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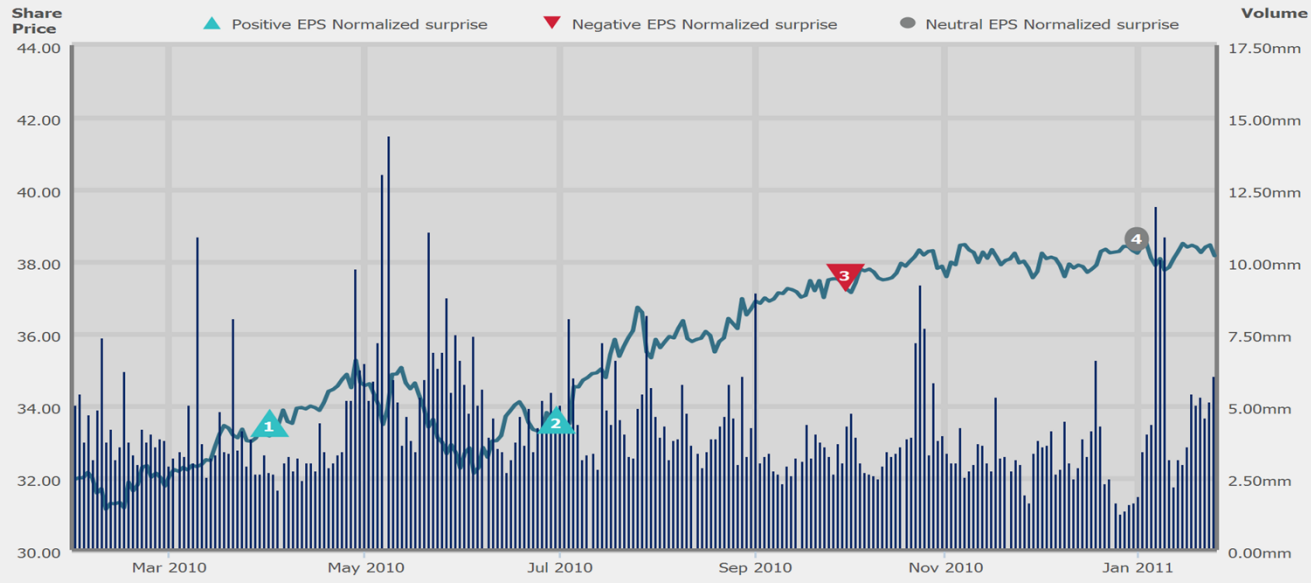
FQ4 2010 Earnings Call Transcripts

Wednesday, January 26, 2011 6:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2010-			-FQ1 2011-	-FY 2010-			-FY 2011-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	0.18	0.18	0.00	0.56	2.37	2.37	0.00	2.53
Revenue (mm)	3509.46	3771.00	▲7.45	4588.92	17218.62	17456.00	▲1.38	17806.10

Currency: USD
Consensus as of Jan-26-2011 3:40 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2010	0.44	0.60	1 36.36 %
FQ2 2010	0.59	0.62	2 5.08 %
FQ3 2010	0.99	0.98	3 (1.01 %)
FQ4 2010	0.18	0.18	4 0.00 %

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Table of Contents

Call Participants 3
Presentation 4
Question and Answer 11

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Attachment to STF-238-7

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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 Fourth 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, and welcome to Southern Company's Fourth Quarter 2010 Earnings Call. Joining me this afternoon are Tom Fanning, Chairman, President and Chief Executive Officer of Southern Company; and Art Beattie, Chief Financial Officer.

Let me remind you that we will make forward-looking statements today in addition to providing historical information. There are various important factors that could cause actual results to differ materially from those indicated in the forward-looking statements, including those discussed in our Form 10-K and subsequent filings.

We'll be including slides as part of today's conference call. These slides provide details on information that will be discussed in today's call, such as our current three-year forecast for capital expenditures. In addition, these slides provide reconciliations for certain non-GAAP financial information that will be discussed on today's call. You can access the slides on our Investor Relations website at www.southerncompany.com, if you want to follow along during the presentation.

At this time, I'll turn the call over to Tom Fanning, Southern Company's Chairman, President and Chief Executive Officer.

Thomas A. Fanning
Chairman, President & CEO

Thank you, Glen. Good afternoon, and thank you for joining us. As you can see from the information we released this morning, we had a solid year of business results. Despite an economy that was still in a recovery phase, we continue to provide industry-leading reliability and the best customer service at affordable prices. We also continue to set operational, regulatory and financial milestones, which will benefit our customers and shareholders.

On the operational side of our business, we experienced record customer demand for electricity in 2010 of more than 209 million megawatt hours. This record demand, coupled with sustained low prices for natural gas, meant that our gas fleet increased its generation output more than 16% from 2009, and served approximately one quarter of our total demand during 2010. A buff on hydro generation organization achieved an industry-leading peak season equivalent forced outage rating of 1.67%. This compares favorably against the industry average EFOR of approximately 7%.

During 2010, we completed eight major environmental construction projects, including five scrubber installations with an average in-service cost 18% below the industry average, which reflects the capability of our in-house engineering and construction services organization.

On the Transmission and Distribution side of our business, 2010 was once again a strong year. For the second year in a row, our Distribution business posted its best reliability performance in our history. We also made significant progress on the installation of automated meters, installing more than 1.2 million smart meters, bringing the total number deployed to more than 3.1 million by year end, with a target of 4.5 million meters installed by 2012.

In our Nuclear business, the early site work for Units 3 and 4 at Plant Vogtle continues on schedule and on budget. The site excavation and subsequent backfill for the nuclear island areas are currently at the level

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which supports foundational and other infrastructure work to begin. The first nuclear components, the containment vessel plates, arrived on site in September and the first two licensing classes are underway to train future operators of the new units.

In December, the advisory committee on reactor safeguards, an independent group of technical advisors, provided its opinion to the NRC that the AP1000 design is robust and protecting public health and safety. Earlier this month, the NRC staff formally requested that the commission vote to publish the proposed rule in the Federal Register. This clears the way for the NRC to proceed with rule-making on the design certification.

