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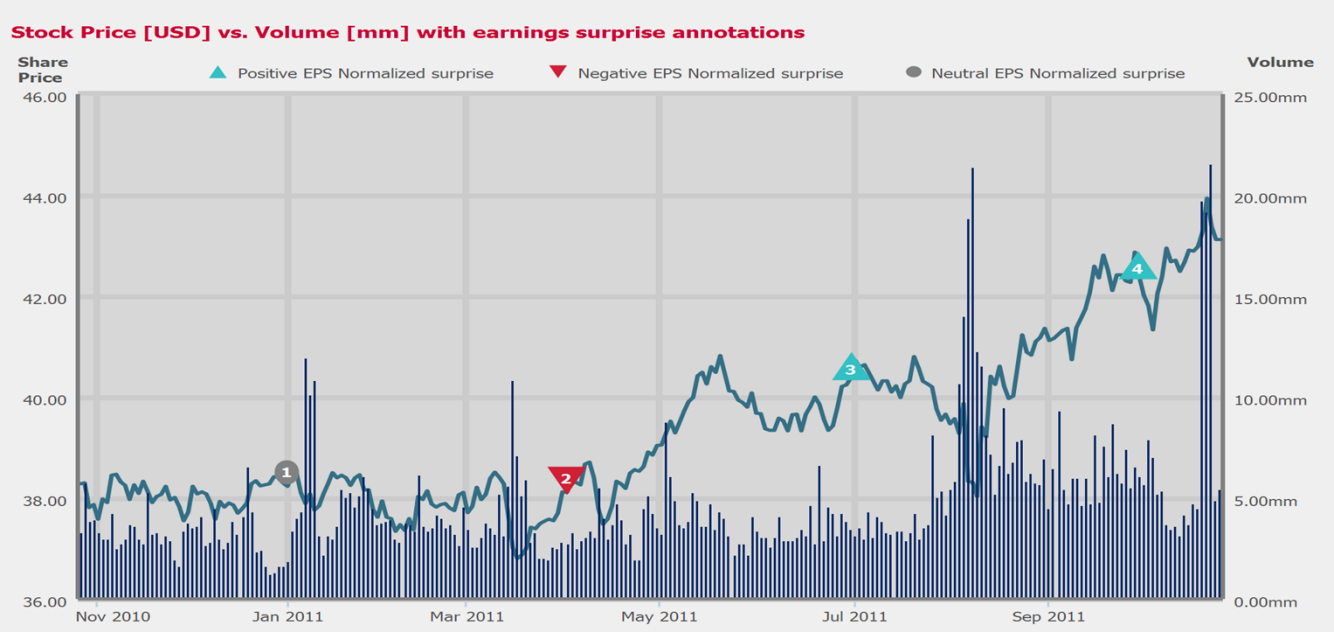
FQ3 2011 Earnings Call Transcripts

Wednesday, October 26, 2011 5:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2011-			-FQ4 2011-	-FY 2011-	-FY 2012-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.04	-	1.92	0.31	2.54	2.70
Revenue (mm)	5902.21	5430.00	(8.00 %)	3659.65	17955.51	18738.71

Currency: USD
Consensus as of Oct-26-2011 2:00 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2010	0.18	0.18	1 0.00 %
FQ1 2011	0.51	0.50	2 (1.96 %)
FQ2 2011	0.64	0.71	3 10.94 %
FQ3 2011	1.04	-	4 1.92 %

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Table of Contents

Call Participants 3
Presentation 4
Question and Answer 8

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Attachment to STF-238-7

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Thomas A. Fanning
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Attachment to STF-238-7

Presentation

Operator

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

Glen A. Kundert
Vice President, Investor Relations

Thank you, Kerry. And welcome to Southern Company's Third Quarter 2011 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 statement, including those discussed in our Form 10-K and subsequent filings.

We'll also be including slides as part of today's conference call. These slides provide details on the information that will be discussed on this call. You can access the slides on our Investor Relations website at www.southerncompany.com, if you want to follow along during the presentation.

Now at this time, I'll turn the call over to 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. Before I get started with the normal text, I want to recognize Glen Kundert. This is his -- it's unbelievable -- 48th earnings call. And as most of you know, he will be retiring later this year. He is a wonderful friend and has contributed so much to our success. We just want to recognize that. And, Glen, most often in Southern Company when really important people retire, we name plants after them. I'm afraid you're going to get this call named after you. This would be the Glen A. Kundert Third Quarter 2011 Earnings Call. Sorry, we couldn't do better. We will, in fact, do more in the months ahead, I think we have 3 separate official recognition parties for you and look forward to seeing all of you on the call. If you can make it, please do. He deserves all of our thanks and recognition.

Returning to the script, as you can see from the materials we released this morning, we had a solid third quarter. Before handing it over to Art for the financial review, I'd like to take a moment to recognize our employees for the terrific job they have done this year serving our customers.

This has been a particularly active year across our territory with regard to storm activity. Not only were we faced with the devastating tornadoes of April 2011, which claimed lives and left thousands homeless in Alabama, Mississippi and Georgia; but throughout the spring and summer, we have seen an unusual number of major storms. Our employees have worked around the clock to restore service as quickly as possible during this challenging period.

We have likewise seen strong storm activity outside our service territory, and Southern Company has responded to that challenge as well. In August, we provided assistance to utilities hit hard by the effects of hurricane Irene, which left millions without power, a total of 740 Southern Company employees were dispatched to help with that restoration effort in multiple states up and down the Eastern seaboard.

Just a few weeks later, our own territory was hit hard by Tropical Storm Lee, and the same crews that had deployed to the Northeast returned home and reported, without rest, to support that restoration effort, which lasted several days. As we have faced and met these challenges, it has been our employees' unparalleled commitment to customers that has made the difference. Our employees know that putting

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Attachment to STF-238-7

the customer first is what makes Southern Company successful, and their actions speak louder than any words I can offer.

