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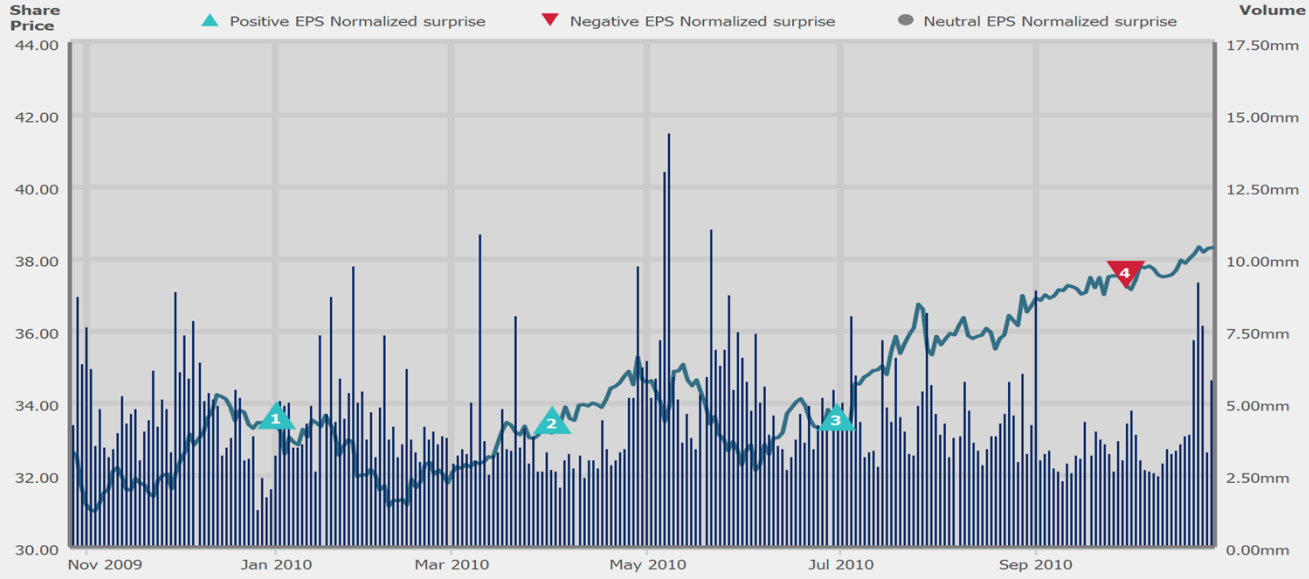
FQ3 2010 Earnings Call Transcripts

Wednesday, October 27, 2010 5:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2010-			-FQ4 2010-	-FY 2010-	-FY 2011-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.99	0.98	▼(1.01 %)	0.24	2.41	2.52
Revenue (mm)	5355.20	5320.00	▼(0.66 %)	3284.82	17173.65	17571.52

Currency: USD
Consensus as of Oct-27-2010 2:32 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2009	0.30	0.31	1 3.33 %
FQ1 2010	0.44	0.60	2 36.36 %
FQ2 2010	0.59	0.62	3 5.08 %
FQ3 2010	0.99	0.98	4 (1.01 %)

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Call Participants

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David M. Ratcliffe
Former Chairman & CEO

Glen A. Kundert
Vice President, Investor Relations

Thomas A. Fanning
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KeyBanc Capital Markets Inc., Research Division

Steven Isaac Fleishman
BofA Merrill Lynch, Research Division

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Presentation

Operator

Good afternoon. My name is Celeste, and I will be your conference operator today. At this time, I would like to welcome everyone to the Southern Company Third Quarter 2010 Earnings Conference Call. [Operator Instructions] I would now like to turn today's call over to Mr. Glen Kundert, Vice President of Investor Relations. Please go ahead, sir.

Glen A. Kundert
Vice President, Investor Relations

Thank you, Celeste. Welcome to Southern Company's Third Quarter 2010 Earnings Call. Joining me this afternoon are David Ratcliffe, Chairman and Chief Executive Officer of Southern Company; Tom Fanning, President of Southern Company; and Art Beattie, Chief Financial Officer.

Let me remind you 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 on this call. You can access the slides on our Investor Relations website at www.southerncompany.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 and Chief Executive Officer.

David M. Ratcliffe
Former Chairman & CEO

Thank, Glen. And as most of you know, this is my last earnings call. And as we've announced, Tom Fanning, currently the President, will take over on December 1 as Chairman, President and CEO. So today, I have the privilege of delegating this lead position on our call to Tom Fanning, someone that you all know very well. So Tom?

