S&P Global
Market Intelligence

The Southern Company NYSE:SO

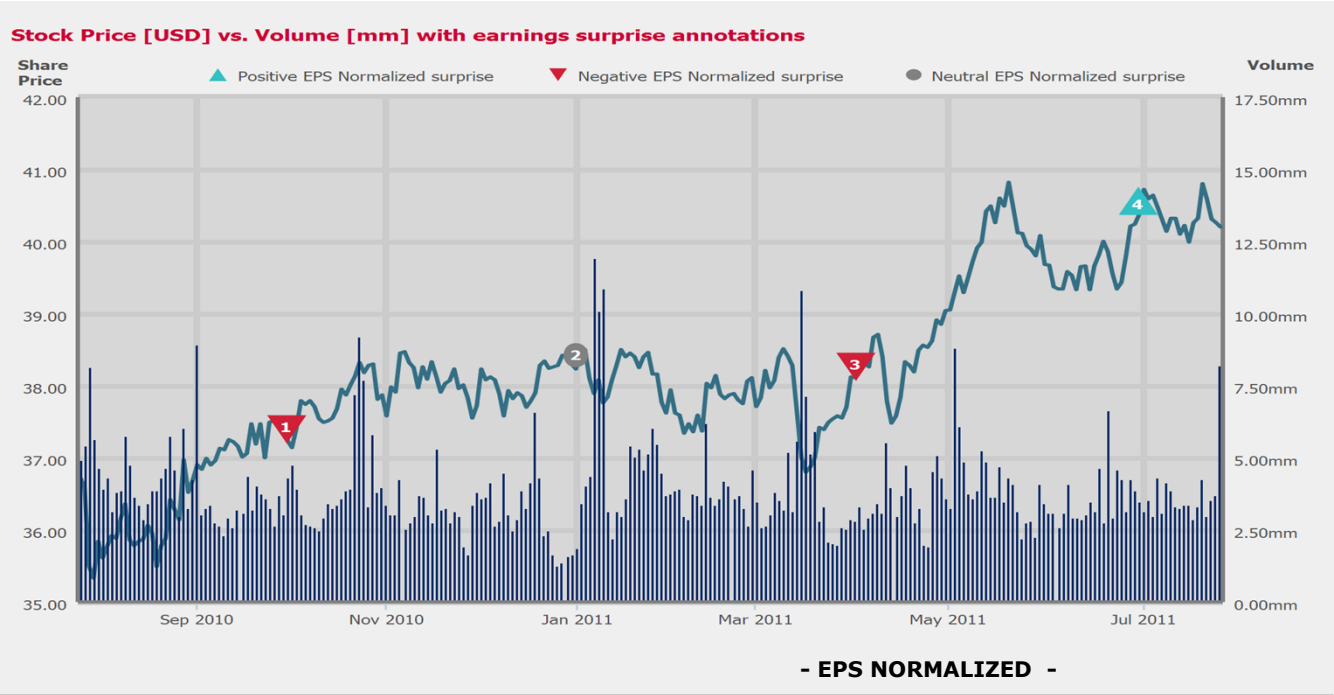
FQ2 2011 Earnings Call Transcripts

Wednesday, July 27, 2011 5:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2011-			-FQ3 2011-	-FY 2011-	-FY 2012-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.64	0.71	▲10.94	1.07	2.52	2.70
Revenue (mm)	4482.28	4521.00	▲0.86	5803.62	17943.14	18753.60

Currency: USD
Consensus as of Jul-26-2011 6:00 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2010	0.99	0.98	1 (1.01 %)
FQ4 2010	0.18	0.18	2 0.00 %
FQ1 2011	0.51	0.50	3 (1.96 %)
FQ2 2011	0.64	0.71	4 10.94 %

COPYRIGHT © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved

Table of Contents

Call Participants 3
Presentation 4
Question and Answer 9

COPYRIGHT © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved

Attachment to STF-238-7

Call Participants

EXECUTIVES

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Glen A. Kundert
Vice President, Investor Relations

Thomas A. Fanning
Chairman, President & CEO

ANALYSTS

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Andrew Levi
Caris & Company, Inc., Research Division

Ashar Khan
SAC Capital

Brian James Chin
Citigroup Inc, Research Division

Dan Jenkins
State of Wisconsin Investment Board

Daniel L. Eggers
Crédit Suisse AG, Research Division

James Darrell von Riesemann
UBS Investment Bank, Research Division

Jonathan P. Arnold
Deutsche Bank AG, Research Division

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

Mark Barnett
Morningstar Inc., Research Division

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Paul Patterson
Glenrock Associates

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

Steven Isaac Fleishman
BofA Merrill Lynch, Research Division

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

Presentation

Operator

Good afternoon. My name is Christian, and I'll be your conference operator today. At this time, I would like to welcome everyone to the Southern Company Second Quarter 2011 Earnings Call. [Operator Instructions] I would now like to turn the call over to Mr. Glen Kundert, Vice President of Investor Relations. Please go ahead, sir.

Glen A. Kundert
Vice President, Investor Relations

Thank you, and welcome to Southern Company's second quarter 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. 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 Tom Fanning, Southern Company's Chairman, President and Chief Executive Officer.

Thomas A. Fanning
Chairman, President & CEO

Good afternoon, and thank you for joining us. Our second quarter earnings show that we continue to produce favorable results. Art will share more details on those results in a few minutes.

Since assuming the CEO role of Southern Company, I have been very public about setting 5 clear priorities for our company. I thought it might be interesting to review our progress against those priorities.

First, preserve and enhance the circle of life. Our business model is predicated on making customers the primary focus of everything we do. We continue to excel at bringing value to our customers. Our reliability remains outstanding. Our prices are still significantly below national averages, and our customer service ratings continue to place us among the best in the industry.

Second, succeed with Vogtle units 3 and 4 and Plant Ratcliffe at Kemper County. I'm happy to report that both of these projects remain on budget and on schedule. As with any large, complex undertaking, we will always face challenges, but we are managing these challenges in a diligent, intensive and workmanlike manner. When completed, both projects will provide great value to our customers.

Focusing for a moment on Plant Vogtle, I know you're interested in the timing of the issuance of the amendment to the design certification and the combined construction and operating license or COL, for Vogtle units 3 and 4. It is our understanding that the NRC will issue a revised schedule in a few weeks clarifying the timeframes for these critical documents. We are confident that the revised schedule will include approval to the amendment of the design certification this fall. We are also confident that the NRC has the discretion to issue the COL shortly following the approval of the amendment to this design certification, also in 2011.

Certain administrative procedures related to effective date of the COL could push the issuance date of the COL into early 2012. If the commission decides to issue the COL around the effective date, then the NRC has the option to approve our request, which we filed some 2 years ago, for a second Limited

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

Work Authorization or LWAB, in the fall. This would enable us to maintain our schedule with additional construction activities related to the Nuclear Island while we wait for the final COL.

Getting back to priorities. Third, engage in the development of a sensible national energy policy. We have been active with all of our external publics projects in arguing for a sensible national energy policy, one that balances the need for the best reliability with a reasonable economic consequence and an optimal environmental impact, all critical to creating an environment that fosters job creation and strengthens the economy, and all for the benefit of our customers.

First, we argue for all the arrows in the quiver, the need to develop all the available generation resources necessary to meet the needs of this nation's energy future, including nuclear, 21st-century coal, natural gas, renewables and energy efficiency. We are the only company in our industry actively engaged in all of these sectors, and we have committed more than $20 billion to developing this 21st-century generation portfolio.

Second, we are committed to technology development and are the only company in our industry with a robust proprietary research and development organization. We successfully developed and implemented our own environmental control equipment and our own generation technology, like our TRIG project used for Plant Ratcliffe at Kemper County, Mississippi.

Fourth is to promote Smart Energy. We have been active in developing all areas of smart technologies, as we call them: Smart Power or generation; Smart Grid or transportation, including Smart Meters; and Smart Choices, essentially focused on those value chains that may emerge beyond the meters.

With respect to Smart Power and Smart Grid, our path is clear and our progress is significant. For Smart Choices, because of how uncertain that environment currently appears, we will maintain a conservative posture and explore opportunities with a number of option sets.