At this point, I'll turn to Art for a discussion of our financial highlights for the third quarter and our earnings guidance for the remainder of 2011.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Thanks, Tom. As Tom said, our third quarter performance was solid. In the third quarter of 2011, we reported earnings of $1.07 a share compared with $0.98 a share in the third quarter of 2010, an increase of $0.09 a share.

Let's turn now to the major factors that drove our third quarter numbers compared with the third quarter of 2010. First, the positive factors. Retail revenue effects in our traditional business added a total of $0.17 a share to our earnings in the third quarter of 2011 compared with the third quarter of 2010. Most of this increase was the result of regulatory actions at Georgia Power that became effective in January 2011.

Changes in non-fuel O&M spending increased our earnings by $0.03 a share in the third quarter of 2011 compared to the third quarter of 2010. This effect is due primarily to the absence of a discretionary accrual to the natural disaster reserve at Alabama Power that negatively affected earnings in the third quarter of 2010. Finally, a reduction in interest expense increased our earnings by $0.01 a share during the third quarter of 2011 compared to the third quarter of 2010.

Now let's turn to the negative factors that drove earnings for the third quarter of 2011. Weather effects reduced our earnings by $0.07 a share during the third quarter of 2011 compared with the third quarter of 2010. Weather was actually positive for the quarter, coming in at $0.03 a share above normal but was negative when compared to the same period in 2010, which came in at $0.10 above normal.

Income tax expenses in our traditional business reduced earnings by $0.01 a share during the third quarter of 2011 compared with the third quarter of 2010. Lower revenues at Southern Power reduced our earnings by $0.01 a share. This decline in revenues is due primarily to the expiration, in May of this year, of a long-term capacity contract. This decline was partially offset by opportunity market sales from this same resource.

Finally, an increase in the number of shares outstanding reduced our earnings by $0.03 a share in the third quarter of 2011 compared with the same period in 2010. In conclusion, we had $0.21 of positive items compared with $0.12 of negative items or a positive change of $0.09 a share over the third quarter of 2010. So overall, our quarter came in at $1.07 per share.

Turning now to our own customer data and the regional economy. Our sales data indicate that the southeastern economy continues to expand but at a slower rate than in our original forecast for the year. We have been expecting 2.2% growth in retail sales. However, the expected growth in retail sales has not materialized as reflected in our year-to-date, weather-normal retail sales growth of 1.1%. We are now in the process of preparing our 2012 sales and economic forecast, and will provide an updated outlook for you during our January earnings call.

In the meantime, overall sales growth remained slow, driven primarily by the continued flat performance of our residential and commercial markets. The still-challenged housing market and low consumer confidence continued to temper growth in these sectors, a situation that has been exacerbated in recent months by the -- by external events around the world.

Industrial sales, however, are still growing, increasing by 1.6% in the third quarter of 2011 compared with the third quarter of 2010. Based on third quarter results, industrial sales are at 95% of pre-recession levels. As a bullish signal, we note that August sales approached 97% of 2007 levels, indicating continued momentum.

The most significant increases for the quarter were in primary metals, up 16%, petroleum refining, up 12% and fabricated metals, up 8%. All major segments experienced year-over-year growth, with the

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exception of paper and several housing-related segments. The auto segment in our region has shown continued improvement, producing 10% more vehicles in the third quarter of 2011 than in the third quarter of 2010. Meanwhile, the value of all exports from the region increased 18.5% in the third quarter of 2011.

We remain encouraged by the prospects for continued industrial growth in our territory. On the economic development front, we are actively working with our state governments on more than 300 potential new projects. Out of this pipeline, 30 realized projects, representing more than 6,000 jobs, were formally announced during the third quarter alone. For example, Mercedes-Benz announced that in 2015, a fifth line will be added to its Southeastern operations, bringing with it an additional 400 jobs. This is in addition to the 1,000 Mercedes jobs previously announced for 2014 to build that company's C-Class model. All told, Mercedes will bring a total capital investment of $2.4 billion to the region over the next 4 years.

To sum up the current economic picture, the Southeast economy is rebounding, albeit slowly, and should be well positioned for the future, reflecting strong fundamentals such as diverse transportation networks, attractive labor markets and low cost of doing business. The recovery will, however, continue to be challenged until the national employment picture improves and consumers begin to regain confidence in their outlook for the future.

Turning now to our earnings guidance for the remainder of 2011. Our estimate for the fourth quarter is $0.29 a share, which means we expect to come in at the very top of our 2011 guidance range of $2.48 to $2.56 a share. At this point, I'll turn the call back over to Tom for his closing remarks.

Thomas A. Fanning
Chairman, President & CEO

Thanks, Art. In closing, I'd like to take a few minutes to update you on where we stand on our 5 strategic business priorities. The first priority is to sustain and enhance our business model. We remain focused on providing superior customer value in the form of industry-leading reliability, low prices and exceptional customer service.

The outstanding value Southern Company delivers can be seen in operational results achieved throughout our business. These results include, but are not limited to, a peak season equivalent forced outage rate for our fossil/hydro generation for 2011 of about 1.3%, the second best in our company's history, compared to a historical industry average of around 7%; a continued 10-year trend of improved performance for our transmission and distribution assets; prices that remain well below the national average; and customer satisfaction that is among the industry's best, most recently demonstrated a few weeks ago when Southern Company was named the #1 utility nationally for overall customer satisfaction in the annual National Key Accounts Benchmark Survey conducted by TQF Research.

The second priority is to be successful in completing our major construction projects. Plant Vogtle units 3 and 4, and Plant Ratcliffe in Kemper County, Mississippi are progressing well. All targets related to cost and schedule remain achievable.

The third priority is to engage in the national energy policy discussion. We continue to stress the importance of a common sense national energy policy that will contribute to a healthier economy and our nation's ability to generate jobs. Our concepts are simple. First, that the United States should take advantage of all of the arrows in the quiver: Nuclear, 21st century coal, natural gas, renewables and energy efficiency. And second, that our industry should increase, as a high priority, its investment in robust proprietary research and development. We've been very clear in our conviction that this is the best way for the industry to go forward.