Thomas A. Fanning
Chairman, President & CEO

Thank you, David. On behalf of all of Southern Company's employees, I'd like to thank you for your service to our company. Your leadership over the years had made us all proud. You've delivered outstanding results for the benefit of our customers in the Southeast, and you've done it in the right way. We wish you the best in the years ahead.

Now turning to those of you on the call. Good afternoon, and thank you for joining us. As you can see from the materials we released this morning, we had a solid quarter, which was influenced by warmer weather and the continuing industrial recovery here in the Southeast.

As you know, we have a rate [ph] case proceeding underway in Georgia. Georgia Power's witnesses presented testimony earlier this month in the case. And you may have seen where the PSC staff and intervenor testimony was filed last week on October 22. The PSC staff and intervenor hearings will be held on November 8 through 10. The case appears to be moving forward on schedule, and we expect a decision on or about December 21.

Finally, I'd like to mention how well our generating fleet performed the during the peak season from May 1 to September 30. During this peak season period, we experienced record customer demand for electricity of more than 97 million-megawatt hours. We also set a record for natural gas generation, producing 20% more electricity from our natural gas fleet than ever before.

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Our fleet once again delivered exceptional reliability, producing a peak season equivalent forced outage rate, or EFOR, of 1.67%. This is the ninth time in the past 10 years that our EFOR has been below 2%. The industry average is 7%. This history of exceptional operational performance demonstrates our commitment to providing reliable service to our customers.

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

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Thanks, Tom. First of all, let me say that I've enjoyed meeting and getting to know many of you over the past few months, and I hope to meet many more of you in the weeks and months ahead.

As Tom said, our third quarter performance was solid. The results continue to highlight the consistency of our business plan to provide regular, predictable and sustainable performance over the long term, while keeping customers the central focus of everything we do. In the third quarter of 2010, we reported $0.98 a share compared with $0.99 a share in the third quarter of 2009 or a decrease of $0.01 per share.

Before we turn to the financial highlights discussion, I'd like to discuss two important regulatory matters that affected our third quarter earnings.

First, as you probably recall, in August of last year, the Georgia Public Service Commission approved Georgia Power's request to amortize $324 million in a regulatory liability account related to cost of removal obligations as a reduction to expenses. Under terms of the order, Georgia Power was allowed to amortize up to $108 million in 2009 in achieving a retail return on equity of up to 9.75%. Georgia Power amortized $48 million under this quarter for 2009. In 2010, Georgia Power is allowed to amortize up to $216 million in achieving a retail ROE of no more than 10.15%. Due primarily to weather-related revenues, Georgia Power expects to only amortize approximately $150 million in 2010. Amortization in the third quarter of 2010 was reduced to reflect that lower expected level, with year-to-date amortization under the order for 2010 totaling approximately $113 million.

While this order eliminated the need to file a rate case in 2009, and we believe was the right thing to do for customers in the midst of a major recession, it did have the consequence of limiting the company's return on equity in 2009 and 2010, below authorized levels.

Turning now to the Alabama jurisdiction. In August of this year, the Alabama Public Service Commission granted Alabama Power the ability to increase accruals to its natural disaster reserve. Under the new order, Alabama Power is allowed to make additional accruals to the reserve regardless of the balance in the account. The intent is to use these additional accruals for storm-related expenses or reliability expenses and to defer, or perhaps even avoid, higher charges to customers. The Alabama Public Service Commission has oversight of both the additional accruals and the utilization of the accruals for reliability expenditures.

Given the better-than-expected recovery in the industrial sector and warmer weather, Alabama Power opted to accrue an additional $40 million into the reserve in the third quarter, which could be earmarked for future reliability improvements. The current balance in the natural disaster reserve at the end of the third quarter is approximately $118 million.

The collective effect of these regulatory actions in Alabama and Georgia, which will both work to mitigate rate increases, reflect our continuing philosophy of operating our business for the long-term benefit of our customers and shareholders and working with our regulators to maintain a constructive regulatory environment.

Now let's turn to the major factors that drove our third quarter numbers compared with the third quarter of 2009. First, the negative factors.

Non-fuel O&M reduced earnings by $0.15 a share in the third quarter of 2010 compared to the third quarter of 2009. This change is due primarily to a return to normal maintenance spending in 2010 for both

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our fossil hydro fleet and our transmission and distribution network. The expanded natural disaster reserve at Alabama Power was also a factor in this category, as were higher ANG [ph] costs in the third quarter compared to the third quarter of 2009. O&M spending in our traditional business year-to-date is 13.8% higher than it was in the same period of 2009, reflecting these higher levels of spending. Year-to-date for 2010 compared to the first nine months of 2008, our O&M spending on a compound growth rate basis increased by 2.5%, excluding the natural disaster accrual in Alabama Power made this year, showing that we have returned to more normal levels of O&M spending.