And fifth, value and develop our people. Southern Company is renowned for our deep-end strength and our leadership development practices. We remain committed to these practices and have added key external talents to our roster. Enhancing our "whats" -- that is, our skills and our experience base, and further developing our culture, our "hows," will make this company successful for years to come.

At this point, I'll turn the call over to Art Beattie, our Chief Financial Officer, for further discussion of our financial highlights for the second quarter and our earnings estimates for the third quarter.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Thanks, Tom. In the second quarter of 2011, we earned $0.71 a share compared with $0.62 a share in the second quarter of 2010 or an increase of $0.09 a share. On a year-to-date basis, we earned $1.20 a share in the first 6 months of 2011 compared with $1.22 a share for the same period a year ago, a decrease of $0.02 a share.

Let's turn now to the major factors that drove our second quarter numbers compared with the second quarter of 2010.

First, the negative factors. Increased depreciation and amortization reduced our earnings by $0.05 a share in the second quarter of 2011 compared with the second quarter of 2010. This increase is primarily due to the expiration of the Georgia Power cost of removal accounting order at the conclusion of 2010 and to increased environmental, transmission and distribution investments.

A decrease in wholesale revenue in our traditional business reduced our earnings by $0.01 a share in the second quarter of 2011 compared with the same period in 2010. This reduction primarily represents the expiration of a long-term wholesale contract for Plant Miller capacity, which now serves retail customers at Alabama Power.

Income taxes reduced our earnings by $0.01 a share in the second quarter of 2011 compared with the second quarter of 2010. Other income and deductions, primarily lower AFUDC equity, reduced our earnings by $0.02 a share in the second quarter of 2011 compared with the second quarter of 2010. Taxes

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

other than income taxes reduced our earnings by $0.01 a share in the second quarter of 2011 compared with the second quarter of 2010.

Finally, an increase in the number of shares outstanding reduced our earnings by $0.02 a share in the second quarter of 2011 compared with the second quarter of 2010.

Let's now turn to the positive factors that drove earnings in the second quarter of 2011. Retail revenue effects in our traditional business added a total of $0.14 a share to our earnings in the second quarter of 2011 compared with the second quarter of 2010. Most of this increase was the result of regulatory actions at Georgia Power that became effective in January 2011 as a result of increased environmental, transmission and distribution investments. Included in this is $0.03 a share, reflecting an increase in revenues associated with Georgia Power's cash recovery of financing costs for Vogtle 3 and 4. This rate, also known as Georgia Power's NCCR tariff, is expected to save customers approximately $300 million.

Increased usage among existing customers added $0.02 a share in the second quarter of 2011 compared with the second quarter of 2010. Weather in the second quarter of 2011 added $0.01 a share into earnings when compared to the second quarter of 2010.

Other operating revenues, primarily increased transmission revenues, added $0.01 a share in the second quarter of 2011 compared with the second quarter of 2010. Decreased interest expense in our traditional business increased our earnings by $0.01 a share in the second quarter of 2011 compared with the second quarter of 2010.

Finally, improved results at Southern Power added $0.02 a share to our earnings in the second quarter of 2011 compared with the second quarter of 2010. This increase was due to a combination of new long-term contracts and higher energy margins.

In conclusion, we had $0.12 of negative items compared with $0.21 of positive items or a positive change of $0.09 a share over the second quarter of 2010. So overall, our quarter came in at $0.71 per share.

Before I discuss our earnings estimate for the third quarter, I'd like to update you on the economy and several important regulatory matters.

First, total weather-normalized retail sales for the second quarter of 2011 increased by 1.5% over the second quarter of 2010, driven primarily by stronger sales to our industrial customers.

Our industrial sales increased by 3.3% in the second quarter of 2011 compared with the second quarter of 2010. The most significant increases were in petroleum refining, up 18.7%; primary metals, up 13%; pipelines, up 10.9%; and transportation, up 4.5% compared with the second quarter of 2010.

This industrial recovery is very broad-based, with all major segments, except for the housing-related segments of stone, clay and glass and textiles, experiencing year-over-year growth. The continued growth in industrial sales represents the continuation of a trend that started in mid-2009 and is driven primarily by strong export sales.

The Port of Savannah, Georgia, for example, achieved an all-time high in second quarter activity. Container volumes in Savannah increased almost 9% during the second quarter of 2011 compared with the same period in 2010, and the combined value of exports from Georgia and Alabama increased nearly 21%.

Adjusting for weather, residential sales increased by 1.2% in the second quarter. Total personal income is still strengthening, up 4% in the second quarter of 2011 compared with the same period a year ago. But consumer confidence continues to be affected by rising prices and slower-than-expected net job growth.

Some of the job gains in our territory resulting from new business development were offset by losses in non-manufacturing jobs, primarily state and local government, contributing to an overall unemployment rate that is slightly above the national average. Manufacturing employers, meanwhile, continue to achieve productivity improvements, which offsets the need to hire new workers. However, as the recovery continues, improvements in productivity should yield to the additional hiring of workers, which should help stimulate growth in the consumer sector.

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

Residential new connects are essentially flat, and residential customer counts have increased by approximately 2,100 since the second quarter of 2010. While low, these numbers reflect the loss of approximately 7,000 customers due to the devastating tornadoes in April. However, most of these customers remain in the area and are living in temporary accommodations. Homeowner vacancy rates are rising but remain below peak recession levels, while construction activity remains sluggish but is consistent with our forecast.

Commercial sales remained flat on a weather-normal basis in the second quarter of 2011 compared with the second quarter of 2010. Some data indicate that markets may be stabilizing, such as the ISM Non-Manufacturing Index, which has been positive for the past 16 months 'and sales tax collections, which have been positive for the last 12 months.

This quarter, we reassembled our economic roundtable group, which consists of several key customers and economists from the region. Overall, the group was more cautious than 6 months ago, with lower GDP expectations for 2011 of 2.4% to 2.8% versus earlier estimates of 3% to 3.5%.

Most of the participants in our roundtable said that they expect stronger GDP growth in the second half of 2011 of between 2.8% and 3.5%. Driving this trend will be continued growth in exports and the auto industry, which is driving strong growth across many sectors, especially chemicals and primary metals. Construction-related industries, such as stone, clay and glass and textiles, are expected to remain flat. Finally, most participants see the manufacturing industry continuing to focus on productivity gains, which boost long-term competitiveness but restrain short-term employment growth.

Meanwhile, we continue to see announcements of new business expansions and job additions in our service territory similar to those we shared with you over the past several months. More recent announcements include: Johnson Controls, a critical supplier to Mercedes-Benz, is opening a facility in Cottondale, Alabama, that will create approximately 185 new jobs. BAE Systems Southeast Shipyards in Mobile is adding 400 new positions. And Toyo Tires in Bartow County, Georgia plans to add up to 470 new jobs.

In the aggregate, we have in our economic pipeline more than 230 active projects with the potential to yield nearly 20,000 new jobs. Data indicate that activity in the pipeline in the first 6 months of 2011 is likely 18% to 20% higher than the comparable period a year ago. So interest in the Southeast region remains strong, and our future growth prospects are bright.

Turning now to the latest regulatory developments for our companies. On July 8, Gulf Power asked the Florida Public Service Commission for a $93.5 million increase in base rates. This is Gulf Power's first base rate request in 10 years and will be used to offset rising costs in day-to-day operations and to also strengthen Northwest Florida's electric infrastructure. Gulf Power has asked for a portion of this increase, slightly more than 1/3, to be implemented in September of 2011 pending a final decision on the full request in early 2012.

Also on July 12, the Alabama Public Service Commission voted to eliminate a tax-related adjustment under Alabama Power's rate structure, effective with billings in October of this year. The purpose of this revision is to eliminate a portion of the tax-related adjustments that have been rendered obsolete within Alabama Power's current forward-looking rate-setting mechanisms. This change will result in additional fourth quarter 2011 revenue of approximately $30 million for Alabama Power, which will partially replenish the natural disaster reserve that we utilized following the tornadoes in April. In 2012, additional revenue of $150 million is expected as a result of this order. Accordingly, Alabama Power has agreed to a moratorium on any 2012 increases through Rate RSE.