Toward that end, we remain engaged in a variety of forums and are very encouraged by the constructive nature of the discussion to date. We are especially gratified by the recent hearings in the U.S. House of Representatives concerning the reliability of our nation's electric infrastructure, and particularly, the leadership shown by FERC Commissioner, Philip Moeller.

Meanwhile, we have continued to diversify our fuel mix. Four years ago, 70% of our generation was coal-fired and approximately 10% came from natural gas. In the third quarter of 2011, approximately 50% of

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generation was derived from coal, while gas production has moved up to 30%. We moved in this direction solely for the benefit of our customers, without additional regulatory mandates, which would have the effect of increasing energy prices and reducing reliability.

My fourth priority is to promote Smart Energy. We remain authentically postured in the 3 components of this effort: Smart Power, Smart Grid and Smart Choices. In Smart Power, we continue to pursue a three-pronged approach that includes conventional, renewable and distributed generation. In Smart Grid, in addition to our efficiency gains, we expect to have nearly 4 million smart meters installed by the end of this year, on our way to a total of 4.6 million at the program's completion. And at Smart Choices, we continue to assess which value chains will emerge and where we might participate in those markets.

The fifth priority focuses on our people. We believe we have the best bench strength in the industry, and we see that as a major strategic advantage going forward. Even now, we are working on robust succession planning that will carry us into the next decade and position this company for future success.
As our business continues to grow and evolve, we will pursue the successful achievement of these 5 priorities, all for the benefit of the customers and communities we serve. At this point, we are ready to take your questions. So, operator, we'll now take the first question.

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Question and Answer

Operator

[Operator Instructions] And your first question comes from Daniel Eggers with Credit Suisse.

Daniel L. Eggers
Crédit Suisse AG, Research Division

I guess, just -- can we talk a little more about kind of the demand picture right now in really the residential and commercial classes, if you have more thoughts, you want to pontificate on why we just haven't seen the usage recovery and if it's all economy. Or if there's some efficiency issues going on or what you think is kind of keeping this from rebounding?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. Dan, this is Art. I really think it's more consumer confidence than anything else, so I would point to the general economy. It's very tough to pull out energy efficiency out of those numbers and get a good feel for that. I think the fact that we've had so many punches in the gut from all of these sovereign debt issues in Europe, the downgrade of the U.S. debt, the stock market performance, housing values dropping, doesn't give consumers a lot of good feelings to go forward on. So I think everybody's being very conservative. They're paying down debts. Their whole mindset is very conservative right now. I think that's what's driving usage. You also have some in migration issues into the Southeast, with housing values declining, you got folks just not willing to pick up and move, sell their homes and -- or monetize that value.

Thomas A. Fanning
Chairman, President & CEO

One other point that's just interesting, personal income growth for those that have jobs is actually pretty vibrant. So I think this other issue of just a sustained, kind of unacceptably high employment level is something that has to resolve itself. Those that have jobs seem to be doing pretty well.

Daniel L. Eggers
Crédit Suisse AG, Research Division

And I guess, maybe a little further along those lines if you look at the industrial load, you guys are almost back to pre-recessionary levels, but, clearly, you've seen growth in the industrial base since then. If you think about the resource additions that have happened since '07 and '08, how far off -- are you off from a normalized utilization rate for the entire industrial base?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

As I said -- we're 95% for the quarter compared to '07 levels in industrial sales. So in the month of August, we were 97%. So we're almost back to that breakeven point. But we've added a little capacity to some crop [ph], being the big ones to note that we didn't have back in '07. So it's not a pure apples-and-apples comparison.

Thomas A. Fanning
Chairman, President & CEO

And I think, another statistic, I think, we've mentioned in the past -- we continued to see -- affirmed is this idea that during the downturn, a lot of our industrial economy took the time to retool. And in fact, we think their production capacity efficiency has gained about 18% since the downturn. So you're going to have to eat into that before you regrow jobs in a significant way.

Daniel L. Eggers

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Crédit Suisse AG, Research Division

Do you think that the efficiency gains is going to kind of the 97%, 95% 94% -- 95%, 97% recovery probably captures the growth you've had netted against the efficiency gains you saw out of your big customers? So you're more kind of at normal, like an honest normal number.

Thomas A. Fanning
Chairman, President & CEO

I'm not sure I followed the question.

Daniel L. Eggers
Crédit Suisse AG, Research Division

I'll follow-up with you on that one. I guess, the other thing, Tom, I was wondering if you could talk about was on Vogtle, just where the COL is at this point in time, and your expectations for getting that resolved?

Thomas A. Fanning
Chairman, President & CEO

Yes, the simple answer is, we see no technical reason why we shouldn't be able to get the COL by the end of this year. As we know, the rulemaking process with respect to the DCD has been submitted to the NRC. Likewise, the regulation around the COL is progressing as we expected it to. And so we see these things coming together by the end of this year. We see no technical reason why it couldn't happen this year.

Operator

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

Steven Isaac Fleishman
BofA Merrill Lynch, Research Division

Just curious, kind of your latest thoughts on what we may see out of the final HAPs MACT thing? And just, I know you've pushed a lot for more time and for some changes. And there's been, I guess, focus on reliability, and we now have a one-month delay, I guess, to deal more with -- maybe more with reliability issues. Just what are you expecting to see?

Thomas A. Fanning
Chairman, President & CEO

Steve, that is an awfully good question, but it's one of these unknowables. I mean, I'll talk around the issue. It's pure speculation at this point. Certainly, with the extra 30 days for EPA perhaps to digest the vast amount of comments they got, we still have the 2015 deadline staring at us. And in fact, from the time you get a final rule till the 2015 deadline, it really shortens your period to react and put in place. So all the issues related to schedule remain. You may know, too, that the EEI comments with respect to this rule really have 11 different points. Schedule is just 1 of the 11. The others relate to more technical points, related to how you measure affluence, and what's the appropriate regime in which for that to occur. So there's a whole lot going on here behind -- I mean, other than schedule. And I think the thing that I'm gratified with, as I noted in my comments, is the constructive nature of the discourse in Washington. I know you don't hear that often, but we are particularly gratified by the notion that people do take seriously the potential impact on reliability. And in fact, we note that there is a FERC technical conference now scheduled to deal with reliability in November. So we'll see. I appreciate the question. I am reluctant to try and predict where EPA is going to come out on this thing.