In addition, on Monday of this week, the advisory committee on reactor safeguards formalized their approval of our COL through a letter to the commission, recommending that the Plant Vogtle combined construction and operating license application proceed. With the completion of these two licensing milestones, the regulatory process to receive the combined construction and operating license is on schedule. Finally, the Georgia Public Service Commission approved our first two semiannual construction monitoring reports, which detailed the first $608 million of investment in the new Vogtle units.

On the regulatory side of our Retail business, we had a constructive year. The Alabama Public Service Commission granted Alabama Power the ability to increase accruals to its natural disaster reserve. The intent is to use these additional accruals for either reliability and/or storm-related expenses, and to defer or perhaps even avoid higher charges to customers.

In Georgia, the state Public Service Commission staff, Georgia Power, and a host of other parties reached an agreement on the sixth successive three-year rate plan, which was approved by the Georgia Public Service Commission on December 21. Under the new alternative rate plan, which took effect on January 1, Georgia Power's base revenues will increase by $562.3 million in 2011.

In addition, in 2012, the company's base revenues will increase approximately $190 million and by approximately $93 million in 2013 to provide primarily for the recovery of expenses for the new gas-fired units at plant McDonough. The company's allowed retail return on equity range remains at 10¼% to 12¼ %. The alternative rate plan helps ensure that customers will have a reliable supply of energy and that the state will be able to meet projected economic growth in the years ahead.

At Gulf Power, all of the company's cost recovery clauses, conservation, environmental, capacity and fuel were filed, approved and implemented, contributing to a net 3% rate reduction for a residential customer in 2011.

Finally, in Mississippi, the state Public Service Commission certified the new IGCC facility, which is scheduled for commercial operation in May 2014. The certified cost for this facility is $2.4 billion, which includes the 17.5% portion of the plant which the South Mississippi Electric Power Association has agreed, in principle, to purchase.

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 are in advanced due diligence discussions for federal loan guarantees. The Mississippi Public Service Commission has also approved a collection of the current return on construction work in progress in rates.

I'm pleased to note that on December 16, we broke ground on the Kemper County IGCC facility. This facility now has a new name: Plant Ratcliffe. As you know, David Ratcliffe that retired last month as Chairman of Southern Company was instrumental in moving Southern Company's IGCC technology from the drawing board toward commercial operation. David's leadership as an advocate for coal gasification and carbon capture as the most environmentally sound means of utilizing the nation's most abundant reserve of coal, was instrumental in advancing the coal gasification process developed by Southern Company, Kellogg Brown & Root and the Department of Energy. The name change to Plant Ratcliffe is in honor of David's visionary leadership and development of this technology as part of Southern Company's and the nation's energy future.

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On the financial side of our business, we also performed extremely well. During 2010, we issued $772 million in new equity through our various plans, including the continuous equity offering program or, as we call it, our dribble program. On the debt side, we issued $3.1 billion in long-term debt, with an average interest rate of 3.2% and an average maturity of 15 years, securing low-cost financing for the benefit of our customers.

I'm also pleased to note that we reached conditional agreement with the Department of Energy on $3.4 billion of loans to help finance construction of Units 3 and 4, Plant Vogtle. We are working to finalize the loan guarantees and are scheduled to begin drawing on these loans when we receive the combined construction and operating license. As a result of this partnership with the federal government, our customers should ultimately save up to $20 million per year in financing costs.

At this point, I'll turn the call over to Art, who will continue the review of our financial performance for 2010 and provide earnings guidance for 2011.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Thanks, Tom. First, I'll review the fourth quarter and full year 2010 results. Then I'll discuss our sales data, sales forecast and economic outlook, followed by our capital budget and 2011 financing plan. I'll conclude with 2011 earnings guidance and our long-term financial objectives.

In the fourth quarter of 2010, we earned $0.18 per share. It's a decrease of $0.13 per share from the fourth quarter of 2009. For the full year, we earned $2.37 per share, an increase of $0.30 per share over the prior year. Excluding an adjustment made in 2009, related to the Mirant settlement, we earned $2.37 in 2010 or an increase of $0.05 per share over our results for 2009.

Now let's turn to the major factors that drove our numbers for the full year compared with 2009, excluding the adjustment related to the Mirant settlement. First, the negative factors. Non-fuel O&M reduced our earnings by $0.39 a share in 2010 compared to the full year in 2009. This change is due primarily to a return to normal operation and maintenance spending in 2010 for both our fossil hydro fleet and our transmission and distribution network. The expanded natural disaster reserve at Alabama was also a factor in this category, as were higher A&G cost in 2010 compared with 2009.

O&M spending in our Traditional business in 2010 was 15% higher than it was in 2009. Our O&M spending in 2010 compared to 2008 on a two-year compound growth rate basis increased by only 3.8%, excluding the natural disaster accrual Alabama Power made in 2010, showing that we have returned to more normal levels of spending.

Lower wholesale revenues in our Traditional business reduced our earnings by $0.03 a share in 2010 compared with the full year in 2009. These reductions were due primarily to 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 $0.04 per share in 2010 compared with 2009. And other income and deductions, primarily AFUDC, reduced our earnings by $0.01 per share during the same period. Parent company and other had a $0.03 per share negative impact on our earnings in 2010 compared with 2009. Lower revenues at Southern Power reduced our earnings by $0.03 per share. This decline in revenues is due primarily to slightly lower levels of contracted capacity and increased depreciation expense.

In our Traditional business, higher depreciation on additional environmental and transmission and distribution investments was offset by the continued amortization of the cost of removal obligations at Georgia Power, resulting in an immaterial change in depreciation and amortization in 2010 compared with 2009. Finally, an increase in the number of shares outstanding reduced our earnings by $0.12 a share in 2010 compared with the same period in 2009.

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Now let's turn to the positive factors that drove our earnings in 2010. Weather was a major earnings driver in 2010, as the impact of a very cold winter and prolonged summer heat added $0.34 per share to our earnings in 2010 compared to 2009. Retail revenue impacts in our Traditional business added a total of $0.23 per share to our earnings in 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, driven primarily by industrial demand, added $0.08 a share to our earnings in 2010 compared with 2009.

Finally, other operating revenues, primarily transmission revenues, added $0.05 a share to our earnings in 2010 compared with the prior year. In conclusion, we had $0.70 of positive items and $0.65 of negative items or a positive change of $0.05 per share compared with 2009. Overall, excluding the Mirant settlement in 2009, our year came in at $2.37 per share compared with $2.32 per share in 2009.