My final regulatory update concerns the agreement Georgia Power reached last week with the public interest advocacy staff of the Georgia Public Service Commission. Both parties agreed to withdraw their recommendations for a risk-sharing or incentive mechanism related to the construction of Vogtle units 3 and 4.

We believe the settlement and the hearings that preceded it reinforce the significant protections already afforded our customers under current Georgia law. The hearings and negotiations also highlighted the

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

additional $1 billion of value Georgia Power expects to capture for customers from the time of the original certification of Vogtle 3 and 4. The agreement is subject to final approval by the Georgia Power -- excuse me, the Georgia Public Service Commission, which is scheduled to vote on August 2.

Turning now to an estimate of our third quarter earnings. Our estimate for the third quarter of 2011 is $1.02 per share. As a reminder, as we said in January of this year, our earnings guidance for 2011 is $2.48 to $2.56 per share.

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

Thomas A. Fanning
Chairman, President & CEO

Thank you, Art. Before I close, I'd like to recognize the heroic efforts of our employees in responding to the tragic storms that struck our territory this past April.

These storms, which caused a loss of life and severe property damage, were among the most powerful natural disasters ever to affect our region. It resulted in a temporary loss of service to some 0.5 million customers in Alabama, Georgia and Mississippi and more than $220 million in damage to our system. And yet, within just 7 days of the initial storm impact, power had been restored to 100% of those customers who were able to receive service.

This accomplishment is a tribute not only to the efforts of our line crews, generating plants and customer service personnel but also to the reliability of our SouthernLINC Wireless network, which proved crucial in the restoration effort. Our employees worked tirelessly in the wake of an unprecedented tragedy, and I couldn't be more proud of the contributions they made.

Bob Dawson, a 45-year Southern Company employee and the CEO of SouthernLINC, is retiring in October. His service to our customers in the Southeast has been immense, and he will be missed. We wish him and his family the best.

In closing, we are encouraged by the first 6 months of 2011. Our businesses are performing well, and the industrial side of our economy is continuing to drive a much-needed regional recovery. We believe that the inherent attractiveness of our region to new business development will help fuel a gradual return to prerecession unemployment levels. Our primary focus remains, as it has been for the past 63 years, to provide a reliable and affordable supply of energy to meet the needs of our customers and the energy requirements all over the Southeastern United States.

One last comment before I go to Q&A. It's been announced that our Vice President of Investor Relations, Glen Kundert, will be retiring at the end of this year, and we will honor him appropriately a little bit later in the months ahead. Replacing him will be Dan Tucker, and I'm sure you'll all have fun getting to know Dan. As well, today is a notable day in that Jimmy Stewart, our long-time Investor Relations professional, is experiencing his 50th earnings call. Well done, Jimmy.
So operator, at this point, Art and I are ready to take your questions. So let's now take the first question.

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

Question and Answer

Operator

[Operator Instructions] Our first question comes from Jim von Riesemann with UBS.

James Darrell von Riesemann
UBS Investment Bank, Research Division

A question for you. But in light of AEP's announcement on their scrapping of their carbon capture plants, can you talk a little bit about your own commitment to your own CCS facilities and what your expectations are?

Thomas A. Fanning
Chairman, President & CEO

Yes. In light of this notion about proposing a sensible national energy policy, we've long felt that preserving coal as a vital resource to meet the nation's energy future is critically important. And so in light of that need plus this notion of being a leader in research and development, we have continued, in a robust way, to push forward on carbon capture research. We're doing it in very visible ways on both a pre-combustion and post-combustion basis. The pre-combustion method is essentially our TRIG technology. Once we gasify the lignite in Mississippi, we will then strip out 65% of the CO2, and our carbon capture process there will use the CO2 in enhanced oil recovery. So in fact, we generate symbiosis between increasing oil production in that region of the United States and increasing a supply of electricity which, while using coal, will have an environmental signature roughly equivalent to natural gas. As well, we are going forward with our project at Plant Barry. This is a post-combustion carbon capture effort where we take -- we tap into the effluent streams of that plant. We will take the CO2 out of there, and we will ship it via pipeline to the Citronelle Oil Fields north of Mobile. Likewise, that has symbiosis in driving more domestic energy supplies for the Southeast United States. But we're also doing a lot more. Many of you know that in Wilsonville, Alabama, we host the carbon -- National Carbon Capture research facility. We also, at Plant Daniel in Mississippi, have demonstrated that we can sequester some 3,000 tons of CO2 in an underground geologic formation. And that has proved to be exceedingly stable. And we're also looking elsewhere around the United States, or at least the Southeast United States, to evaluate different types of geologic formations to assess their suitability for these activities into the future. We think this is an important part of R&D, and that's why we argue for this as part of our sensible national energy policy.

Operator

Our next question comes from Daniel Eggers with Credit Suisse.

Daniel L. Eggers
Crédit Suisse AG, Research Division

Just first off, focus on the Vogtle and potential for any delays there. Can you just walk us through you -- when you would expect a decision out of the NRC on expanded site work license and then how CapEx would get phased down or adjusted and -- which you guys gave at the analyst day? I think that was not provided.

Thomas A. Fanning
Chairman, President & CEO

Yes. So we try to be very careful with the words we have. We are still confident of achieving schedule and all that. We haven't changed our confidence a bit. We really see 2 avenues for this to occur. One avenue is once we get the DCD affirmed this fall, that the NRC has the ability to issue the COL right then or within 10 days. Assuming -- there is a chance that there are administrative issues in which the NRC may want to issue the COL coincident with the effective date of the COL. The administrative issues -- and it's purely administrative, are that once the proposed COL is put forth, that it goes to OMB for a scoring process. And that is a process that is designed to assure that the recipients of the regulation are not overburdened with

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

regulation. The second is that the COL will be published in the Federal Register. That takes about 30 days. So if in the event the COL -- the issuance of the COL is delayed to the effective date, then the NRC has the ability to issue a second limited work authorization. We filed that LWA -- we call it LWAB here. We filed it some 2 years ago, and we've always contemplated that there may be a need to allow the NRC to continue -- for us to continue work on the site in a manner that will preserve schedule and cost. And in fact, that is something that we think is sensible, and we believe that is an alternative course of action that is just as good as receiving the COL -- practically just as good as receiving the COL this fall. The whole issue is to preserve schedule and cost. We think we can do that either way.

Daniel L. Eggers
Crédit Suisse AG, Research Division

Okay. Good. And then I guess, just the other question, if you could give some updated thoughts on any implications of how the CSAP Rules -- and if that's going to help make a new -- firm up any new decisions on environmental CapEx on the plants where you guys are still evaluating your options?

Thomas A. Fanning
Chairman, President & CEO

Well, I'll let Art hit the CapEx. When we look at the Cross State Rule, there are the issues related to the timeframe that are espoused, particularly the 2012 timeframe. I guess what that drives us to with that kind of timeframe is to use allowances and perhaps revising our dispatch ranking in order to accommodate the requirements of the rule. In terms of the generation and transmission expansion plan implications, which are really the farther-reaching applications, really, we think that at least for Southern Company, the kind of dominant document, if you will, looks more like HAPs MACT, that our decisions under the Cross State Rule are consistent with the HAPs MACT proposal that's put in place. Art, would you want to say anything about CapEx?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. Dan, the CapEx, really -- based on what Tom says, is the HAPs MACT will dictate what we do equipment-wise, since it is a larger rule, and the rules are a little more meaningful there. The -- we do not expect any change from the CapEx numbers that we've given you already, and we'll relook those in the fall. And once we get the final rules, hopefully, we'll have a better view into -- as to what we'll actually be doing. But at this point, we don't have any change contemplated as a result of the Cross State Rule.

Operator

Our next question comes from Jonathan Arnold with Deutsche Bank.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

A quick question. This may be a kind of arcane one. But we were just puzzled by the weather-adjusted sales disclosure, where it looked like weather helped the residential segment, but it hurt the commercial segment. You had sales down absolute but then flat, weather-adjusted.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Jonathan, those are weather-normal numbers. Weather's removed, so residential for the quarter was up 1.2%, and commercial was basically flat once you took weather out.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

That's what we were trying to understand is why weather would have been a negative impact on the commercial segment.