Steven Isaac Fleishman
BofA Merrill Lynch, Research Division

Well, that's helpful color. I guess one other question, just on -- I guess, 2 other questions. First on sales growth, when we think about the impact, if we have slower sales next year or the year after -- I mean in the end, generally, you're just focused on earning your allowed return, whatever investment you're

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making. Would this have any meaningful impact on your capital expenditure plan, or since most of it's for some of these major projects that it really would -- would it impact that much?

Thomas A. Fanning
Chairman, President & CEO

Yes. I think that's exactly right. I absolutely share that point of view. I don't think it has much to do at all with our CapEx. If there is any impact on CapEx, it's going to be the theoretical gas unit way down the road. We're pretty well committed through '17 anyway. If you think about it, we got Plant Ratcliffe at Kemper County coming in, in '14, you have the McDonough units coming in. We have Plant Vogtle 3 and 4 coming in. Georgia is doing a solicitation in its IRP for some '15 and beyond resources. All that's pretty well spoken for. Any variance is going to come in late in this decade. And further, let me just say to everybody, too, while we have -- we were predicting, remember, a recovery that we thought would accelerate in the fourth quarter. We think it's still there, we just think it's just further out in time.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Steve, you may have some intermittent adjustments to growth in transmission and distribution investment. That's more related to current economic growth and you could see some delay depending on what the forecasts were to say.

Steven Isaac Fleishman
BofA Merrill Lynch, Research Division

One last quick question. Just on equity issuance through your DRIP dribble. Where are you on that? How much have you issued year-to-date, and could you remind us what your target was for the year?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, our target for the year was 500. Year-to-date, we have issued 619, I believe, was the number. We've done more. We've actually turned off our internal programs other than the stock option program. And that's really where we've picked up much more than we expected. Next year, and we'll give you guidance in January on what we expect -- where we expect that to be next year.

Operator

The next question comes from Andy Levi with Caris.

Andrew Levi
Caris & Company, Inc., Research Division

Just on the COL, I mean, I understand that you guys are in very good shape there and things seem to be humming along. But can you just be a little bit more specific on what still needs to be done or what's the process between now and year-end or the first of January, whatever it is?

Thomas A. Fanning
Chairman, President & CEO

Sure. So the DCD has been submitted in a rule-making process to the NRC. So the commissioners now have the rule. They now have a period of time in which they can comment on the final rule and vote on it. There is a period that the different staffs of the different commissioners will try and harmonize their comments. Ultimately, I think as the commissioners come to a consensus on approving the rule, we hope, then I think it will move rather quickly. Remember, the COL is a process which has a 240, I think, 240-, 270-day clock on it which will culminate by December 15, I think. So what we expect to see -- what we hope to see is a vote that will be final by the commissioners prior to that time, with respect to the DCD. Then we have the COL, and then hopefully, we get the COL. Beyond that period, there are 2 administrative procedures we have talked about before, one of which deals with a scoring process by OMB and one of

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which deals with a notice process in the Federal Register. Both of those are administrative in nature, and we believe there is no technical reason why we couldn't be awarded the COL in December.

Andrew Levi
Caris & Company, Inc., Research Division

Okay. And I guess, it's just a matter of when a rule is a rule.

Thomas A. Fanning
Chairman, President & CEO

When the commissioners vote on it, when it is affirmed.

Andrew Levi
Caris & Company, Inc., Research Division

When it's affirmed, okay. And then just secondly, very quickly. Just on O&M, obviously, you guys have done a great job on O&M this year, and one of the reasons why I think your numbers are so good and have offset maybe a weaker residential/commercial side, sales. Can you kind of just talk about that, and whether we can -- if sales ended up being a little bit weaker than expected next year, whether we can anticipate the same type of cost management on the O&M side?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, basically, Andy, what you've seen in the third quarter was the fact that Alabama had booked that reserve last year and didn't book anything this year. So that's the biggest driver this year, year-over-year, otherwise, it's pretty flat. A lot of our O&M is timing. We do a lot of O&M in the fourth quarter after we know what revenues in the third quarter are, so that drives a lot of our numbers. So when you look ahead, we always like to think we've got some flexibility around O&M spend, but then again, we still have to maintain customer service at levels that our customers expect. So we judge that very closely.

Thomas A. Fanning
Chairman, President & CEO

And I'll just turn 2 comments out. The old expression, "fix the roof while the sun is out." When we have weather that generates higher-than-expected revenues, not only does that stress the system a little more, we actually turn on O&M at that time. So we take advantage of those times in order to keep the system as robust as possible. And the clear evidence of that is, look at the operational performance of our generation fleet, and our transmission and distribution assets during this time. So we're on a wonderful kind of management practice of maintaining an optimal fleet condition. So that's kind of a big deal. And you always have to kind of look across years with Southern and with respect to O&M. I wouldn't get too excited about one year over another. And I think our O&M in '11 kind of compound average growth rate since '08 is about 2.2%, so that's a nice good trajectory for us to follow.

Operator

Your next question comes from Jim von Riesemann with UBS.

James Darrell von Riesemann
UBS Investment Bank, Research Division

Listen, in your prepared remarks, you touched briefly on some of your construction projects. So I really have a two-fold question. One is, let's assume the COL gets signed, and everything is done at the end of the year. You're the first folks to go out and build new nuclear. How should we think about what's keeping you up at night in terms of that project? What do we need to look for in terms of the positives as well as the negatives from that? And then the second question is just on the other project you mentioned which is your Kemper County. What do you see in there in terms of cost pressures? Do you have any cost updates for us? I know some others in the industry are having some fits and starts. And maybe what keeps you up at night on that project?