Before I discuss our earnings guidance for 2011, I'd like to update you on our economic outlook for 2011, as well as our capital budget and financing plan.

We'll begin with our discussion of the economy with our customer sales data. Total weather-normal retail sales grew by 2% in 2010 compared with 2009. Industrial sales increased by 7.7% in 2010 compared with 2009. Industrial sales in 2010 were 92% at pre-recession levels, and they clearly exceeded our expectations. On a full year basis, the most significant increases were in primary metals, up 35%; transportation, up 14%; chemicals increased by 10%; and sales to the paper sector were up 5%.

The industrial highlights in 2010 were growth in steel production, including the opening of the pith and crop [ph] facility in Alabama, which also confirmed an expansion in 2012, the strong showing by the transportation sector and an overall growth in exports.

In the transportation sector, all of the auto manufacturers in our service territory are now operating five days a week, with some Saturday production. As an additional benefit, every auto manufacturing job has a multiplier effect, creating additional jobs in various supply sectors to the auto industry. As a result, new jobs are being created as automotive suppliers locate in Alabama and in Georgia.

The exporting of goods produced in our region continue to help boost the Southeastern economy. In 2010, the Port of Savannah, which is the fourth largest container port in the U.S., set an all-time record for products shipped to overseas markets. Automobiles, retail consumer goods, chemicals, paper and paper products and food were among the top commodities shipped from ports in our territory.

Continuing with customer category data, adjusting for weather, residential sales remained flat with an increase of 0.2% in 2010 compared with the same period in 2009. As evidenced by the addition of more than 15,000 customers in 2010, homeowner vacancy rates continued to decline from 3.7% in 2009 to 2.9% in 2010. Building activity continued to be flat and depressed at about 25% of normal levels of activity.

Commercial sales continue to contract, declining 0.6% on a weather-normal basis in 2010 compared with the prior year. While commercial sales continued to contract in 2010, signs of stability have begun to emerge, as sales tax collections in Alabama and Georgia have been positive for the past six months, and office vacancy rates have stabilized at 23% for all of 2010.

Total retail sales in 2010 were better than we originally expected, led by the industrial sector. However, these improvements have occurred largely without significant job creation. As the recovery continues in 2011 and the industrial sector continues to grow, this expansion is expected to translate into new jobs and improved opportunities for growth in our residential and commercial sectors.

Traditionally, the Southeastern economy has been driven by a vibrant and expanding industrial base that has been supported by relatively low cost of doing business, an excellent transportation network and a modern infrastructure. In turn, a growing economy has encouraged strong migration to the region, which has helped drive residential and commercial growth.

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The great recession has certainly interrupted these trends, but we do not believe it has permanently altered the competitive advantages of the region. For 2011, we are forecasting a 2.6% increase in industrial sales compared to last year. This increase reflects new, more efficient manufacturing facilities in the Southeast, as well as a continuation of strong export activity. Residential sales are expected to increase by 1.6% in 2011 over 2010, as we continue to work off excess housing inventory and see more migration to the region. The commercial sector is expected to remain somewhat sluggish. But as I said earlier, we expect to see a recovery in the second half of 2011, with commercial sector finishing the year at 1.9% higher than 2010.

During 2010, we focused on providing you as much transparency on the economy as possible. Earlier this month, we reconvened our panel of economists and industry representatives to obtain their latest perspective on the economic outlook for 2011. The observations of the panel can be summarized with four main conclusions.

First, the economy continues to move forward, but the industrial sector and not consumers is leading the recovery. Consumer spending remains tepid, but could be boosted by the recent extension of the Bush tax rates and the payroll tax reduction.

Second, barring any jolts to the economy, GDP should be around 3% to 3½% in 2011. The second half of 2011 is expected to be stronger than the first half as we continue to work off excess housing inventory and see improvements in the commercial sector.

Three, the recovery is being led by capital-intensive industries such as auto, steel and chemicals, while construction-related industries will continue to lag behind.

Fourth, the Alabama economy with its strong manufacturing sector has turned the corner. The Georgia economy with its large construction and commercial sector is still recovering. However, there are bright spots, such as the Port of Savannah, improving economic activity in Metropolitan Atlanta and increased manufacturing in the Augusta area.

On the economic development front, recent activity included the Gulf Stream aviation facility in Savannah announcing a major expansion that will add 1,000 jobs. In Alabama, Austal USA and Mobile won a $3.8 billion contract to build 10 ships for the U.S. Navy by 2018 and plans to double its current employment.

In Mississippi, Stion Corporation is building a facility near Hattiesburg that will produce thin-film solar panels and will add 200 employees this year and up to 1,000 jobs within five years. So while the economic recovery in the Southeast remains gradual and is being led by the industrial sector, we still believe that the outlook for 2011 is more favorable than the U.S. economy as a whole.

Turning now to our capital budget. Our base capital expenditures for the three-year period, 2011 through 2013, are budgeted at $14.4 billion. The base level covers additional new generation, Vogtle Units 3 and 4, Plant Ratcliffe and the McDonough units in Georgia, as well as base environmental improvements at our flagship units: transmission and distribution growth, maintenance, nuclear fuel and other general improvements.

We have also included $1.2 billion at Southern Power. This includes $645 million for the completion of the Cleveland County and Nacogdoches facilities. Also, as we have in years past, we've included up to $600 million as a placeholder for potential new wholesale projects.

In the next slide, we have included compliance capital, ranging from $700 million to $2.9 billion for our traditional operating companies over the three-year period. This range is meant to capture additional expenditures, which might be required under rule-making being currently being contemplated by the EPA or through congressional legislation. The additional capital reflects new environmental controls which may be required, as well as potential replacement generation capacity and/or transmission upgrades that might be needed depending on the final rules that are promulgated by EPA. When EPA's rules are finalized, we will have a clearer picture of what our compliance strategy will be going forward.

Our external financing needs continue to be driven primarily by our capital expenditures. We expect to issue a mix of fixed incomes, securities and equity that support our A credit rating. As Tom mentioned

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earlier, we issued $772 million of new equity in 2010. As we evaluate our overall 2011 cash flow forecast, we expect that the additional bonus depreciation passed by Congress will have a $500 million to $600 million positive impact on our financing requirements.