Arthur P. Beattie

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Former Executive VP & Chief Risk Officer

Well, you're still losing customers on the commercial side -- not a lot, but some reduction in customer numbers on the commercial end of the business. That's the mitigating...

Jonathan P. Arnold
Deutsche Bank AG, Research Division

Okay. But my question was why was the number worse including weather than it was excluding weather?

Thomas A. Fanning
Chairman, President & CEO

We're checking here.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. I think a little bit of what you're seeing is some variance in the use of air conditioning, for example. For commercial, it may be a little more intermittent than it might be for the residential. There are -- Jonathan, we'd have to get back to you on that with any other explanation.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

Okay. It was essentially better. [ph]

Thomas A. Fanning
Chairman, President & CEO

A similar explanation is commercial just responds differently to the different weather patterns than we've seen in residential.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

Okay. And then -- well, the second thing I -- there was no real sort of mention in the quarterly drivers of kind of O&M generally. Could you comment at all onto the how -- it seems that you certainly controlled O&M better than we thought you would this quarter. Anything you could say there?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. O&M is basically under our plan, but year-to-year, I think they're actually up a little bit on a year-to-date basis. For the quarter, I think they're pretty flat. The storms in Alabama has a tendency to push some of their what would normally be O&M expense into their storm reserve because of so many resources being applied to that restoration effort. And you saw a little bit of that in Georgia as well. So some of it may be timing as well, Jonathan.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

So any -- could you hazard a guess as to how much of what would have been O&M was effectively capital or storm adjustment?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

No, I really don't have a number on that. I believe Alabama was under their budget by -- our plan by about $20 million. So if you were to add that back in, I think you'd see a more normal growth in non-fuel O&M.

Thomas A. Fanning

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

Chairman, President & CEO

The breakout of O&M to capital in the storm.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

The breakdown is basically a total cost of -- and these numbers are revised downward from our original estimates of $175 million to $220 million. About $40 million of that would be O&M, and the rest would be capital. So by far, it's a capital event than it is an O&M event.

Operator

Our next question comes from Brian Chin with Citi.

Brian James Chin
Citigroup Inc, Research Division

Can I just go back to Dan's question on the COL timeline? If I can just reiterate my understanding to you and then just tell me where I might be understanding things wrong. The chain of events here is sometime soon, there will be a revised NRC schedule that outlines the timeline.

Thomas A. Fanning
Chairman, President & CEO

Yes.

Brian James Chin
Citigroup Inc, Research Division

After that, the NRC will approve the amendment to the design certification sometime this fall.

Thomas A. Fanning
Chairman, President & CEO

That's right.

Brian James Chin
Citigroup Inc, Research Division

The NRC has the ability to -- shortly after the amendment of the design certification is approved, the NRC has the ability to, at that time, issue the COL.

Thomas A. Fanning
Chairman, President & CEO

That's right.

Brian James Chin
Citigroup Inc, Research Division

And that -- if they do that, it will likely happen before year end.

Thomas A. Fanning
Chairman, President & CEO

That's right.

Brian James Chin
Citigroup Inc, Research Division

And then shortly thereafter, sometime in early 2012, the COL effective date will likely occur.

Thomas A. Fanning

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

Chairman, President & CEO

Following the timeframe of these administrative procedures.

Brian James Chin
Citigroup Inc, Research Division

Right. Now based on -- there's a possibility that the COL issuance and effective date would take place at the same time in 2012 due to OMB scoring issues and the Federal Register timelines. So if that is done, where the COL issuance takes place in early 2012, then the NRC has the ability to issue a Limited Work Authorization that would allow you guys to keep on schedule?

Thomas A. Fanning
Chairman, President & CEO

That's right, and we filed for that 2 years ago.

Brian James Chin
Citigroup Inc, Research Division

Okay. Great. That's all I...

Thomas A. Fanning
Chairman, President & CEO

You have that exactly right, by the way.

Brian James Chin
Citigroup Inc, Research Division

Okay. Great. And then the last thing is do you know when the NRC schedule is going to be issued?

Thomas A. Fanning
Chairman, President & CEO

We think in the next few weeks.

Operator

Our next question comes from Steve Fleishman with Bank of America.

Steven Isaac Fleishman
BofA Merrill Lynch, Research Division

A couple of questions. First, just to beat this horse one more time. In that scenario where the NRC doesn't issue the COL until the...

Thomas A. Fanning
Chairman, President & CEO

Effective date.

Steven Isaac Fleishman
BofA Merrill Lynch, Research Division

OMB and the effective date, we would have essentially already seen some kind of document sent to OMB that they support it?

Thomas A. Fanning
Chairman, President & CEO

Well, upon the design control -- the design certification rule. So you will know essentially all of the amendments after the design certification rule, okay? But it will occur this year. So once the rule goes for scoring to OMB, you know what it is.

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

Steven Isaac Fleishman
BofA Merrill Lynch, Research Division

Right. So you know you're getting a COL then, you just don't have it.

Thomas A. Fanning
Chairman, President & CEO

Exactly. That's why we're calling it administrative. And we think there is a legal means for them to issue the COL because of that, well, within 10 days. And then if they want to delay and -- not delay, but if they want to just wait until the administrative process unfolds and the COL becomes what they call effective, then they have the LWAB that they can issue that's been essentially asked for 2 years ago.

Steven Isaac Fleishman
BofA Merrill Lynch, Research Division

And what is the scoring?

Thomas A. Fanning
Chairman, President & CEO

It's a process that was put in place under the Obama administration to relieve the administrative burden of new regulations. And so OMB for any major new regulation does an assessment as to its effect upon issue-ee, essentially. But we're the sole issue-ee here.

Steven Isaac Fleishman
BofA Merrill Lynch, Research Division

Okay. Okay, so that shouldn't be an issue then?

Thomas A. Fanning
Chairman, President & CEO

No.

Steven Isaac Fleishman
BofA Merrill Lynch, Research Division

Okay. And then you didn't talk much in your remarks today about your views -- at least it sounds like, your views on the opposition to the timeline of HAPs MACT and changes that you'd like. Could you -- I know your comments will probably be filed soon to EPA. Could -- and I know you're pursuing other initiatives. Could you just give us an update on both what your comments might be on the rules as well as the other initiatives you might be looking at?

Thomas A. Fanning
Chairman, President & CEO

Oh, sure. Well, Steve, I think we've been reasonably public on our position there, and this goes all the way back to my speech before the United States Chamber of Commerce. And then I testified before Congress. And then in a variety of other forms, we've been very consistent with this. We think, for a variety of reasons, the EPA is overreaching on the HAPs MACT rule. We think that the comment schedule was way too short. Now they did give us 30 days more than the original 60 days, but for any other MACT rule, it has been somewhere between 120 and 180 days. So giving us 90 days still is far short, and this is the most far-reaching of the MACT rules they've ever done. Remember, this thing has -- almost 1,000 pages long, 1,000 pages of supporting documentation. So then they've given us 30 days more, but they haven't changed the effective date. And so therefore, I just wonder how EPA is going to process all of that information to create an effective rule that will be in place, I guess, this November. So we think the effective date of the rule -- so this November date this year, we think is too short for EPA to assimilate the comments. And then finally, I know that I've talked to a number of members of the administration and a variety of other people. And I know people say, "Oh, well, this is a DOJ issue." The DOJ was very clear in their order back to the EPA that if EPA felt they needed more time to assess this issue, the

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

DOJ was positively disposed to do that. Secondly, the EPA on their own has developed the thresholds for the measurement and the whole regime as to how this rule would be implemented. And we think the thresholds in some of the new tests -- and I think I pointed out, for example, the condensable PM standard. This is all brand new stuff. And I know from time to time people say, "Oh, well, you knew this was coming." No one knew that this condensable PM standard was going to be put forth. And I'm just guessing not many people or very few know how to measure it in the first place. So look, for a variety of reasons, we think this whole process has been flawed. We will file our comments on August 4.