Higher depreciation and amortization in the third quarter of 2010 compared with the third quarter of 2009 reduced our earnings by $0.07 a share. This was driven primarily by reduced amortization of Georgia Power's regulatory liability, which I referred to earlier, as well as increased depreciation for environmental and transmission and distribution investments.

Lower wholesale revenues in our Traditional business reduced our earnings by $0.03 a share in the third quarter of 2010 compared with the same period in 2009. These reductions were due primarily to the 1,200 megawatts of capacity at Plant Miller in Alabama returning to retail service in 2010 after the expiration of a long-term wholesale contract. Customers will benefit from the return of this facility to retail service, since it is one of our most efficient and lowest-cost facilities.

Taxes other than income taxes reduced our earnings by $0.01 a share in the third quarter of 2010 compared with the third quarter of 2009. Lower revenues at Southern Power reduced our earnings by $0.01 per share. This decline in revenues is due primarily to slightly lower levels of contracted capacity and reduced demand from full requirements customers as a result of the recession. Finally, an increase in the number of shares outstanding reduced our earnings by $0.04 a share in the third quarter of 2010 compared with the same period in 2009.

Now let's turn to the positive factors that drove our earnings for the third quarter of 2010.

Warmer-than-normal weather in the third quarter added $0.15 per share to our earnings for the period compared with the third quarter of 2009. Retail revenue impacts in our Traditional business added a total of $0.11 per share to our earnings in the third quarter of 2010 compared with the same period in 2009. This impact was driven primarily by non-fuel revenue changes related to the recovery of environmental expenses, a portion of Plant Miller in Alabama returning to retail service and other investments at our operating companies. Increased usage in industrial growth added $0.02 a share to our earnings in the third quarter compared with the third quarter of 2009. Finally, other operating revenues, primarily transmission revenues, added $0.02 a share to our earnings in the third quarter of 2010 compared with the third quarter of 2009.

In conclusion, we had $0.31 of negative items compared with $0.30 of positive items or a negative change of $0.01 per share over the third quarter of 2009. So overall, our quarter came in at $0.98 per share.

Before I discuss our earnings estimates for the fourth quarter, I'd like to update you on our outlook for the economy for the remainder of 2010.

We are continuing to see a gradual economic recovery here in the Southeast, which is being driven primarily by the industrial sector. Industrial activity in the Southeast continues to expand, driven by modest economic growth domestically and more robust growth internationally. Our analysis and recent updates from our economic summit panelists suggest that we are seeing an increase in manufacturing productivity, use of temporary employees and longer work hours without the addition of new permanent employees. Panel members tell us that this situation is likely to continue until employers are convinced that the recovery is sustainable. When productivity improvements and temporary labor can no longer sustain higher levels of production, then we will see job creation and a corresponding improvement in the wage growth and consumer confidence, the final stage of economic recovery cycle. Early signs of this transition are beginning to appear, as the unemployment rate in Alabama has fallen from 11.1% to 8.9% in the past nine months.

Turning now to our own customer data. Industrial sales increased by 7.3% in the third quarter of 2010 compared with the third quarter of 2009. Industrial sales in the third quarter were 94% of pre-recession

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levels, and they continue to exceed our expectations. On a year-to-date basis, the most significant increases were in primary metals, up 37.7%; transportation, up 14%; and chemicals, up 15.5%.

One of our major steel producers in Alabama reports growing demand for its products, which serve the auto industry. In conjunction with this trend, the steel industry is forecasting an 8% increase in demand for its products in 2011. ThyssenKrupp continues to ramp up its operations in Alabama, with stainless steel production scheduled to begin in 2012.

In the transportation sector, all of the auto manufacturers in our service territory are operating five days a week, with some Saturday production. Kia Motors and Hyundai Motors have announced that they are consolidating all of their SUV production at the new Kia facility, adding 600 new jobs at their West Point, Georgia plant. Hyundai's facility in Alabama will be fully utilized for the production of models other than SUVs.

The exporting of goods produced in the Southeast continues to help support the region's economy. In the third quarter, the Port of Savannah, which is the fourth largest container port in the U.S., set an all-time record for product shipped to overseas markets, surpassing the previous records by more than 20%. Retail consumer goods, paper and paper products, food and automobiles were among the top 10 commodities shipped from ports in our territory.