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Thomas A. Fanning
Chairman, President & CEO

Perfect. Yes, we saw your on note on that, so we were -- we're reasonably prepared there. Let me first hit Vogtle though. What's fascinating about Vogtle, we're not allowed to disclose kind of our forward projection for, say, month by month construction expenditure projections. It's a trade secret under the contract, okay? But you should reasonably expect that it is a fairly stable line going forward, okay? So it's not going to be particularly lumpy. As we have already talked about in a variety of forums, the project, which is expected to be about $14 billion to 100% ownership -- remember, we own 45.7%, so we're $1.7-or-so billion in on that. And we have essentially completed a lot of the civil work at the site. And in fact, what you will start to see -- it will be very visual once we get this COL, we're going to start to come out of the ground with a lot of stuff. Those of you that haven't been at the site recently would notice a lot anyway. We've actually done a lot of structures. But you're really going to see it tick up. You know that we've been going to school a little bit on the project in China, Sanmen, et cetera. And it's like building your house. Once they put the walls on your house, it looks like we're making tremendous progress. That's about what you're going to see in the next year or 2. So what keeps us up at night? I mean that's a fascinating thing. Before we decided to go forward here, we went back to the stalwarts of Southern's past so we pinged people like Bill Dahlberg and Allen Franklin and Paul Wright [ph] and a variety of other guys that had been involved in the big construction projects of the past. And one of the things they said is, as significant event as this is to your company, there is nothing more important that you can spend your time on. And so one thing that I want to assure the financial community is that this has our priority focus. We have a Vogtle Executive Oversight Committee, me and Paul Bowers, the CEO of Georgia Power, Anthony Topazi, the COO; Art, of course, the CFO; Steve Kuczynski, the President and CEO of Southern Nuclear; and of course, Buzz Miller and his guys. And we spend whatever time we need into whatever hour of the night there is to get involved. And we do that regularly, but I can tell you on a real-time basis, we are all aware of the progress and the issues. You should also all know, and I've been very public about this, when you consider the magnitude and the time frame involved, the issue here is not that you have challenges, but rather there will inevitably be challenges and the question on how well you manage this project is how well you get through the challenges, how well you manage the time, material, process, management oversight. And I think we've done a heck of a job when you consider all the challenges we've seen so far, and how we're moving through them in an efficient, expeditious manner. I guess that's it. The only other thing I would add is, where these are processes that we're putting in place, as we start to build the plant, there will be tests along the way of various systems that will have to be approved to nuclear quality. We get that. We fully embrace it, we are accountable for it, and we are managing with our vendors to that degree of performance. So it will be -- I'm sorry for the long-winded answer, but it will be just an ongoing, shirt sleeves rolled up, hard-nosed, blue collar effort to stay on top of this. I commit to you, we are doing it.

James Darrell von Riesemann
UBS Investment Bank, Research Division

And then just on Mississippi?

Thomas A. Fanning
Chairman, President & CEO

Sure. We -- since we saw your note, we kind of anticipated this might be an issue, so we have included a slide in the appendix that will be available to you, I guess, after the call. Let's just kind of go through that real quick. I fully understand the question. I mean, I get it. Edwardsport has had its issues, so what about Kemper? Well, I know they're both gasifiers, but that's about where the similarities end. They are very different projects. I'll just hit a few of the major points. The type of gasifier is exceedingly different. Ours is our own technology that we developed along with KBR, it's called TRIG. It's not the GE gasifier. Primary fuel type for us is lignite, the other is one is bituminous coal. The maintenance of it will be significant. Ours operates -- it's called non-flagging. It operates at a temperature below where ash gets melted. And so, therefore, we think it has a much more robust operating profile and will require less maintenance as it goes forward. EPC management, Southern has tremendous experience in self-managing projects of this magnitude. I guess, during this kind of big build out of environmental and combined-cycle projects

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over the last, say, 5 years or so -- really 10 years if you go back to the inception of our environmental construction program, which is amounting now over $8 billion, we have averaged over 15 million man-hours per year, self-managed, 15 million, self-managed. And we have brought in all of these projects on time, on budget with better functionality than what you normally see in the industry. Kemper will require about 8 million man-hours over 3 years. So as a self-constructor engineer, we have fully demonstrated our capability to handle projects of this magnitude. So we're not relying on a third party. We've demonstrated we can do it. It's our technology, we get it, and we think we'll be successful. Underlying that concept is the notion that this is --- when I talk about proprietary, robust research and development, remember, we developed -- this technology really started back in the late '60s and '70s in liquefaction work. This work morphed into gasification recently, and this technology that we're building has now run over 15,900 hours at our Wilsonville research and development facility. And 2,300 of those hours has been on this Mississippi lignite. Remember, too, that we started down the road on an Orlando project. Remember, too, that we're going to go to school on the 120-megawatt Dongguan project in China. So we have the ability to go to school on somebody else and understand the integration issues as we reach construction. A few more points. We have a great big site, 3,000 acres, 165 acres for the footprint of the plant. It's a merit shop. Construction management is probably half of what you see elsewhere. We have about 120 people deployed for that and a lot fewer contractors. Probably about 10 contractors on site at our peak. So for all those reasons, we think that we're in awfully good shape, and we have the same kind of oversight on the Plant Ratcliffe, Kemper County project that we do on Vogtle. And I am very confident in saying they are on budget, on schedule. We believe all the metrics are achievable.

James Darrell von Riesemann
UBS Investment Bank, Research Division

Super. That was a complete answer. One quick question, maybe a 30-second response. Gulf Power, we haven't heard much about it, but I know there's a rate case going on down there?

Thomas A. Fanning
Chairman, President & CEO

Yes, probably not a lot to go on right now, they've had a few hearings. But it's really a process that will evolve what, February? What is it, Art?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, it will be the first quarter.

Thomas A. Fanning
Chairman, President & CEO

First quarter next year. We're not allowed to talk about it right now.

Operator

Your next question comes from Brian Chin with Citigroup.