Operator

Our next question comes from Andy Levi with Caris & Company.

Andrew Levi
Caris & Company, Inc., Research Division

Just on the LWAC, so I guess the NRC would have to issue that. How would that work?

Thomas A. Fanning
Chairman, President & CEO

Yes, that's right. It's LWAB, like boy.

Andrew Levi
Caris & Company, Inc., Research Division

Okay. I'm sorry.

Thomas A. Fanning
Chairman, President & CEO

Yes, no problem. The NRC would issue that

Andrew Levi
Caris & Company, Inc., Research Division

Okay. And that would happen around when, in your opinion?

Thomas A. Fanning
Chairman, President & CEO

Sometime following the affirmation of the DCD.

Andrew Levi
Caris & Company, Inc., Research Division

Okay. And when do you expect that to happen?

Thomas A. Fanning
Chairman, President & CEO

This fall.

Andrew Levi
Caris & Company, Inc., Research Division

This fall. Okay. And then just -- for Art, just on the quarterly guidance and also maybe on the yearly guidance, I guess, what -- in the first quarter, you were down $0.10 versus last year, right? $0.50 versus $0.60 and then the second quarter, you're up $0.09.

Thomas A. Fanning
Chairman, President & CEO

Right.

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

Andrew Levi
Caris & Company, Inc., Research Division

Third quarter, you're projecting up $0.04. That would put you up $0.03 for the year, gets you to about $2.40. So you'd actually have to have a pretty sizable bump in the fourth quarter. Is that kind of what the expectation is? Or are you guys being conservative on the third quarter? Just trying to figure out the numbers.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, you'll see some -- the bigger pick-ups because of the COR from last year, the COR effects. That won't -- you won't see much of that in the third and fourth quarter, and those will be reflected in rates this year as cash rates. So those will be reflected as additional pieces of gain. The -- you had a lot of weather in the numbers last year as well, in the third quarter. So that's a big driver.

Andrew Levi
Caris & Company, Inc., Research Division

Okay. And then on Southern Power, I guess, at least I was [ph] -- I was expecting kind of flat earnings for the year. Is that -- do you think it's -- you're looking like you might be up for the year? Is that possible?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. Southern Power is doing better than we expected. Most of that is energy margins and their ability to -- with those low-cost gas units, are able to sell into the markets. Their capacity levels are increased much over last year, and their energy margins have reflected that result. As to whether or not -- there were also some new contracts on the year-to-date or year-over-year basis that reflected a lot of increase, but a lot of those contracts started midyear last year. So you won't see the contract piece be additive for the rest of the year, but you could see some additions on the margin side.

Thomas A. Fanning
Chairman, President & CEO

Yes. Andy, let me jump in on a couple of these too. Fourth quarter of '10, I guess it -- what was it?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

$0.18.

Thomas A. Fanning
Chairman, President & CEO

About $0.18, was abnormally low for us.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Absolutely.

Thomas A. Fanning
Chairman, President & CEO

If you go back in prior years -- I just went and looked it up real quick. I mean, it's easy -- not easy, but I think it's normal for us to expect $0.30 or more. So with the normal progression, a normal fourth quarter very much in the strike zone there. This other thing with Southern Power is really pretty interesting. I know we've chatted with many of you in the past about our strategy about Southern Power. And I think what we mentioned to you was that just in -- I know it's a topic of conversation early last year, 2010 and perhaps even in '09, keeping our powder dry a little bit while we assess what was going on with environmental regulations. As you all know, and it's happened with us -- heck, we've gone from 70% of

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

our energy generation from coal to now about 52% from coal, with gas picking up the difference. And so what we're seeing is this notion of keeping our powder dry at Southern Power has turned out to be really good. And in fact, in this period before HAPs MACT takes effect, we're seeing that they've been able to generate, through energy margins, more net income. Their capacity factor for their combined cycle units has gone up this year to 50% from, say, a similar period last year, 38%. So we have reason to believe that they are going to do better this year, certainly than what we thought they would at the beginning of the year. And we think, frankly, there's pretty good reason why that should continue.

Andrew Levi
Caris & Company, Inc., Research Division

Okay. That sounds good. And then just one last quick question back on the...

Thomas A. Fanning
Chairman, President & CEO

Andy, one more thing I just want to say. No, no, no, I was just kind of thinking of it myself. But remember, we have a pretty sustainable idea of covering their capacity with long-term contracts. We actually have -- if you start thinking about what might happen 2015 and beyond, assuming we don't get any relief from schedule or consequence of HAPs MACT plus 316b plus everything else coming down the road, we actually think Southern Power is very well positioned from a long-term standpoint to do well in the years ahead.

Andrew Levi
Caris & Company, Inc., Research Division

That's great. And then back on the LWAB.

Thomas A. Fanning
Chairman, President & CEO

Yes.

Andrew Levi
Caris & Company, Inc., Research Division

That allows you to begin the nuclear construction phase?

Thomas A. Fanning
Chairman, President & CEO

So the LWAB, we've already done some work under LWAA, right? And then we've made so much progress to date. LWAB, as it was filed 2 years ago, was very kind of defined. Essentially, what we will do is put rebar on the plant and then pour concrete on the base of the plant. So that'll be very sufficient for us to maintain schedule and cost estimates.

Operator

Our next question comes from Paul Ridzon with KeyBanc.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

A couple of questions. What's a typical Alabama RSC adjustment relative to the $150 million that you've been authorized?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, there's not a typical adjustment. Some year -- they didn't have an adjustment this year under their RSC mechanism. They're authorized to increase rates under the rate no more than 8% over any 2-year timeframe. So if they have a 3% increase in one year, then they can't increase rates the following year by more than 5%, and that's the way the rate works. So there is no normal increase. As you know, they've

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

got other rate mechanisms as well, such as rates for their environmental investments and expenses, but the $150 million or so that it will raise in 2012 is just under a 3% increase in base rates.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

That helps a lot. The other question or one of the other questions, kind of relative to your $0.62 guidance, can you kind of parse out the pieces? I guess you got about $0.6, $0.07 of weather.

Thomas A. Fanning
Chairman, President & CEO

I'm going to pick [indiscernible] while Art fools around with that. We only do guidance once a year, and that's the range and then we update our guidance in October once a year. These are just estimates. So we're -- we tend to -- we yell at each other about that here. So Art's ready to go.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

For the quarter or the year-to-date period?

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

Quarter.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Against the guidance, weather was up about $0.07.

Thomas A. Fanning
Chairman, President & CEO

Estimates.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, estimates. And Southern Power is up about $0.02. Well, that'll -- there's a lot of other cats and dogs, but that'll get you there.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

Okay. Then lastly, there's been some articles about in the press about you talking about potential for cost overruns at Vogtle, but your language sounds like you're pretty confident of getting this done on budget. Can you kind of just address the dichotomy there?

Thomas A. Fanning
Chairman, President & CEO

I'm not aware of anybody talking about cost overruns of Vogtle. I look around the room, and I'm not aware of it. Look, there was an independent evaluator report that is part of the regular process in reviewing, remember, every 6 months, the cost associated with constructing Plant Vogtle. And I think he highlighted, in a report that got some media play, some concerns he had. The only thing -- I would just caution everybody on this call. I completely understand that interest in Vogtle 3 and 4 and its schedule and its cost has white-hot interest. Well, it certainly does for us as well. And our view is we will always have challenges on a construction project of this magnitude and of this complexity. So really, our test is how we manage these various ebbs and flows in the progress of the project. Our sense is and has been that we're on budget, on schedule. The other thing that I would just want to highlight here -- we've said it before, but I'd love to say it again. Since certification, we believe we brought over $1 billion of value for

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

the benefit of Georgia's customers associated with Vogtle 3 and 4, and that now is part of the permanent record at Georgia Power company. And now, when they evaluate the progress on the project, that's part of the context in which they evaluate our progress.

Operator

Our next question comes from Marc de Croisset with FBR Capital Markets.