Continuing with customer category data. Adjusting for weather, residential sales increased by 0.1% in the third quarter of 2010 compared with the same period in 2009. Commercial sales continued to contract, declining 0.8% on a weather-normal basis in the third quarter of 2010 compared with the third quarter of 2009. For the year-to-date 2010 compared with the same period in 2009, commercial sales are down 0.7% on a weather-normal basis.

Total year-to-date retail sales are better than we originally expected, led by the industrial sector. Thus far, these improvements have largely occurred without significant job creation. As the recovery continues and the economy expands, this is expected to translate into improved opportunities for growth in our Residential and Commercial sectors.

Turning now to our earnings guidance for the remainder of 2010. Our third quarter results exceeded our estimate by $0.04 per share. As we've discussed, the third quarter was largely influenced by warmer-than-normal weather and an improving industrial sector, but offset by higher O&M expenses and the impact of these regulatory items that I discussed earlier. For the remainder of the year, it's important to remember that two major factors will have a limiting effect on our earnings: one, a more normal level of O&M spending; and two, an increased number of shares outstanding.

Given these factors, our earnings estimate for the fourth quarter is $0.16 per share, which means we expect to earn $2.36, which is at the top of our guidance range. It is also important to remember that in the long term, we remain focused on growing earnings per share at an average of 6% and in a range of between 5% and 7%.

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

David M. Ratcliffe
Former Chairman & CEO

Thanks, Art. And as Tom and Art have explained, we had a very good quarter. Clearly, weather and an improving industrial sector have influenced our results this year.

Certainly the economy, primarily industrial sales, have exceeded our expectations for the first nine months of this year. We always plan for normal weather, but the weather in 2010 has been anything but normal. We believe that capturing some of this unexpected upside for the benefit of our customers as we were allowed to do in Alabama is absolutely the right thing to do for the long-term sustainability of our business. As we've said countless times, the customer is at the center of everything we do. If we operate our business with the customer in mind, we believe we can continue to deliver regular, predictable and sustainable results over the long term.
At this point, we are ready to take your questions. So if Celeste will now take the very 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

And so the only thing in the quarter that was done that was sort of outside of the plan when you entered the quarter was to use the opportunity to increase the reserve in Alabama. Or was there any other sort of opportunity taken to accelerate maintenance or move projects around in the quarter of the year because of the opportunity that was created by the weather? Or is that sort of recent reserve, the sum total of those things?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Greg, this is Art. We have done a lot of maintenance this year in comparison to last year. Yes, the warmer weather has helped us do some additional things in terms of vegetation management and those kind of areas. We spent $190 million, almost $200 million more in the third quarter this year in O&M than we did last. And you've got to remember that we've got more facilities to maintain and operate this year. There's five new scrubbers operating on the system and two new bag houses. So O&M is a function of that plus also some increased costs associated with labor.

Gregory Harmon Gordon
Morgan Stanley, Research Division

But if it was possible to sort of suss out the things of that you had to deal with versus the opportunities you took because the heat drove a little bit of extra revenue. You had the $0.03 in Alabama. Were there any other items that were accelerated into the quarter because you have an opportunity to, sort of, make hay while there's sunshine?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, we're doing a lot of that in the fourth quarter. We've got many more megawatts of outages scheduled in the fourth quarter of this year compared to the last year, which is again a part of our equation for the fourth quarter and where earnings will come in.

Operator

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

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Could you remind us how much equity was actually issued in the quarter, and where you are year-to-date versus your plan for the full year?

Thomas A. Fanning
Chairman, President & CEO

Sure, Ali. We've issued $610 million year-to-date in the equity program. I do not have the breakdown of what amount was issued in the third quarter, but again, most of that is funded through our programs, the dividend reinvestment, stock options, savings plan, those kind of issues. We did issue $73 million through our dribble program in the third quarter. Is that the kind of detail you're needing?

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

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And what is the current plan for the full year? Are you pretty much done?

David M. Ratcliffe
Former Chairman & CEO

Well, again, we'll have -- a lot of our programs will operate through the end of the year. We never make a comment on the dribble program. We'll use that program as we need, as need sees fit. I will remind everyone that the company will take advantage of bonus depreciation and some other tax-advantaged items that will help probably defer some of our financing, and we'll talk more about that in the January call.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

But just as a follow-up, I mean, is it fair to think about $500 million to $600 million as kind of an annual run rate going forward, or as you mentioned, the footing [ph] of financing costs could blow those numbers in future years?

David M. Ratcliffe
Former Chairman & CEO

The $400 million to $500 million is what we normally fund through our base programs.