With this additional bonus depreciation, we expect to meet all or at least a significant portion of our equity needs through our traditional Employee and Southern Investment Plans. These plans accounted for $629 million in 2010, and we anticipate a range of $500 million to $700 million going forward. We plan to keep our continuous offering program in place in order to provide flexibility in how we meet our needs in 2011 and beyond. On the debt side, we plan to issue approximately $8.8 billion to $9.9 billion in long-term debt over the three-year period.

Turning now to a discussion of 2011 earnings guidance. We exceeded our guidance range of $2.30 to $2.36 per share in 2010 by $0.01 a share. As I discussed earlier, 2010 was significantly influenced by weather and an improving industrial sector, but offset by larger O&M expenses.

In looking at our earnings outlook in 2011, our guidance will be consistent with the retail sales assumptions on Slide 12, and assume normal economic variability with slightly higher economic growth in 2011 than we saw in 2010. As is our practice, our guidance assumes normal weather and does not include any unusual or nonrecurring items.

In setting our guidance for 2011 and beyond, we have said in the past we believe we can deliver 6% long-term earnings per share growth within a range of 5% to 7%. Taking our 2010 guidance of $2.30 to $2.36 per share, that implies an EPS trajectory shown on the slide.

For a specific guidance in 2011, we expect to deliver earnings in the high end or just above that range. Our specific guidance for 2011 is a range of $2.48 per share to $2.56 per share. From the midpoint of our range in 2010 to our midpoint of guidance for 2011 represents earnings per share growth of 8.2%. Finally, our estimate for the first quarter of 2011 is $0.47 per share.

Let's turn now to our financial objectives for 2011. To achieve our objective of providing shareholders a superior risk-adjusted return over the long term, our financial plan assumes top quartile ROE performance which in turn, supports a strong, stable dividend and industry-leading financial integrity. Our long-term goal is to grow the dividend consistent with a long-term target payout ratio of approximately 70%. Since 2005, we've grown our dividend annually by $0.07 per share. Finally, we remain focused on growing earnings per share at 5% to 7% in the long term.

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

Thomas A. Fanning
Chairman, President & CEO

Thanks, Art. As you have seen, 2010 was a year of significant operational, regulatory and financial achievements. In looking at the next three years, we have allocated up to $17 billion of investment in our Traditional business. This investment is in effect, helping to implement what we believe is a regional demonstration of a sound, national energy strategy.

We begin with our commitment to new nuclear energy with the addition of Units 3 and 4, Plant Vogtle, of which we own 1,000 megawatts. Then we turn to 581 megawatts of 21st century coal at Plant Ratcliffe in Mississippi, and the addition of more than 2,500 megawatts of combined-cycle natural gas in Georgia at Plant McDonough, together with the retirement of 500 megawatts of coal generation at that facility.

We are also adding 130 megawatts of renewables with the Cimarron solar facility and the Nacogdoches biomass plant, and we are interested in adding more renewable energy to our portfolio as we go forward. We are also projecting to spend some $1 billion on energy efficiency programs over the next 10 years and expect to avoid approximately 1,000 megawatts of new capacity as a result.

Finally, Southern is by far the leading electric utility in conducting proprietary research and development activities. This commitment to research is providing leadership today on carbon capture, coal gasification and state-of-the-art scrubber technology now in place at several of our power plants. We believe the

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capital commitment we are making over the next three years will help deliver what I've just outlined, and speaks to the sustainability of our business model and the strength of our region.

As we look at 2011 and beyond, my goal is to ensure that we not only have the energy infrastructure to serve a growing Southeastern economy, but we also have the best team of people in place to meet the challenges that lie ahead. In a few weeks' time, you'll have the opportunity to meet with and hear from our senior management team as we hold our analyst meeting in New York. I'm extremely proud of our management team and all of the more than 26,000 employees at Southern Company, who each and every day make thousands of good decisions on behalf of our customers and shareholders. And as we enter 2011, I am grateful for the privilege of working with such an outstanding team of dedicated people.
At this point, Art and I are ready to take your questions. So Celeste, we'll take the first question.

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Question and Answer

Operator

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

Daniel L. Eggers
Crédit Suisse AG, Research Division

First question, Tom, as you guys opened the window a little bit just on kind of the EPA compliance spending. One, I'd love to hear your thoughts on when you guys expect to see kind of subcenter draft rules out of the EPA. And then how you guys are going to go through the thought process of putting capital to work or deciding to put capital to work between proposed draft rule and final rules going into effect?

Thomas A. Fanning
Chairman, President & CEO

You bet. Well, Dan, you hit on a very interesting and timely issue, I think. There's been a lot of conversation in the industry right now and lots of studies put out. I think what we have to take into account is not just one particular issue in front of EPA, but rather the aggregate effect of all the issues that impact power generation in the electric utility industry. And they go all the way from, for example, mining regulations to transportation of coal, to combustion processes, NOx, SOx, mercury, particulate matter, ozone, to the effluence of our process, so water effluence standards, coal ash, a variety of other things. The aggregate effect and the time frames that ultimately EPA comes up with, may have a pretty dramatic variance on how we comply. Therefore, this is the first time you've ever seen us publish a capital budget with a pretty good variance as a result. Let me give you a rule of thumb. The tougher the standards are that EPA puts out will push us to the higher end of the range of capital we provided. And interestingly, the tougher the schedules are, the nearer term they are, may cause us as a consequence to perhaps pursue some purchased power in the near term, thereby driving down near-term capital. But rest assured, I think we'll spend that capital, but in a later time frame when we have a little more flexibility. These are very complex issues, how these different requirements may work together. And until we see the rules as they are written and have a chance to comment and participate in the process, we really won't know the precise impact. That's one of the challenges we face.

Daniel L. Eggers
Crédit Suisse AG, Research Division

And I guess just kind of along the lines of the capital program out there and the goal to manage customer rates as best you can. What are you guys thinking about as far as long-term fuel procurement, kind of between coal and gas, with coal staying pretty expensive and gas staying pretty flat cheap. Are you guys making long-term hedging decisions that are structurally rebalancing your fuel mix over the next few years?