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

If I may, I'd love to ask a quick question on your thoughts on the Cross State Air Pollution Rule. One of the arguments that I think the EPA has made is that SO2 compliance could be achieved by having utilities use existing scrubbers more effectively, and as a result, that would be one of the means to reduce -- to achieve SO2 compliance. And I'd be very interested in your reaction to this argument. And have you seen any indication in the industry that -- or in your region, that scrubbers, over the last several years, may not have been utilized as often or as effectively as they could be?

Thomas A. Fanning
Chairman, President & CEO

Yes. So there's a lot of layers to that question. Let me hit just kind of a couple of them. And I just can't contain myself but start with a commercial. About half the scrubbers that we've put in place -- or I think maybe 2/3 of them are the Chiyoda scrubbers that we developed in our R&D facility along with the Chiyoda company out of Japan. And those companies use a fiberglass wall, if you will, for the bubbling structure where we take out the harmful effluents. We've been able to put those in place on time, under budget, and their performance has exceeded our expectations and normal industry performance. It's just another example of how R&D and also the Tianjin Construction Services Group -- we have about 1,500, 1,600 people in Birmingham who really work to the benefit of our customers. Now when I evaluate the effectiveness of the scrubber technologies that we have put in place, I would say that there's not a whole lot more that we're going to do to improve their performance. They already perform in an excellent manner. I would argue -- and I just know this. I'm not going to throw names out, but certain people around the industry have come to us for some help in trying to support their scrubber programs. And either it's a flaw in the technology or a -- because they rely on third-party constructors, they don't perform as they might have. And also, sometimes, scrubbers were deployed in order to meet certain, shall we say, merchant market credit thresholds that really don't operate in as an efficient manner as possible in order to generate thresholds that is required by the EPA. And then finally, some of the technologies that have been deployed were deployed years ago and just are not the latest and greatest technologies. So when EPA considers, "Oh, well, if you just operate more efficiently," I think you've got a very tough question here. In other words, are you going to be able to run your scrubbers more efficiently? Are you going be able to throw in DSI or trona or any of that other stuff? Remember, too, it's not just a simple matter of, well, if you just run your scrubbers more efficiently, you're going to comply. Well, if you add up the aggregate effect of all the other issues they're raising, including PM standards, where this DSI, they cause a problem on the PM side of the equation, it's just not that easy.

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

Tom, just one clarification. Can a scrubber be effective but utilized infrequently? Is that a possibility? Can -- so even -- I'll just repeat that. Even if a scrubber is effective at removing SO2, can you use it less often, at your discretion?

Thomas A. Fanning
Chairman, President & CEO

You can. Wait, so the answer to the question is yes. Now I kind of want to understand that. In other words, it would be -- that what you're getting to is a coal unit being used more as an intermediate or peaking kind of facility, where you might run it -- I can't imagine in this future environment you're going to run unscrubbed coal.

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

Operator

Our next question comes from Michael Lapides with Goldman Sachs.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Tom, you went into a lot of detail on HAPs MACT about some of the concerns, timeline, et cetera. Would love kind of similar feedback on the Cross States rule, whether it's timing that concerns you, whether it's how the allocations were given out on a state-by-state or a plant-by-plant basis, whether it's something else.

Thomas A. Fanning
Chairman, President & CEO

Michael, at the risk of being glib, it's all of the above. And when we -- honestly, when we think about this, sometimes what you see is a significant overlap between rules. And certainly, that's the case, we think, with this Cross State thing and HAPs MACT. Timeframes and all the other issues you raise are absolutely legitimate here and kind of what the value of the allowances are and what they might be in the future regime. Is all of this warranted? Is the net effect -- I have to keep going back to -- remember, our business model puts customers in the middle of everything we do. And the question that I think should be on the table for everybody, especially the context of these national debt negotiations and a variety of other issues that are facing our national economy, is why now. When we consider the potential impact to the price of electricity in the United States and how important that is to the national economy, what impact is that going to have? Our own estimate by our own economist would say that if the price of electricity goes up 20%, that could represent a reduction in national GDP of about 0.5%, and that could represent the loss of between 1 million and 1.5 million jobs.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

And what is the likelihood -- it may be early to make this call, on whether the court and whether it's the same court that put it back on remand or another court -- I'm not sure of the legal path. I would assume that's the D.C. circuit -- would consider a stay or an injunction if the EPA proves inflexible on timeframes?

Thomas A. Fanning
Chairman, President & CEO

So it's the D.C. circuit, and we believe something needs to happen to create a more sensible approach. So when we think about this, we go to the kind of 3 prongs of reliability, economic consequence and environmental impact. And right now, we're out of balance, I think, with the proposal of these rules. We've got to come back -- and I don't know how it will happen, but we think, to the D.C. circuit. There may be some chance there.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Got it. One more of a modeling-oriented question. How should we think about outside of the core subsidiaries, meaning the regulated subs and Southern Power? What costs exist at the holding company level or at the parent level? If I remember correctly, you had $1 billion, $1.5 billion of combined short- and long-term debt. Just curious about other cost there, if any.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, a lot of those are corporate cost at the Southern level that are allocated. Some are charged directly to the opcos and others are handled through the dividend allocation that we allocate to each of the operating companies.

Thomas A. Fanning
Chairman, President & CEO

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Help us out with your question a little more. What are you interested in?

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

No, I'm just trying to true something, trying to just kind of back into what else potentially besides holding company debt could be a drag if I were to look at the difference between some of the Form 1 filing data and some of the SEC data, but I'll follow up with you guys off-line.

Thomas A. Fanning
Chairman, President & CEO

No. Yes, yes, yes. 2010 is a reasonable shot. Take our year-end performance 2010 and then that may not -- that's -- I don't know of anything unusual then nor now that would cause that to be out of whack.

Operator

Our next question comes from Ali Agha with SunTrust.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Tom, just listening to your commentary, really, with regard to the proposed HAPs MACT rule and EPA rules and reconciling the point that you've made many times in past presentations about the kind of political backlash you expect from the big Western coal states and other areas and the lobbying efforts by you and others. Where do we stand today, looking at the reality on the ground? Is your thinking now that the rules are likely to just go in as planned? I mean, are the charges of delays much lower today than they were, say, 4 or 5 months ago? What's the latest on that?

Thomas A. Fanning
Chairman, President & CEO

It's hard to assess, because the context is changing, right? So here we are with this national debate right now about what to do about the federal deficit and the national level of debt and everything else. And it's fascinating to hear the 2 sides talk about on one hand, we've got to cut cost and on the other hand, we've got to raise revenues through increased taxes. And it's our sense that cutting cost is a -- certainly a dominant solution. We've got lots of room to do that, and we've got to rationalize, essentially, the size of government. By the same token, when you consider raising taxes, you're not going to be able to cut your way out of this problem, and you're not going to be able to tax your way out of this problem. We're going to have to grow the economy, and that's the way out of the problem, eventually. Raising taxes just dampens your ability to grow. And the point we continue to make, and I think it has some traction, is that when you consider some of the overreaching regulation that we're seeing now, this is clearly has the effect of an indirect tax on the economy. And that is not good for anybody right now. So we ask the question again, why now? There will be times it will play out as these events unfold where we'll have more clarity.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

And then Tom, I recall also, one of the avenues for pushing things back is the White House or the administration adding another 2 years beyond the 1 year of the EPS [ph] that you're on. Is that still an option? Is that still on the table as far as you can tell?

Thomas A. Fanning
Chairman, President & CEO

Oh, sure. And so the question there is the devil in the details, how does that get issued? Is that something that's just unilaterally done by the President? Can he essentially delegate that authority to the states? And a variety of other issues.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

Okay. And last question, the folks from NEI have been talking about the COL approval process. And one of the points they've raised was that this time, there will be mandatory hearings as part of the process, which I believe has not been done before. And they put that in the category of unknown that are uncertainties. Do you guys look at it that way? And what's your view on that?

Thomas A. Fanning
Chairman, President & CEO

Yes. We think that there are no kind of contentions to the schedule that's going to be laid out. We think, actually -- I know people are really focused on this. But we think, actually, the process that's been laid out is thoughtful. It is thorough, and it is predictable. And I think as the NRC comes out with its revised schedule, I think it will provide some clarity, transparency to the process. And we think, frankly, it will be supportive to issuing the COL in a timely manner.