Operator

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

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

Can you just review again what the impact of backing up the amortization and the Alabama contribution was before earnings?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Paul, basically, it's about $0.07 a share. I believe $0.04 for the Georgia reversal and $0.03 for the Alabama reserve allocation.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

And your due rate case is at July of '11 test year, right?

David M. Ratcliffe
Former Chairman & CEO

Which state, Georgia?

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

Georgia, yes.

David M. Ratcliffe
Former Chairman & CEO

August 31.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

August 31, '11?

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Arthur P. Beattie
Former Executive VP & Chief Risk Officer

It begins August 31 of '10 and then goes into '11. It's a full year, isn't it? August 1 for 12 months.

David M. Ratcliffe
Former Chairman & CEO

I think it's in August to August.

Operator

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

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

On the Georgia Power rate case, I thought you had updated to ask for a calendar year forward test year and there's been some pushback from the intervenors about whether to do that or do a summer to summer. That's my first question. The second is it seems that in Mass [Massachusetts], the intervenors have basically come out opposed to the alternative rate plan, opposed to things like the environmental and the capacity cost recovery riders. How do you think about, if those things aren't implemented, what does that mean for the timing of potential future rate case proceedings in Georgia?

David M. Ratcliffe
Former Chairman & CEO

Well, Michael, you know that we've operated under a three-year rate plan with the Georgia commission, I guess the last five rate cases they filed, the last 15 years. Obviously, we proposed some improvements, we balked [ph] to the three-year rate plan process. The commission obviously will make their decision. It could be another three-year rate plan. It could be some pieces of this or maybe full adoption. That's for the commission to decide, and that's what they are in process of doing.

Operator

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

Steven Isaac Fleishman
BofA Merrill Lynch, Research Division

Just with respect to the growth rate, I think you reaffirmed the 5% to 7%. Is that off of the, when you think about it, the 2010 expected base?

David M. Ratcliffe
Former Chairman & CEO

That's correct.

Steven Isaac Fleishman
BofA Merrill Lynch, Research Division

So it's not like going back to -- because you had a couple of years that were a little below that, given the economy and the like. But that's off of the base in 2010?

David M. Ratcliffe
Former Chairman & CEO

That's correct. It's the range, though.

Steven Isaac Fleishman
BofA Merrill Lynch, Research Division

5% to 7% range?

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David M. Ratcliffe
Former Chairman & CEO

Correct.

Thomas A. Fanning
Chairman, President & CEO

It's growing in the range of earnings that we talked about.

Steven Isaac Fleishman
BofA Merrill Lynch, Research Division

So starting with the to 2.30% to 2.36%, then growing to 5% to 7%?

David M. Ratcliffe
Former Chairman & CEO

Right.

Steven Isaac Fleishman
BofA Merrill Lynch, Research Division

And I guess just -- because conceptually, part of the reason the 2.30% to 2.36% was lower was due to the weak economy. And now that it's come back somewhat and in theory, would that mean that growth rate in theory should be either better or off of a higher base?

Thomas A. Fanning
Chairman, President & CEO

Well, we've also had higher O&M kind of influencing that. But if you look forward, the economy, you say it's recovered. It's certainly recovered on the industrial side. We hope that bleeds over to the residential and commercial growth in the future. But we're not prepared to talk about that, and we'll come back to you in January and get those issues.

Steven Isaac Fleishman
BofA Merrill Lynch, Research Division

And I guess one other question is just with respect to the testimony of the parties that came out of the Georgia case. How do you feel about the chance to be able to settle that case at this point given what you saw?

David M. Ratcliffe
Former Chairman & CEO

I'll answer that one since I'm going out the door. Steve, we've done this for at least 5x now. So I mean, we've always reached a settlement. We are optimistic about that, and we think the attitude of the commissioners is good and positive. I think the filing by the staff was bounded the low end. I mean, I think there is ample room to find a settlement, like we always have.

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 touch on CapEx. I know you haven't provided -- I didn't see any updated CapEx numbers in the quarter. And I think you'll probably wait till the fourth quarter to come in. Just considering some of the environmental restrictions coming down the pipe, I think there was a three-year plan of $2.4 billion from 2010 to 2012. What are we looking at when we kind of roll in 2013 and roll off 2010 which was a lighter year, I believe, in environmental control?

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Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Nathan, we're not ready to talk about that. That will be a January discussion when we put forth another set of CapEx that includes 2013. We're in the process of building those now, but we're just not ready to communicate anything about that.