Brian James Chin
Citigroup Inc, Research Division

One macro question. I had in some of my earlier notes that you guys were roughly expecting sort of the Southeastern GDP outlook year-over-year to be going at around 2.5% or so for 2011. I know you made some macro comments earlier in the prepared remarks, but now that we're sort of most of the way through 2011, any care to put a thumb-in-the-wind guess in what the GDP would be for 2011 and then maybe any sort of thumb-in-the-wind guesses on where 2012 could look?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

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Yes. Brian, the numbers that I've seen and the folks that we kind of pay attention to are saying a little bit less than 2% GDP growth for 2011. And that's basically where it is. That kind of matches what we're seeing on sales growth as well, at least in residential/commercial.

Thomas A. Fanning
Chairman, President & CEO

And we'll comment a lot more about -- we go through all of our economic forums and everything else with our major customers in '12. So we'll give you a full picture on that. But just remember, the economy is still recovering. We still have a positive trajectory. It's just ahead of us a few more months than it was.

Brian James Chin
Citigroup Inc, Research Division

Okay. So are your comments on '12 going to be -- given maybe at EDI, or is that something we should probably wait until first quarter to think about?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

No, first quarter, January call.

Thomas A. Fanning
Chairman, President & CEO

We'll use that as a foundation for our guidance.

Brian James Chin
Citigroup Inc, Research Division

Okay. Great. And then one other question. I remember last quarter, Southern Power experienced a fairly large jump in utilization year-over-year from somewhere in the 30s percentile range to close to 50% 2Q. Could you give us what the utilization numbers look like for 3Q 2010 versus 3Q 2011?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

I don't know the '10 numbers, but the '11 numbers were like 75%.

Thomas A. Fanning
Chairman, President & CEO

Well, here it is. It's -- you're exactly right on '10. I thought it was about 35% to 40%. This year, third quarter, Southern Power's making more money off energy margins. Their capacity factor's up around 69% in the third quarter, year-to-date, 55%. Fascinating, our base load fleet. So our traditional integrated operation fleet was 75%. And that's really what's driving this increase in gas-fired energy up to over 30% is the fact that our combined-cycle units are now starting to look like base load units. Fascinating stuff.

Operator

Your next question comes from Jonathan Arnold with Deutsche Bank.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

So on Vogtle, and maybe this question is for you, Tom, if -- there's obviously all this -- a lot of noise in D.C. about tax in general and then the budget, the super committee, et cetera. What would happen if somehow the funds for the loan guarantee were not forthcoming, or is that even possible?

Thomas A. Fanning
Chairman, President & CEO

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Okay. So about a year ago, a little over a year ago, we got a conditional loan guarantee from the United States government. You know that we can't disclose the conditions under which the draw will occur. But we have described that the draws will begin to occur soon after we get the COL. We remain confident about our position with respect to retaining the COL. Recall, I have -- as you can probably imagine, we have had some conversations about this internally and in Washington. We are so different than Solyndra, right? This is a corporate credit of Georgia Power Company, so if Southern Company owned, don't know what the exact number is today, it's a $37 billion market cap company. Georgia Power is half of that. So you're talking about something that is exceedingly creditworthy. Remember, too, that 100% of the benefits of the loan guarantee accrue to the customers of the state of Georgia. So this is something that absolutely benefits the public and aids the renaissance of a national priority. We see very, very little reason to believe why this will not go forward as we all contemplated.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

Well, I don't disagree with any of that, but in that event, what would happen then?

Thomas A. Fanning
Chairman, President & CEO

Nothing. We would continue on, we would just lose some of the benefit. Remember, too, just to throw this in the mix, give me the point of a commercial here. In the latest hearings that we had with the Georgia Public Service Commission, really had been dealing with this incentive proposal that was brought out, it was made very clear that since certification, the company has brought to the benefit of the citizens of Georgia over $1 billion in value since certification. Part of that is the loans guarantees. Obviously, there's other things as well. So we will continue on if we have to. It would just be a shame that this national priority was not benefiting the citizens as it should have.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

Would you sort of answer a question focused on the PTCs similarly? And maybe your view of sort of how likely or not those are to survive?

Thomas A. Fanning
Chairman, President & CEO

Same answer.

Operator

Your next question comes from Greg Gordon with ISI Group.

Jonathan Cohen
ISI Group Inc., Research Division

It's actually, Jon Cohen. Greg hopped off, so I'll ask on his behalf. Just a follow-up on the question that might have been asked before about your gas fleet in the Southeast and how underutilized those plants are now? So if you wanted to change your dispatch philosophy to run the CCGTs more as base load assets, what would be the process for that? I mean -- and are you looking now at longer-term RFPs?

Thomas A. Fanning
Chairman, President & CEO

Are you talking about -- wait, our fleet runs as an energy pool for the benefit of our customers, okay? So our customers always get the best lambda possible, okay? And when you consider that the capacity factor of the integrated fleet, this is our integrated regulated utilities, was up around 75%, and the Southern Power fleet, part of that pool, ran at 69%, they are acting like base load units. So if you think about the dispatch, they are being dispatched way early, certainly in advance of other coal assets.

Jonathan Cohen

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ISI Group Inc., Research Division

And do you think you're pretty much maxed out now on how much you can run those assets or as time, as some of the coal contracts roll off that you could see even more coming from the gas fleet?

Thomas A. Fanning
Chairman, President & CEO

Well, you will see more coming from the gas fleet especially if we see some of these retirements in place that will be required, if EPA has their way under the proposed rule. Art, what would you add to that?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Just to say that McDonough is going to add 2,500 megawatts of gas in -- about 2/3 of that next year and the other 1/3 in '13. So we'll have an increased gas capacity after those assets are inserted.

Thomas A. Fanning
Chairman, President & CEO

And remember, too, the other issue that we raised, we are very bullish on natural gas. I hope everybody understands that. And we look forward to using more natural gas in the future. If we shut down some of our coal, and perhaps, as -- if we are required to, as a result of the EPA rules, convert some old small coal boilers gas-fired with higher heat rates, we're going to need more gas pipeline infrastructure. Currently, our firm transportation in the Southeast is full. We're going to need more infrastructure built out in order to support more gas demand.