Thomas A. Fanning
Chairman, President & CEO

Well, a little bit. A few years ago, we produced about 70% of our energy from coal. Last year, was more like 57% from coal, with gas jumping up from, say, the low teens up to about 25%. So we're seeing already a displacement of coal with gas in the normal dispatch of our portfolio. As you look at Southern going forward, we try not to make judgements as to movements in fuel prices, rather what we take is a portfolio approach to generating resources in the fuel types they're in. So what you will continue to see us do is go forward with new nuclear, 21st century coal, gas, renewables and importantly, energy efficiency. Energy efficiency's success displaces the need to build new generating facilities. So we'll continue to go forward, I hope, with all of these portfolio options in play. Dan, one more thing. You asked about hedging and I didn't answer it. As a result, we have kept pretty much a consistent practice of, in agreement with the commissions that we serve in the Southeast, a hedging program for gas. Sometimes it's been as high

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as 45% in the current year, sometimes the high 30s. And then it dwindles down pretty quickly from there. In terms of coal, it depends on -- a great deal on the plants you're concerned with, whether you're part of our 12,000 flagship megawatts or the other remaining, say, 8,000 net owned megawatts, what our procurement practices will be. In the aggregate, I can say that we are shortening up by somewhat the duration of the coal supply contracts from, say, in the aggregate now, three and a half years of supply to about two and a half years of supply.

Operator

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

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

I missed your commentary about the impact of bonus depreciation on your equity needs for 2011?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, Paul. This is Art. Bonus depreciation for 2011 should provide us somewhere between $500 million and $600 million of positive benefit. In other words, reduce our financing by that much in 2012, maybe about half of that amount. That's what we're looking at.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

So how much equity do you plan on issuing in '11 given that backdrop?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, again, as we outlined in our text that we expect probably from our plans, our employee plans and our stockholder plans, to issue $500 million to $700 million. And at this point, we think that will be adequate.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

So we keep the dribble in place, but it won't be in operation.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

That’s correct. We will.

Operator

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

Jonathan P. Arnold
Deutsche Bank AG, Research Division

Question on O&M trends going forward. I think, Art, you mentioned that the kind of compound 3%-ish growth between '08 and '10 was a more normal level. So is that the kind of number we should be thinking about as we look at '11 and beyond?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. If I look at '11, what's buried in our guidance is about a 4%, maybe a little less than that, growth so it's right along that line. If you look at the operating companies, it might be a little bit less. And again, it depends on the operating company and what's going on in that particular area. But that's generally what our expectations are.

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Jonathan P. Arnold
Deutsche Bank AG, Research Division

And how much flex do you potentially have in that? Because there's obviously been some pretty meaningful fluctuation in the level of discretionary spend in the last couple of years.

Thomas A. Fanning
Chairman, President & CEO

Jonathan, let me jump in on that. We typically design some optionality in our spending programs, in order to accommodate normal variability of our operation throughout the year, whether it's weather or economy or whatever. We take a long view and try and make sure that we adequately service the business so that we provide the best reliability at the lowest prices. And in fact, I think our data supports that.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

If I may just on something else. I noticed that you have this decline in weather-adjusted sales in the Residential segment in the fourth quarter, which caught our eye. Can you give us any further color or insights into what may have been going on there? Is it sort of difficulty doing the weather adjustment? Is there a real conservation going on? Is it something different?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, as you know, it's more of an art than a science and that weather adjustment is volatile from quarter-to-quarter and month-to-month. So we struggle with that as well. We still point to vacancies on the housing market as being an issue there. We still have a number of vacant houses above what we normally have in the environment. So those are all issues. But again, longer term, we would look at trends around conservation and those kinds of things. But it's just hard to tell at this point.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

So the 1.6 of residential sales growth you have in '11, is that sort of back-end loaded in the year or do we sort of turn positive as we go...

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

I would think it'd be more back-end loaded, yes.

Operator

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

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

In one of your SEC filings last year and I forget whether it was the K or in one of the Qs, you had a paragraph embedded that talked about you had hedged or you had procured a lot more of the materials or components necessary to build Vogtle, meaning you had reduced your risk a good bit during the course of the year or during the last 16, 18 months. Can you give an update on that just in terms of have you increased that, meaning buying some of the steel or some of the component pieces? Just trying to get a feel for potential exposure to any volatility in kind of global commodity markets.

Thomas A. Fanning
Chairman, President & CEO

Yes, I'll take a shot at that. And I have to be kind of very careful because we can't release the commercial terms of the contract. I think the disclosure essentially dealt with fixing what was otherwise an indexed

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obligation for cost in the contract. We don't say much more than that. It was approved by the Georgia Commission after a lot of thought, but that's what our disclosure dealt with.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Any updates since providing that disclosure? And I forget, I thought it was in the early part of last year when you actually gave that.

Thomas A. Fanning
Chairman, President & CEO

No. No update. The disclosure remains in effect. And carries through the full length of the contract.

Operator

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

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Tom, I wanted to get your read from your vantage point given some recent acceleration and consolidation activity in the space. I wanted to see how you see that play out, and do you see a role for Southern in that consolidation activity going forward?

Thomas A. Fanning
Chairman, President & CEO

Yes. I bet many of you on the call could give my answer, given that I've had kind of a CFO role and some other things. I've been involved with strategy at Southern. In fact in '98, I had that express title and really since '98, I've been centrally involved in this kind of thinking. So it should be no surprise to all of you that we are consistent in our approach from where we have been to where we are now. And that is, of course, M&A is an obligation for every management team to look after in improving the enterprise. But in evaluating M&A, you always have to consider what the risks and potential returns might be, ultimately holding yourself to a standard of, "I must be convinced that I am going to improve my current situation." When we look at Southern Company, considering the kind of CapEx program we're considering over the next few years, considering the kinds of returns that we've been able to consistently deliver over time, considering the dividend yield and the way we've been able to grow it over time and considering in fact, that value is a function of risk and return and we believe that to our core that the risk elements of our business are as important as the return elements of our business and we think we have some of the industry best financial integrity characteristics, it's hard to beat the Southern story, in my opinion. And so therefore, we have an active radar screen. We look at all the options. But we will be conservative in our approach, and we will represent our customers' interest and our shareholder interest as we evaluate these opportunities.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Separate question also, Tom. I mean, you laid out this CapEx range for environmental-related CapEx, et cetera. And I see that obviously it hit the range. But from a quantitative perspective, looking at these standards coming down in the post-November election scenario. Are your views any different today than they would have been, let's say, six, nine months ago on both the timing and the scope of these regulations?