Nathan Allen Judge
Atlantic Equities LLP, Research Division

Asked a different way, if there is a resurgence [indiscernible](45:40:5) -- take control of the House and maybe some more seats in the Senate, how do you see the political situation unfolding as it relates to potential EPA rules?

David M. Ratcliffe
Former Chairman & CEO

Nathan, I think the situation will remain pretty stable. I think everybody would suggest -- all polls seem to indicate that the Republicans take over the House, as you suggest, probably not the Senate, which means the House is still pretty evenly divided and difficult to pass any complex legislation. Just as soon as you get the House seated, you got to remember that people will start focusing on presidential election in '12. So the likelihood that they'd take up something as complex as climate legislation or even a rewrite of Clean Air Act would be a challenging proposition going into a presidential race. Now what that means is if we can't do things legislatively, then we're destined to continue on a very difficult regulatory route with EPA. And as you have seen already, there will be continuing challenges to almost every rule-making whether that happens to be mercury or 316(a) on the water side or any of the other House regulations. That will simply continue and it will be a slow, difficult process.

Nathan Allen Judge
Atlantic Equities LLP, Research Division

Do you want to find potential retirements as it pertains to potential rules, have you given us any guidance as far as 316 (b), how that could potentially impact the company?

David M. Ratcliffe
Former Chairman & CEO

No, we haven't given you any. We're still trying to get our hands around all that, obviously, and understand what the regulatory proposals will be. And it's pretty difficult to assess the impact without knowing what the definitive rules will be, but we are running different scenarios.

Nathan Allen Judge
Atlantic Equities LLP, Research Division

On the CCB [ph](47:56:3), that has been promulgated. Is there any estimates of cost? Or is that incorporated in your guidance?

David M. Ratcliffe
Former Chairman & CEO

The coal combustion by-product has been promulgated but haven't been finalized. And again, we're running different kinds of scenarios there. Obviously, the difference between hazardous and nonhazardous is pretty significant. The hazardous would be much expensive than a nonhazardous. And again, until you get final Regs, it's pretty hard to determine exactly what you do. And even then, you've got to look at that in the context of what else might occur for the coal fleet.

Operator

Your next question comes from the line of Marc de Croisset with FBR Capital Market.

Marc de Croisset

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FBR Capital Markets & Co., Research Division

First, a clarification. When you say growing earnings 5% to 7%, you mean, of course, earnings per share, correct?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

That's correct.

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

A question on demand on the commercial side. What do you see -- what would be the factors that could lead to a rebound in that customer group? And do you expect some kind of rebound in 2011 based on discussions with your economists, or anything that you might be seeing internally?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

We've got a couple of indicators we looked at in the commercial side. It really has been weak. The office vacancies are one thing that we kind of look at and basically for the last two or three quarters, they've held pretty constant at between 20% and 25%. It's not a good number, but it hasn't gotten any worse. Sales tax collections have risen for the first time since 2007, and that's a good indicator that retail sales are picking up. But basically, the commercial market will follow the residential market. And until the consumer gets back into the game and we see some progress in the unemployment picture, the commercial market growth is probably going to lag. Now some of our economic panelist members have indicated that for 2011, GDP growth may not be any better than it was in '10. There's not a lot of strong drivers out there pushing it. But we believe that the Southeast still has an advantage here, mostly because of the industrial sector and our productivity and efficiency of the facilities in the Southeast. So we're hopeful for some bleed off of that performance into these other markets.

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

So would it be fair to characterize that it follows -- you expect residential demand to start recovering first and then you might expect commercial demand to recover following that. Is that a fair characterization?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

That's correct.

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

If natural gas stays where it is currently, do you have a sense right now for the coal tonnage that you might be consuming in 2011? I think a number that was floated in the past, I can't recall, for 2010 or so was 70 million tons or 77?

Thomas A. Fanning
Chairman, President & CEO

Yes. This is Tom Fanning. I'll just jump in there. Gas prices have certainly had a change in how we've generated electricity in the recent history. In the past, Southern Company has generated something like 70% of our energy at coal-fired generation. That number has fallen considerably and has been displaced by natural gas. So what we see right now is coal down into 60% or below, even as low as 56%, and the delta being taken up by natural gas, with nuclear remaining constant and hydro being in the 2% to 3% range.

Operator

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

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

What are you kind of hearing -- I know EEI has had some high-level conversations with Lisa Jackson. What do you see as potential for a softening of regulations going forward?