Operator

Our next question comes from Mark Barnett with Morningstar.

Mark Barnett
Morningstar Inc., Research Division

I know you've been answering a lot of policy questions today. I don't want to push you too hard. But actually, switching gears a little bit towards kind of the renewable policy framework and how that's affected your plans in Southern Power and maybe in pursuing solar. If you look at just kind of the -- the cash grants will be expiring this year, and obviously, that debate, some of these things have come up on the chopping block. Just wondering what you're -- what you've heard, I guess, what might be targeted and how that might shape your kind of strategic planning around renewables at Southern Power.

Thomas A. Fanning
Chairman, President & CEO

Well, so you raised a great point. And in our discussions on Capitol Hill, both of them, the administration and in Congress, it is clear that renewables exist today primarily because of federal subsidies in the form of tax benefits, either with production tax credits, investment tax credits, a variety of those things. To some extent, from a policy level, federal support makes sense, particularly when you want to get something started, okay? So you give it some support. You get its legs underneath it and then it goes forward. The question that I think remains for the renewables sector is how viable are those projects in thinking about the national energy portfolio x federal subsidies? That's why we said before that we're kind of bullish on the development of solar just as apart from wind, for example. When we think about -- we did our project in New Mexico with First Solar, a terrific company, great group of guys. Their idea is to get thin-film photovoltaics to a economic competitive basis by the middle of this next decade, say, 2016, to where maybe it'll be $0.15 per kilowatt hour. If you consider the normal trajectory of energy prices in the United States, if they're able to reach that -- and it's really 2 ways to reach it. It's either through efficiency gains in the conversion of sunlight to electricity, so from a technological improvement standpoint. And then the second would be kind of a production cost efficiency standpoint. If they can now generate thin-film solar panels at a cost-per-panel rate that continues to decline, well, maybe they can hit that. And as you consider the price of energy in the United States -- now we in the Southeast are pretty cheap. We're about $0.085 on a retail basis. Nationally, $0.15 per kilowatt hour might make sense even without federal subsidies. That's where the renewable sector has to go. They have to be able to demonstrate their reliability and economic consequence without federal subsidies, eventually.

Mark Barnett
Morningstar Inc., Research Division

Okay. I guess, also regarding sort of Southern Power looking to the future. Obviously, sitting on that dry powder and kind of waiting things out, are you looking at any of the deals and the transactions going on this year -- or the offered portfolios, I should say? And do you see any kind of a bargain out there? Is there anything that you're looking at maybe acquisition-wise anywhere around the U.S.?

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

Thomas A. Fanning
Chairman, President & CEO

Well, so we always look at acquisitions. And in fact, recently, we've done some things. This West Georgia deal, we did a trade for -- what was the project in Florida? We did a trade for one of our projects in Florida for West Georgia.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

DeSoto.

Thomas A. Fanning
Chairman, President & CEO

Sorry.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

DeSoto.

Thomas A. Fanning
Chairman, President & CEO

DeSoto, yes. We traded DeSoto for West Georgia plus cash, I guess. But we're always in the market to evaluate opportunities and do that, so we're always on there. The other thing -- I guess I didn't really hit this. I kind of hit it, but so Southern Power, through our Southern renewables company -- it's all managed in the same spot. We've done a solar deal. We're doing a biomass deal, and there are tax credits associated with that. Obviously, we're very modest in our approach there compared to perhaps some other people. From a financial policy standpoint, we view tax-advantaged investing as riskier than normal investing. And for Southern Company, given our conservative profiles and having the best level of financial integrity and the most conservative business model around, we put a higher hurdle rate on those kinds of investments than just good old brick-and-mortar investing. So you'll look to see us continue in that vein in the future. We'll probably be pretty modest there.

Operator

Our next question comes from Ashar Khan with Visium.

Ashar Khan
SAC Capital

My questions have been answered.

Operator

Our next question comes from Paul Patterson with Glenrock Associates.

Paul Patterson
Glenrock Associates

Just a few quick questions. One on Fukushima, the report that came out, did you guys see anything in it that would cause you any concern about increase in expenses?

Thomas A. Fanning
Chairman, President & CEO

So do you mean -- let me break -- I'll answer my own question. Heck with it. With Vogtle 3 and 4, we got reaffirmed that, in fact, Vogtle 3 or 4 has the design characteristics, et cetera, et cetera. So it was very supportive of moving forward with all reasonable haste to get that done.

Paul Patterson

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

Glenrock Associates

Right. I meant the existing plants.

Thomas A. Fanning
Chairman, President & CEO

Existing fleet. So yes, I got my own plug in there, Paul. The existing fleet, I think -- it's hard to tell right now. When you consider that this 90-day report was a very solid work product of 6 people from the NRC, that work product has to go through a thoughtful review at the NRC. And I think in its review of NRC's normal processes, they'll take a very thoughtful work and assess its applicability to the current fleet. So it's really just hard to say right now. I think there are some attractive areas to consider improving the current fleet, but it will take some time.

Paul Patterson
Glenrock Associates

Okay. Second question is the -- it sounds like the economy is doing pretty well. Before, you guys were sort of maybe thinking that -- I guess economic growth in your area could be about 4%, but you guys were being conservative at 3%, 3.5%. At least, that's the last thing I recall. Maybe it's changed. I was wondering if it has changed, actually. If you guys -- what's your outlook now as -- for the Southeast economy?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, our forecast is what it is. And as we look at where we are now, I would expect us to do a bit better than what we forecast on industrial. And kind of like what happened last year. The mix was different. Although we hit our total forecast or did a little bit better than our total forecast, the mix may be off a bit. We may underrun our estimate on residential and commercial growth, but in total, we don't think we'll be too far from our numbers.

Thomas A. Fanning
Chairman, President & CEO

Let me give you just a little more flavor there, which is kind of fascinating to me. You did see this little bump in residential compared to, say, prior quarters. There's almost 2 classes, kind of people right now in the United States: those with jobs and those without. And let me say right at the outset that unemployment is at unacceptably high levels in the United States, and we got to get about fixing that problem. What we are seeing, however, for those that have jobs in the Southeast, they're doing reasonably well. We've seen a 4% increase in personal income growth. We've seen, we think with this bump, an increase in usage. We see an increase in tax receipts. I mean, people are spending more money. So there is this interesting set of data points that suggest that if you have a job, that we may see some momentum to grow not only with the creation of jobs as we suggested on the economic development front but also in the future in terms of personal consumption. So it's a pretty interesting thing that we're keeping our eye on. It's highly uncertain. With the visibility we see and the economic development, we think it will turn. The question is when will it turn. And just the last comment I'll make -- when we make estimates as to economic growth and a variety of other things -- we do this with this economic roundtable that Art runs and that Paul Bowers before him started. So this is really not our own estimate. It's really kind of the aggregation of everyone's estimates that we talked to in the Southeast.

Operator

Our next question comes from Dan Jenkins with State of Wisconsin Investment Board.

Dan Jenkins
State of Wisconsin Investment Board

I guess I'll follow up a little bit on what you were just talking about, in particular, with the industrial groups. You were pretty positive when you talked about job growth in the industrial sector in your region,

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

but we did see a slowdown in the weather-adjusted change from quarter-to-quarter. And also, you mentioned that your roundtable group was more cautious than they were 6 months ago. I guess, could you give us a little color on kind of a trend you're seeing with industrial? Have you seen any kind of a pullback as the quarter progressed as we've kind of seen in the national economic numbers? Or are you not seeing that in your region?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, we've seen some spotty things. But when you look year to year, '11 to '10, you'll notice last year's pattern of industrial sales grew throughout the year. So our ability to roll over last year's numbers is going to be a little more limited this year than, say, it was last year, because we're working off a very low base. You had some additions to capacity, such as ThyssenKrupp in Alabama that had ramped up production a little quicker than we thought. You've had the addition of a new refinery in Alabama, which has helped industrial sales as well, offset by, say, Honda, which was impacted by -- some of the production by the -- or the earthquake in Japan interrupting the supply chain a bit. So you've got hot and cold spots. But on the whole, our chemicals, our primary metals, our fabricated metals and auto production continue to be very strong, and we expect them to remain that way.

