief Financial Officer of Southern. I know he's had an opportunity to get to know a lot of you folks and I hope you'll express your appreciation to him. He's not getting out of the lineup, he's just moving into another spot. Art Beattie is appropriately concerned about picking up that responsibility, but he's doing a good job. Tom Fanning is waiting in the wings to take over the reins. And all of that is as it should be. We look forward to the October call and thank you for joining us today.

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

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