Thomas A. Fanning
Chairman, President & CEO

When you say softening the regulations -- I wouldn't go there because she has a responsibility she's got to fulfill. Some of that is code-directed. I think what we are hoping for is a more rational approach in terms of phasing in these regulations over a period of time. Again, there's still some room on coal combustion by-products. There's still room on mercury MAC. There's still room on the ozone standards. So none of those have been finalized at this point. We are hoping that the outcome there can be more reasonable in the sense that it's achievable at reasonable cost and a reasonable time frame.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

Do you think that MAC standard is going to carry a lot weight or just in compliance?

David M. Ratcliffe
Former Chairman & CEO

You mean the mercury MAC?

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

Yes.

David M. Ratcliffe
Former Chairman & CEO

I think the difficulty there is achievability. The technology exists pretty comfortably at a certain level, but the higher you go in terms of removal rate, to get up into 90%, 95% removal. We're just not sure there's a technology that can achieve that.

Thomas A. Fanning
Chairman, President & CEO

This is Fanning. Coal is not natural gas. And when you think about the different kinds of coal and the different kinds of technology that are used to combust coal, it's difficult to assign top 15% of any sort of technology to all coal combustion. So it's a difficult proposition even to consider.

Operator

[Operator Instructions] You have a question from the line of Greg Gordon with Morgan Stanley.

Gregory Harmon Gordon
Morgan Stanley, Research Division

Follow-up question on the mercury rules and the ozone rule and the -- I mean, the whole train wreck. The chart that you guys have laid out for us. As you look at the backdrop and the uncertainty around timing and technological efficacy, how much time have you taken to think about sort of what I guess call the gas dividend? With natural gas so plentiful and cheap, is Southern considering as an option a much more aggressive diversification away from coal? Or is there enough uncertainty around the long-term pricing supply that you'd still want to stay heavily relying on coal in the foreseeable future?

Thomas A. Fanning

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Chairman, President & CEO

Greg, this is Tom. Our position on that remains confident. We believe that the right national energy policy is one that has a balanced approach to the choice of fuels. So we believe and that's why we're investing in, new nuclear, 21st century coal, as we're doing in Kemper County. We believe that gas will play an important role, going forward and likely will increase in its percentage. We believe there must be an expansion of renewables, however, we all take into account the concerns about the cost effectiveness and reliability of those issues and in fact, energy efficiency, that is a generation you don't have to produce. It's something that will be important in the future. So saying that, this notion of the rush to gas is something that you probably won't see us do. We've already laid plans for new nuclear. We've laid plans for clean coal. We have brought back one of the most efficient and inexpensive coal plants in America for the benefit of Alabama's customers. And with Plant McDonough in Georgia inside the perimeter highway for the city, we're in the process of retiring a coal plant 500 megawatts and building in its place 2,550 megawatts of highly efficient modern combined cycle gas. You will see us use all of those. The logical consequence is gas will be more important, but it will not be to the exclusion of the other fuels.

David M. Ratcliffe
Former Chairman & CEO

The only thing I'd add to that is while I think everybody feels a lot better about supply on the gas side, to your question, the wildcard is still what's the long-term price of natural gas? At what price does it -- at what price does shale gas get to market.

Thomas A. Fanning
Chairman, President & CEO

And I'll tell you just one more on that. Values of function and risk in return and no matter what you think of nominal prices of gas, we believe that it will remain volatile. And so volatility is that important as the nominal price to industrial America and the welfare of our customers.

Operator

Your next question comes from the line of Jonathan Reeder with Wells Fargo.

Jonathan Reeder
Wachovia Securities

If I heard correctly, you're forecasting then $37 million of core amortization during the fourth quarter. Can you remind us what it was during the fourth quarter last year?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, actually, we reversed more than we accrued in the fourth quarter of 2009. And so the delta will be -- let's see, can we get back to you on that?

Jonathan Reeder
Wachovia Securities

Sure. And then the other question I had regarding just kind of fourth quarter. Are you planning on, I guess, accruing anymore to the natural disaster reserve?

Thomas A. Fanning
Chairman, President & CEO

We don't have any current plans. But again, that is highly dependent on weather, the spending on the O&M. There's lots of factors that could go into that stage.

Jonathan Reeder
Wachovia Securities

But in the $0.16 guidance, that's not baked in as of now?

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David M. Ratcliffe
Former Chairman & CEO

No, sir.

Operator

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

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Can you just give an update on litigations still outstanding on Vogel and on Kemper County?

David M. Ratcliffe
Former Chairman & CEO

To my knowledge, the only thing on Kemper County is the Sierra Club lawsuit that was remanded from Supreme Court to the Chancery Court in Harrison County, Mississippi. I can't remember if there's litigation on Vogel there may be a challenge from their environmental group, the river keeper kind of group on water use.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Yes, I thought one of those groups, maybe it was Friends of the Earth was challenging head-to-head challenged the original order and maybe even the text of the law that drove the regulation a little bit of a timing technicality issues if I remember correctly.