Thomas A. Fanning
Chairman, President & CEO

I mean, I suppose the answer to that has to be yes, because there's been a sea change in the political landscape over that time frame. But the ultimate impact on what the answer might be is anybody's guess. There are so many dynamics in play. And I would just caution everybody. When you evaluate

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this question, you must take into account the aggregate analysis of all the potential impacts, including thresholds of the rules that may be promulgated as well as the schedules that may be put into place. All of that will have a bearing on what our ultimate CapEx plans may be.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

And last question, if I could. You folks had highlighted weather helped you by $0.34 '10 versus '09. Would you approximate what is a normalized versus how much was weather a help in '10?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, weather, what we've identified is the full $0.34 was attributable to weather. Unless I don't understand your question.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Yes, that was $0.34 '10 versus '09.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

We picked up $0.30 of weather in '10 and against a negative $0.03 of weather in 2009.

Operator

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

Nathan Allen Judge
Atlantic Equities LLP, Research Division

I was intrigued by some of your comments, Tom, about the environmental angle. Couple of things I just wanted to see if you could clarify. On your presentation, you do talk about the $700 million to $2.9 billion of compliance. And I assume that's above and beyond your CapEx that you've -- the $14.4 billion?

Thomas A. Fanning
Chairman, President & CEO

Yes, it's above and beyond the base.

Nathan Allen Judge
Atlantic Equities LLP, Research Division

What is the biggest variance in that? Because it's obviously quite a large gap between $2.2 billion.

Thomas A. Fanning
Chairman, President & CEO

Yes. Here again, you're asking a simple question and it's a complex answer. If I had to boil one thing down here, it would kind of go to whether we're going to need bag houses at all of our flagship units and under what time frame. That would be I think for us anyway the most important issue.

Nathan Allen Judge
Atlantic Equities LLP, Research Division

You did say earlier in the call that perhaps the more stringent regulations could actually reduce this near-term CapEx.

Thomas A. Fanning
Chairman, President & CEO

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I said that from -- yes. Nathan, I'm trying to be very careful and say the stringent would be from a schedule standpoint. Because let's just think about it, if EPA comes forward with regulations to put an unrealistic schedule in place, then there is no physical way we believe that we can accommodate the construction requirements to either control or retire and replace coal fire generation. And therefore, your option must be in the near term, purchased power. So in a very kind of interesting sense, more stringent time frames may have the implication at least in the near term of reducing CapEx. Such CapEx that is deferred will just be picked up in a later period.

Nathan Allen Judge
Atlantic Equities LLP, Research Division

That's suggesting that the argument is more about compliance time line than actual thresholds that could potentially come from promulgation of certain rules?

Thomas A. Fanning
Chairman, President & CEO

They're both important.

Nathan Allen Judge
Atlantic Equities LLP, Research Division

And as far as financing of this additional CapEx, and apologies if you did refer to this. I just wanted to clarify the $500 million to $700 million in 2011. This additional CapEx expenditures, I would assume require additional financing. Would that be above and beyond the $500 million to $700 million? And how does that play out to your rate base growth over the next several years?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, you got a couple of things going on, on the second question on the rate base growth. With the deferred tax balances, you slow down that rate base growth and you delay it somewhat since it reduces the rate base. But we think that in 2011, the $500 million to $700 million will be the adequate amount of equity that we issue to be where we want to be. We'll leave the dribble program open in case we need to add more, and we find out from some of the regulatory rules where we need to be and how much capital we'll need to spend. So we'll remain flexible on that point.

Nathan Allen Judge
Atlantic Equities LLP, Research Division

But as we look to 2014, obviously this $500 million to $2 billion range, is there potentially an even larger step-up if EPA go on the rules of the schedules that they've outlined as far as additional components...

Thomas A. Fanning
Chairman, President & CEO

Sure. If you think about the scenarios, I mean there are lots of different regulations in play here, all of which have different compliance deadlines. So to the extent you get '15 or to the extent you get flexibility of '16 and '17, it certainly could have impact in '14, '15 and '16. So I think the point of your question is are there potential impacts for variability in EPA regulations beyond the time frame in which we are guiding you to? Absolutely.

Nathan Allen Judge
Atlantic Equities LLP, Research Division

More specifically, is there a potential of a meaningful uplift to your annual CapEx for environmental compliance in 2014 and beyond?

Thomas A. Fanning
Chairman, President & CEO

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Could be. And remember environmental compliance, you should think about it in kind of two segments. One segment is control. And if we elect not to control, then that segment says retire and replace.

Operator

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

Paul Patterson
Glenrock Associates

Just to sort of follow up on this comprehensive look at pollution, and I'm sorry if I've missed it. It's sounds like there's so many moving parts. When would we get an idea as to how all these things sort of fit together?

Thomas A. Fanning
Chairman, President & CEO

When EPA comes out with its rules. I mean, comes out with its regulation proposals first and then we go through the process of commenting and ultimately, when final rules are delivered. That's one of the challenges that the industry is talking about right now. We need some clarity and certainty in order to develop our own plans.

Paul Patterson
Glenrock Associates

Do we have any picture as to when that might be?

Thomas A. Fanning
Chairman, President & CEO

You might start seeing some stuff in March.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, I believe the proposed rule comes out in March, supposed to be final by later this year.

Paul Patterson
Glenrock Associates

Right. But I guess what I'm wondering is you guys mentioned all these other things that are sort of there as well and the fact that you have all of this back-and-forth. And you also mentioned on the coal side, the fuel side and stuff such as that, which I'm not as familiar with. So I guess what I'm sort of wondering is just the ballpark, I know that you don't have any real specific time frame. But just sort of trying to get some sort of sense as to when you guys would get a really better picture on it.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

I think, Paul, what we're getting to is this is going to be an update item on every one of our calls as we move through time because it's a mighty tenuous time. And we're just going to have to figure it out as we move through it.

Thomas A. Fanning
Chairman, President & CEO

We certainly have contingency plans in place for a variety of outcomes. Let me assure you of that. We will always keep in mind serving our customers first with the best reliability, the lowest prices and the least environmental impact. But this is a challenging time with us and our regulator.