Operator

Your next question comes from Mark Barnett with MorningStar.

Mark Barnett
Morningstar Inc., Research Division

Just a couple of quick questions. You've talked enough about Vogtle. But just a quick -- with the task force vote out of the NRC this week, do you have any firmer idea about the impact on maybe your existing nuclear fleet?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

No, Mark, it's a little early for that. I think the rules that they're developing going to take several years before they're finalized. So it's going to be a little while. But we really, from our perspective -- from a high-level perspective, we don't expect them to be dramatically. . .

Thomas A. Fanning
Chairman, President & CEO

You know there was an initial review on the 90-day report coming out of Fukushima. And you'll be glad to know that none of our units were found to have any significant deficiencies per that report. And certainly, none of it really applies to any degree, to Vogtle 3 and 4.

Mark Barnett
Morningstar Inc., Research Division

Yes, I know, those are specific to designs that some of your peers maybe operate.

Thomas A. Fanning
Chairman, President & CEO

Right.

Mark Barnett

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Morningstar Inc., Research Division

Okay. And then the second, I guess, you're looking at switching over to Southern Power. There's a lot of talk around a couple of large solar projects on the block. And I'm just wondering, when you're looking at these various portfolios or specific individual projects, do you have a preference for either a specific project or more pipeline, or how are you looking at your strategy there?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

I think our strategy -- we have a pretty high bar for all of that, any new projects coming into it. But it depends on who else is involved and whether or not we can get the Ts and Cs to match the requirements that we've got going in. So we look at a lot of different projects and some of them make the hurdle, some of them don't. So we're always open to discussions.

Thomas A. Fanning
Chairman, President & CEO

We tend to like smaller, bite-sized deals. We don't like the megaprojects. We've kind of budgeted among ourselves, this is -- you shouldn't take this as firm, but it's just our own thinking to do kind of 300 megawatts or less over 5 years, all right? So that suggests something. So we would want to use that. To us, an optimal bite-size might be 50 megawatts or we might do 100 at a time. But we like the smaller sizes and do kind of those things. We would keep the same mindset that we have with our Southern Power fleet. That is long-term contracts, our current average life of contracts is over 14 years, creditworthy counterparties, no fuel risk, strong vendor relationships, et cetera.

Mark Barnett
Morningstar Inc., Research Division

Okay. And I guess, the last kind of unrelated question. Obviously, some of your peers have recently called some rather large preferred issues, I'm just looking at -- your subsidiaries preferred, so are there any factors that you'd like or maybe want to discuss, you're considering or looking at that, maybe for following suits or why you might not be thinking about calling any of those issues?

Thomas A. Fanning
Chairman, President & CEO

Yes. We don't really comment on what we're looking at or thinking about, but we keep an eye on our portfolio, and we'll take advantage and make announcements when it's appropriate to do so. Shawn has given us some interesting information on the debt portfolio.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. We've been lengthening the debt portfolio a little bit beyond our normal term, trying to take advantage of low interest rates, obviously. On the other side of it, where we see we can draw down on some loan guarantees, we've shortened the debt portfolio at, say, Georgia and Mississippi to take advantage of those particular opportunities.

Thomas A. Fanning
Chairman, President & CEO

Shortened it in anticipation of drawing down and going longer. And in fact, I think the numbers are, a year ago, we were 13.5 years, and now, we're going to 14.5. And now we think maybe 15.5 once we get the loan guarantees in place. That's for the Southern debt portfolio. And we're reducing costs at the same time. It's actually a pretty good time to be building big capital assets.

Operator

Your next question comes from Ali Agha with SunTrust.

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Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

One question. Assuming, as you've laid out, you're going to end up at the high end of your earnings for this year at 256. That'll be a pretty strong year-over-year growth for you, I think, 8% or so, if my math is right. So when we recalibrate going forward and start looking at 2011 as the starting point, longer-term, could you remind us of what kind of growth rate -- EPS growth rate can the system support off an '11 base, longer term?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, I'll just put the reminder out there. I think you saw it on the slide, that we've started with our 2010 guidance range of 230 to 236. And based on that growth rate, 5% off the bottom, 7% off the top, we thought that, that would describe our growth opportunities moving forward. To the degree that environmental compliance required CapEx early in the period, we would grow more towards the top end of that range. If it's pushed out -- if those CapEx dollars are pushed out, our growth opportunities would fall towards the bottom end of the range. In other words, the 5% range. But it's all based on the reality that we established for you, that being the 2010 guidance range.

Thomas A. Fanning
Chairman, President & CEO

And just looking at the fourth quarter, so you're assuming just go through that versus history?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, Ali, if you look at last year, we earned $0.18 in the fourth quarter. We've given you guidance this year of $0.29. We think that's a much more normal fourth quarter. If you look back at '08 -- excuse me, '09, it was $0.31; '08, it was $0.26. So this is a much more normal fourth quarter than what you would normally...

Thomas A. Fanning
Chairman, President & CEO

Last year was abnormal.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

And I guess, related to that and Art, I think alluded to that on the CapEx side, but underlying the rate-based growth that would support the earnings growth would be what across your overall portfolio?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, we've outlined the CapEx. And until we update that in January, you would still go with the CapEx numbers we gave you for $15 billion to $17 billion, depending on your assumptions around environmental compliance.

Thomas A. Fanning
Chairman, President & CEO

Yes, we'll give you specific guidance in January as we always do. But we remain absolutely convicted with the plan we've laid out. And we think we can perform within those ranges.

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Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Tom, one last question, coming back to your earlier commentary on what you're hearing out of Washington D.C. But realistically, and you've talked about this on a couple of your calls, the options in front of the EPA/the administration and dealing with HAPs MACT and similar rules appear to narrow down to essentially giving a timeline extension, perhaps 3 years or so between the White House and the EPA. But realistically or practically speaking, I mean is there anything else that we should or could expect with regards to these upcoming rules?