Thomas A. Fanning
Chairman, President & CEO

One more local story of interest, just real quick. One of my buddies run Southtowne Automotive here in Atlanta, several dealerships for automobiles. He's selling out of low-priced, fuel-efficient cars. He's selling out of used vehicles. He's getting plenty of supply, but they're coming off the lot, and he's having troubles replacing them with other product to sell. So it's a fascinating time right now. It feels like we're on the cusp of some recovery. My sense is it's still a prolonged recovery, but we see interesting signals all over the place.

Dan Jenkins
State of Wisconsin Investment Board

Okay. Moving on, you talked a little bit about -- that you filed at Georgia Power for -- I think it was a $92.5 million increase.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Gulf Power.

Dan Jenkins
State of Wisconsin Investment Board

Gulf Power, I mean. Yes. Sorry.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Right.

Dan Jenkins
State of Wisconsin Investment Board

What's the requested ROE? And what are the other drivers of that? And then what was your end ROE in the last 12 months ago?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

The requested ROE in the case is 11.7%. The drivers for the increase are basically, as I said in the text of my remarks, was that they haven't filed a base rate increase in over 10 years. And yes, the increase

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

in cost in the infrastructure hardening that the commission has asked for within the state of Florida are cost increases that the company has, to date, been able to cover. But at this point, it's necessary to go ahead and try to get recovery of those increased cost. The actual last year earned ROE, total company, was 11.7%.

Dan Jenkins
State of Wisconsin Investment Board

Okay. And then the last question I have is just what was the quarter end debt balance? And then what are the -- any change in debt plans for the second half?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. Basically, we're right at $20 billion in debt. The plans -- let's see. So far, year-to-date, we've issued $1.7 billion. Not all of that is new money. We have done a little more refinancing as the markets have allowed. And for the rest of this year, we probably have another $1 billion to issue.

Operator

It appears our final question is a follow-up from the line of Brian Chin with Citi.

Brian James Chin
Citigroup Inc, Research Division

A question on Southern Power. If I remember right, that's roughly 80% contract is what you've told us in the past.

Thomas A. Fanning
Chairman, President & CEO

Certainly, in the near term, that's right.

Brian James Chin
Citigroup Inc, Research Division

Is that 80% volumetrically contracted as well? Or was that contracted in terms of expected overall margins?

Thomas A. Fanning
Chairman, President & CEO

So remember, what we do is we try to structure our competitive gen business with a similar risk posture to our integrated regulated business. So virtually, all of our contract has 2 segments. One segment is associated with the investment in brick-and-mortar capacity. And for the term of the contract, we earn a fixed return on those investments on that capacity even whether the assets run or not. The second element -- the second segment of contract deals with energy. And as you see with our integrated regulated businesses, those essentially are cost passthroughs, essentially fuel cost with some variable O&M. And there is the ability, with some small level, to earn upsides. That would be for starts, energy margin availability and a variety of other small potential benefits that we can do. So when we think about kind of keeping our powder dry and 80% and all that, we were wondering earlier last year and even the year before, how aggressively do we want to cover the uncovered portion of that generation portfolio? And remember, that generation portfolio is almost exclusively gas fired in the Southeast. As you think about the weight of the implications of these proposed regulations by EPA, we have felt that Southern Power was exceedingly attractively positioned to take advantage of this kind of rapidly changing environment not only in just kind of how the world may change as a result of regulations but also the economic effects of cheap, plentiful so-called type gas, shale gas relative to coal. So that's what we're seeing with Southern Power right now. Did that hit your question?

Brian James Chin
Citigroup Inc, Research Division

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

Well, I guess, what I'm -- because you're early comment about volumes or utilizations at CCGT has gone from 38% up to 50% has sparked my interest in Southern Power. And what we're trying to think about here is, if Southern Power is seeing a similar level of interest in demand, then do your contracts preclude you from seeing that upside? Or do your contracts allow you to capture a little bit more upside than what you had projected you were contracted at?

Thomas A. Fanning
Chairman, President & CEO

Yes, that's it, but it's not much.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

It depends. It depends on if the customer that you have a contract with has scheduled that capacity. If they have not, then we might have the opportunity to sell it somewhere else. But normally, in this kind of environment, they're going to schedule it all on their own.

Thomas A. Fanning
Chairman, President & CEO

And just to review kind of what Art said. The broader context, because this applies to operating companies as well, we operate in a pool of energy here in the Southeast. Each of the companies -- well, you meet your own needs first for your retail loads. Secondly, you the needs of sister companies first. Thirdly, only after you meet the needs of all of your retail customers all across our service territory then do you get to make opportunity sales and offset a land somewhere else in the U.S. Interestingly, we've had a real pickup in the second quarter of sales to our west. So that's kind of where we've made the excess margin in the second quarter.

Brian James Chin
Citigroup Inc, Research Division

Last question on this. With the allowance shortfall at Georgia Power, would it be possible for you to meet that shortfall by running your coal plants less and then ramping up utilization at some of the Southern Power plants? Or am I just not really thinking about this correctly?

Thomas A. Fanning
Chairman, President & CEO

No, absolutely. Look, I mean...

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, that's an option.

Thomas A. Fanning
Chairman, President & CEO

That is -- when we say change the dispatch, that's what we're talking about.

Brian James Chin
Citigroup Inc, Research Division

Okay. And then -- and because your answer back to Marc de Croisset earlier seem to imply that your scrubbers on your coal plant's already running at as high a utilization rate as you think they can go. So ergo, you can't increase the utilization on the scrubbers. The only thing you can do is -- or one of the options you have is swap out on the dispatch curve.

Thomas A. Fanning
Chairman, President & CEO

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

Yes, you see I know I went into detail there with Marc. But the point is ours are already performing at an excellent level, I mean, the industry-leading level, for heaven's sake. So I don't know how much we -- so we've got all these engineers that tinker around with this stuff and love to make it work better. There's always some potential. But I think relative to what you're see elsewhere in the United States, I thought his question went more to other people that had other technologies, other experience, older technologies, deregulated markets with a different reality. It really applied to somebody other than Southern.

Brian James Chin
Citigroup Inc, Research Division

Okay. And to summarize your earlier response back to me, in terms of your hedging at Southern Power, you are essentially physically hedged and not financial hedged. Is that maybe a better -- a more accurate way to phrase that?

Thomas A. Fanning
Chairman, President & CEO

Very accurate.

Operator

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

Thomas A. Fanning
Chairman, President & CEO

Well, I just want to say thanks, everybody. We always enjoy getting together for these quarterly chats. Our Investor Relations team is undergoing some transition as Glen enters into his salad days here, but -- and we bring Dan Tucker on. But we'll always strive to meet your needs as best we can, and we're going to be attentive as ever on the road, telling the story of Southern Company. We appreciate your interest, and we look forward to seeing you soon.

Operator
Thank you, sir. Ladies and gentlemen, this does conclude the Southern Company Second Quarter 2011 Earnings Call. You may now disconnect.

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Attachment to STF-238-7

Copyright © 2019 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

These materials have been prepared solely for information purposes based upon information generally available to the public and from sources believed to be reliable. No content (including index data, ratings, credit-related analyses and data, research, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P Global Market Intelligence or its affiliates (collectively, S&P Global). The Content shall not be used for any unlawful or unauthorized purposes. S&P Global and any third-party providers, (collectively S&P Global Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Global Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON "AS IS" BASIS. S&P GLOBAL PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Global Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages. S&P Global Market Intelligence's opinions, quotes and credit-related and other analyses are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P Global Market Intelligence may provide index data. Direct investment in an index is not possible. Exposure to an asset class represented by an index is available through investable instruments based on that index. S&P Global Market Intelligence assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P Global Market Intelligence does not act as a fiduciary or an investment advisor except where registered as such. S&P Global keeps certain activities of its divisions separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions of S&P Global may have information that is not available to other S&P Global divisions. S&P Global has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P Global may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P Global reserves the right to disseminate its opinions and analyses. S&P Global's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P Global publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.
© 2019 S&P Global Market Intelligence.

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.