Paul Patterson
Glenrock Associates

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On the economic forecast, I think you had said 3% to 3½%. I want to make sure I understood. Is that for the Southeast or is that for the U.S. in general?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

That was a comment from our Economic Summit panel, from some of the economists on that panel and that was a U.S. number. But our forecast basically is in line with that 3% to 3½% forecast for the Southeast.

Thomas A. Fanning
Chairman, President & CEO

And, Art, let me just -- there's a little bit of conservatism in there. Some of the economists or some of the folks in the Southeast feel that we could see 4%. But we choose to use the 3% to 3½% as the base for our model because we are a conservative company.

Paul Patterson
Glenrock Associates

But you guys thought for the first half, we're going to see a slower number, and a bigger number in the second half. Did I understand that correctly?

Thomas A. Fanning
Chairman, President & CEO

Yes, you did. That's consistent with what we saw in '10.

Paul Patterson
Glenrock Associates

And then finally, RTP. Is there any change in the forecast there? I think you guys have had a pretty subdued look in terms of what the contribution from that might be.

Thomas A. Fanning
Chairman, President & CEO

Yes, RTP contribution in '10 was negligible. And actually, they've addressed the mechanism of RTP in the Georgia Power rate case. And will make it the end result will be that it will be much less of a volatile item as we move through time. So you won't see it more than likely as an element of explaining our earnings moving ahead. I just left out one more, industrial boilers standards actually impact all this, too. I've left that one out. That impacts things like biomass.

Operator

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

Dan Jenkins
State of Wisconsin Investment Board

First of all, I think you mentioned on one of the slides that you reached preliminary conditional agreement with DOE on the Vogtle construction loans up to $3.4 billion, I think you said?

Thomas A. Fanning
Chairman, President & CEO

Yes.

Dan Jenkins
State of Wisconsin Investment Board

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What would you anticipate the time frame related to the issuance of that? And how would that be structured, would that come out of Georgia Power? How should we think about or anticipate that being implemented?

Thomas A. Fanning
Chairman, President & CEO

I don’t mean to be glib here, but it's conditional until it's not conditional anymore and we draw on it, which is expected to be around the receipt of the COL. So that is projected to be the end of '11 on one hand. I think the other part of your question dealt with -- well, it would serve to offset Georgia Power financing, primarily those associated with Vogtle 3 and 4. Did that answer your question?

Dan Jenkins
State of Wisconsin Investment Board

Sort of. So would that be, I guess, I'm trying to think legally, would that be issued by Georgia Power and guaranteed by the DOE? Or would it be some sort of special entity or I mean, have you thought that far ahead as far as...

Thomas A. Fanning
Chairman, President & CEO

Yes, sure. If it’s intergovernmental guarantee, the loan actually comes out of the Federal Financing Bank, and the guarantee is from the Department of Energy. And then Georgia Power has the obligation to repay that loan over time. And we pay fees for the guarantees, et cetera, et cetera. It looks just like a loan. It's what it is.

Dan Jenkins
State of Wisconsin Investment Board

Then I was curious on the regulatory, given that you now have a three-year rate plan in place in Georgia. Do you anticipate anything in 2011 as far as base rate cases in any of the three other jurisdictions?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, Dan. This is Art. In Alabama, they filed an RSC for 2011, but it did not require a rate increase. So there won't be anything going on there. There may be a fuel issue coming up in the spring. In Mississippi, they have filed for a little less than 2% on a pep increase and that is pending before the Mississippi Public Service Commission. And in Gulf Power, there are no pending issues. And Tom already mentioned the fact that they filed clauses in the fall of '10 for a net 3% reduction in rates.

Dan Jenkins
State of Wisconsin Investment Board

And then related to kind of there's contingent environmental CapEx that's waiting for more guidance. Would pretty much all of that or are you set up so all of that would pretty much go to riders in your jurisdictions now?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

That is true. Alabama has a rider, Mississippi, I believe all four have riders that would go through. But they would, in some cases, have to be specifically approved before they started construction.

Thomas A. Fanning
Chairman, President & CEO

And just remember as a principle, we have received constructive regulation in the Southeast for a long time now, 20 years or so, I would say. We have been treated fairly for anything that is required by the federal government, particularly related to environmental regulation.

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Dan Jenkins
State of Wisconsin Investment Board

Then I had just a couple of questions related to revenues and sales. I think you mentioned that part of the increase you saw for 2010 was, I think, 5% related to transmission revenues. Can we anticipate something like that going forward or is that kind of a one-time...

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Dan, what's happened there is in 2009, we had UPS revenues for the full year in there related to units that we sold off to UPS customers. And in 2011, those returned back to the retail side of the business. We picked up with new UPS contracts on different spreads of units, different numbers of units to those same utilities but the transmission component was included in the UPS contracts onto the old contract, but it will be separate under the new. So you'll see a little different spread as you compare back to the, I guess, to the '10 and to the '09 time frames around transmission.

Dan Jenkins
State of Wisconsin Investment Board

What kind of customer growth did you see in 2010 and what are you assuming for 2011?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

We had about a 0.3%. We added about 15,000 new customers, most of them in the residential sector. And as far as projections for 2011, we're about 0.4%.

Thomas A. Fanning
Chairman, President & CEO

Yes. In a normal year, back in the good old days, we added about 60,000 customers a year. And so whenever we think we get to recovery, that's where we'll be. I think one of the keys to that, I think we've already talked about is sustained industrial performance. Remember, our industrial productivity is up about 18%. We think we're reaching perhaps a limit on that. And so now as we further increase industrial activity, jobs will start to come. And I think Art laid out some ideas there. The other thing that will help, we have had an organic growth in the Southeast. Really, just very steady in years past, people are migrating from the Northeast, the Midwest, California and lately from Southern Florida. That has really slowed as a result of the job situation and also as a result of the housing market. We think once the housing market starts to unfreeze, then I think people will be more flexible in moving to the Southeast.

Dan Jenkins
State of Wisconsin Investment Board

The last thing I have is you reiterated your Commitment 10 A rating, but given that Moody's has you at an 8.3 on a couple of the operating utilities, are you comfortable with that? Does that fit in with the current guidance as far as your ratings policy?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, we have told Moody's that we did not agree with their assessment of our risk, our business risk. And that's the one thing they pointed to. There have been questions about whether it was an equity ratio issue, and we understand that it's not. We have improved our equity ratio. We actually finished 2010 with a 42.6% equity ratio, and we plan further improvements in that. We have outlined our positions with Moody's very strongly, and yet they continue to remain with their opinions.