David M. Ratcliffe
Former Chairman & CEO

We can follow-up with you with a little bit more detail on the status of that soon.

Operator

[Operator Instructions] You have a follow-up question from the line of Nathan Judge with Atlantic Equities.

Nathan Allen Judge
Atlantic Equities LLP, Research Division

I wanted to follow-up on a question about coal and coal supply, kind of two related. Where do you stand with your coal inventories? And the second is, what potential is there of actually blending in PRB thermal into your mix to help perhaps see through the transport rules, maybe some of the compliance rules that are coming down or is that even an option for Southern?

David M. Ratcliffe
Former Chairman & CEO

Nathan, we are currently at 43 days. I believe at the end of last year, we were 57 days, with the warmer temperatures that we've had this summer, we've taken inventories down quite a bit. Our target is still 38 days, so we're a bit above where we target in terms of blending in Powder River Basin. And I believe we do that at some of our plants.

Thomas A. Fanning
Chairman, President & CEO

This is Fanning. We have done some experiments around -- I guess the most significant effort there is at Plant Daniel where we blend in somewhere around 20% to 25% of the Powder River Basin in with the other coal. It always is an option. But what you got to remember is these boilers I think sometimes to people seem like primitive technology when in fact, they're not. They're very finely tuned machinery, and

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they require a very kind of tight band of the chemical quality of the coal in order to work properly. So it's not as widespread as you might think.

Nathan Allen Judge
Atlantic Equities LLP, Research Division

As far as sifting costs are concerned for your coals, actually coal supply, I heard comments about increased fees coming from pricings on the railroad. Can you just give us an insight on what you're seeing there and it is becoming to your level of comfort where you perhaps look at other options to sift coal?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, we obviously contract with a lot of different rail providers. With our Western coal, the Powder River Basin coal, we were able to get longer-term contracts at fairly aggressive pricing. But those contracts kind of overlapped and have different time frames to them and generally are three to four years in tenure.

Thomas A. Fanning
Chairman, President & CEO

Art and I were at a conference, and we've heard a lot of theories about pricing power of railroads. We haven't seen that in Southern. Our railroad contracts, as Art said, match pretty closely and maybe extend just a little beyond our coal commodities contract. We just haven't seen any significant move in the price of the transportation charge to any significant degree.

Nathan Allen Judge
Atlantic Equities LLP, Research Division

And just lastly on the renewable side, I think you had - can you just give us an update on

[Audio Gap]

Nathan Allen Judge
Atlantic Equities LLP, Research Division

As far as the solar project that you have with regard to I think with Turner and how that's progressing?

Thomas A. Fanning
Chairman, President & CEO

It's going great. I think we already have -- it's a 30-megawatt deal. In New Mexico, we have 10 already operational, 10 more megawatts about ready to be turned on, and we'll finish the other by the end of November or December. It's doing fine.

Operator

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

James von Riesemann

In light of your growth aspirations, can you refresh our memories about your dividend policy?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, dividend policy that we'd like to follow is commensurate with our growth in earnings, regular, predictable, sustainable. We like to target it at a payout ratio in and around 70%. And we know how important the dividend is to our shareholders, and we're committed to maintaining that growth so long as our growth in earnings continues to hold that up.

Thomas A. Fanning
Chairman, President & CEO

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And we've been on a trajectory of $0.07 a year for the past few years, and that looks like an acceptable trajectory. Of course, that's up to our board.

Operator

And there are no further questions. I'll now turn the call back over to management for any closing remarks.

David M. Ratcliffe
Former Chairman & CEO

Thanks, Celeste. Let me just take a little personal liberty here to make some comment before we wrap this up.

As all of you know, in July, we announced that I would retire from Southern Company on December 1 of this year. During my tenure as CEO, I've enjoyed getting to know you and working with those of you in the financial community. You have my sincere respect for the job you do, and I thank you for your analysis and coverage of our company, your investment in our securities, as well as your advice and counsel.

During the past 40 years, it's been a privilege to work in this great company. And since 2004, it's been an even higher privilege and honor to serve as the Chief Executive Officer of the Southern Company. As I prepare to enter retirement, I know this company is in very capable hands. I know that Tom Fanning and his management team will do an outstanding job and will continue our long-standing tradition of excellence.

Thank you for joining us today.

Operator
Ladies and gentlemen, this does conclude today's Southern Company Third Quarter 2010 Earnings Call. You may now disconnect.

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