Thomas A. Fanning
Chairman, President & CEO

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Let me add one more brief editorial comment on that, and that would be concerning nuclear. I think in years past, I think people were scared by nuclear construction. I think it is clear that the legislation in Georgia, the governor, the regulators, public support, support from the legislation in Congress, the administration, all are pushing to help restart nuclear in America. The conditions under which we're building Vogtle 3 and 4 are far different than any nuclear construction that was done in the past. And I think our capability to date shows that we are on schedule and on budget. So while someone may have an assessment as to the riskiness of nuclear, I think Southern Company is as poised as anybody to carry it off successfully, and it is clearly in a different environment.

Operator

Your next question comes from the line of Terran Miller with Knight Capital.

Terran Miller
UBS

I was wondering as we look at the environmental CapEx, can you just give us a little bit better understanding of where it will be from the subsidiary level? And the variance, which one of the operating subs has the biggest exposure to that variance?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Terran, we really don't have that detail. And again, it will depend on the level of the requirements because the way we look at these things is not only from an economic perspective but from a social perspective, because we've got plants located in counties where that is primarily the only tax provider for the whole county.

Thomas A. Fanning
Chairman, President & CEO

And the major source of employment and wages and everything else. That's something else. I mean we just got to understand as a matter of national policy, there is an enormous impact potential on jobs in the economy in these regions where these units may be affected. Those things must be taken into account. And one other thing that Art rightfully points out is, this is not just a federal issue, the states I'm sure will get involved.

Terran Miller
UBS

So in some respect, there could be social issues along with economic issues in your decision-making process?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, as well as transmission issues. Because as you shut down generation, you got to remix your transmission to meet the voltage requirements.

Thomas A. Fanning
Chairman, President & CEO

And in fact, transmission upgrades may displace the need for new generation in some cases.

Operator

Your next question comes from the line Ashar Khan with Visium Management.

Ashar Khan
SAC Capital

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Can I just get a little bit of trajectory of Southern Power as you look forward this year, '11 versus '10 and going forward for a couple of years, as to what kind of earnings trajectory should we look at that sub?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

And again you've seen where they were last year, and then this year they earned right at $130 million. I think they were $156 million last year, so they were down pretty good. They had some contracts or some units that came off contract. 2011, we expect them to be in the $125 million, $130 million range and then probably similar to that in 2012 and maybe some growth off of that in 2013.

Thomas A. Fanning
Chairman, President & CEO

It's a fascinating question because Southern Power is almost on the other side of this whole environmental debate. Remember, they're a gas-oriented utility in the Southeast. And so one of the things that they're thinking about is that they want to cover themselves with contracts right now, is there more value in preserving more optionality in their supply characteristics moving forward. We've had a lot of interesting conversations inside about that.

Ashar Khan
SAC Capital

And then, Tom, just going back to, as you mentioned, when you award the $600 million of equity, why is that benefit not shown in a slightly higher EPS projection for either this year or going forward? Like Exelon was able to use their cash for pension and everything. So I'm just trying to understand why doesn't this help the EPS in the short term, this avoidance of equity?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, you raised a good question about pension. And let me just add that in December of last year, we funded $620 million into our defined benefit plan. Basically, that will take us to a fully funded position with our pension plan. And so we have used or have decided to fund the pension plan. And what that basically does is reduce some of the volatility around pension expense moving forward, which takes a little bit of pressure off our customers. And also, it takes pressure off the issue around future funding. And we go ahead and take care of it now rather than deal with it at a time when we've got greater needs.

Ashar Khan
SAC Capital

So you have pre-funded your pension higher than what you had anticipated or was this December, what you were planning to do already?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

We had actually pre-funded that this year. We didn't have a requirement to fund until for another couple of years, as I remember.

Thomas A. Fanning
Chairman, President & CEO

And I think one other difference perhaps, I can't comment on Exelon's situation. But what we do with this bonus depreciation, it benefits our customers by keeping prices low. And that's a good thing.

Ashar Khan
SAC Capital

But I thought, Tom, the rates have already been decided, right? At least in Georgia, your primary jurisdiction. So you're not giving back this lower rate base back to the customers or are you?

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Thomas A. Fanning
Chairman, President & CEO

We do it over time.

Operator

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

Daniele Seitz
Dahlman Rose

Last question, what was your estimate originally of the potential plant retirement and this was really preliminary estimates when the first risk proposal from EPA came out?

Thomas A. Fanning
Chairman, President & CEO

We've made no such public announcement.

Operator

And you have a follow-up question from the line of Paul Ridzon with KeyBanc.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

How much discretionary amortization got taken in 2010?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

You're talking about COR?

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

Yes.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

We ended up taking about $169 million for 2010. We have the ability to take up to $216 million. And we actually took a little more than that, but the rest of it, the other $5.3 million relates to a true-up to 2009. So actually, it was $174 million, but the amounts that we were limited, when you talk about limitations, was limited to $169 million.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

So that basically offset the higher regular depreciation and amortization?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

That's correct.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

What drove the 3% reduction in Gulf Power rates? Was that all fuel?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

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Mostly fuel. There were a few other small elements around environmental and some of their other clause rates, but the vast majority was fuel.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

Was fuel bigger than 3% and then offset other pieces?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

And then lastly, in the fourth quarter, what was the natural disaster reserve you took? How much was that?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

We added an additional $8 million to the natural disaster reserve. They have a balance of $48 million in that reserve at the end of the year.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

That's a pretax number.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes.

Operator

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

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Just looking at the CapEx budget for the next couple of years. I think you previously have given that by subsidiary. Just didn't know if you'd broken that down this go-round or if there's any kind of guidance you can provide like that.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Michael, we're still looking at that. But by the time the 10-K comes out, we'll have a little bit better idea where that's going to lay out. It'll be late February.

Operator

And I'll now turn the floor back over to management for closing remarks.

Thomas A. Fanning
Chairman, President & CEO

Well, it's been an exciting time and had a lot of fun today with you folks. Appreciate you joining us on this call. We look forward to the year ahead. And we'll talk to you soon. Thanks very much.

Operator

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Ladies and gentlemen, this concludes today's Southern Company Fourth Quarter 2010 Earnings Conference Call. You may now disconnect.

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