Thomas A. Fanning
Chairman, President & CEO

Sure. So my quick commercial here again is, why now? So on top of a challenged economy, why do we want increased prices and impact unacceptably high unemployment already, okay? So the first question you should ask yourself is why now, why this rush? The second question then is, go to the EEI principles in which there are 11 points laid out. So beyond schedule, there are things like EPA has introduced a brand-new concept called condensable PMs that, frankly isn't a PM inside the plant that would condense and form a PM outside the plant. There are a number of issues that deal with start-up, shutdown, when the plant will kind of not operate as well as we can. There's a host of issues around what is the PM standard, what is the mercury standard. There are a host of technical issues that aren't as simple to talk about, but are as material as the schedule. And until we know what those are -- see this is the point that people tend to whitewash in the discussion about this important rule. Until we know what those are, we can't tell you whether we're going to require baghouses on certain plants or not. And so therefore, until we see a final rule, we really can't determine what is the optimal compliant strategy. So when people say, "should have known," they're all wet.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

And so, Tom, just to be clear, between now and December, your sense is all of this is still on the table and could change by the time the December final rules come out?

Thomas A. Fanning
Chairman, President & CEO

It absolutely is.

Operator

Your next question comes from Michael Lapides with Goldman Sachs.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

A couple of questions. One, just have you guys ever talked about what your earning sensitivity is to like every 1% change in expected demand?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, we do.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

If you don't mind my asking, what is that?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

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It depends on which class you're talking about. For a 1% change in all of our customer classes, it would be about $94 million in pretax base rate revenue, and that would translate into about $0.075, plus or minus, of earnings per share.

Thomas A. Fanning
Chairman, President & CEO

But all you're doing is math. In other words, we wouldn't just let that happen. We would take a number of steps in order to hit the numbers that we put out to the public.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Someone earlier asked a question about O&M. And I guess, as we kind of -- we're in a little bit of a demand recovery environment where the recovery's taking little a bit longer than folks had thought. Would there be any issues keeping you from doing, I think, it was late '09, early '10 where you did a decent-sized O&M reduction during that year. We've seen 1 or 2 of your peers announce something like that as well. Is there anything that would keep you from doing that going into 2012, whether it's a test year for a rate case or whether there's some other item both near term or long term that would keep you from doing it?

Thomas A. Fanning
Chairman, President & CEO

Listen, we -- I think, do a dynamite job, the folks that run the system, the people that run the plants and keep the wires up, do a dynamite job, having this concept of essentially a flexible budget where there's a baseline of things that we absolutely have to do for liability purposes, for safety purposes, a variety of other things. There's always an increment above that, which deals with projects which are more of a nature that lends itself to variability, whether we do them in one year or the next, do we do an outage in one year or the next, for marginal plants, things like that. So we have inculcated into our operational practices a certain amount of optionality into our spending. We do not ever impact reliability or safety. And as a result, you can see that in our operational performance. We operate like champs. So this has just worked exceedingly well. The only way I theoretically get to that question is if you had a number of years in a row where you couldn't exercise that kind of flexibility, but we've never seen that condition.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Got it. Last question, with CSAPR kind of final rule out there and then revisions that came out a few weeks ago, are you seeing a change in your negotiating position with the coal suppliers? And if so, how?

Thomas A. Fanning
Chairman, President & CEO

Well, that's a fascinating question. Art, you want to take a shot at it or...

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. Michael, I haven't picked up on any change. Now we are kind of looking at which units are going to be on the margin from a HAPs MACT perspective and trying to decide what our coal contracting strategy will be around those particular units. But I think CSAPR could also influence which units are being, which ones are going to be more available than others.

Thomas A. Fanning
Chairman, President & CEO

Yes, because what you're going to do with CSAPR is essentially change the dispatch by an energy add or essentially the cost of the allowance. The other thing that's fascinating about that question is a point we've made in the past, it's kind of a national energy policy point, and it is. The United States can elect to reduce its consumption of coal. But coal will still be consumed worldwide. We have seen a big increase

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in exports to people like China and India and a variety of other people. The coal will be consumed. The question is, as a policy matter, will it be consumed for the benefit of United States citizens?

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Tom, one kind of a follow-up in terms of some of the environmental CapEx, when the EPA put out the draft HAPs MACT, there was the analytics that was embedded in that, that assumed that lots of plants, especially PRB-burning plants, would be able to use dry sorbent injection and dry scrubbing rather than wet scrubbing. Just curious for Southern Company's view on whether that is technologically as feasible as the EPA estimated.

Thomas A. Fanning
Chairman, President & CEO

It's way off. No, it's not. Because remember, when you add up all the -- you've got to add up all the consequential effects of all the rules. When you use DSI, you create particular matter issues, so it doesn't work. I don't think -- on our fleet, I'm not even sure we're using DSI anywhere.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

So in other words, that for large -- I mean, I can understand for ab coal plants that it's -- you're almost box into a corner and you have to use a wet scrubber. For PRB burning plants, you assume that the concept of using dry scrubbing, as well as maybe baghouses, et cetera, to meet both CSAPR and MACT it really isn't a feasible outcome?

Thomas A. Fanning
Chairman, President & CEO

Correct. That's correct. And we have the research. We're the only group in our industry that has deep research and development at a proprietary level that can assess these things. As well, we have a 1,600-person engineering construction services group that knows, that has technical expertise in almost every element of a power plant. We know this stuff backwards and forwards. And I would put our technical expertise against anybody's.

Operator

Your next question comes from Carl Seligson with Utility Financial Experts.

Carl Seligson
Utility Financial

I don't think there's any accurate way to measure energy efficiency, but I'd like to know what you think you can do about it. And how long does it take before -- if your sales don't recover, you decide to do something about decoupling or the like in any of the states?

Thomas A. Fanning
Chairman, President & CEO

Okay, first of all, we think decoupling is a dumb idea in a growing economic environment, right? Decoupling makes sense where in fact, you're going to reduce sales. And here is my point. And I know you've been in the audience on some of my speeches so I think you pushed a button to set me off here, but energy efficiency to us doesn't mean sell less. It means use our product more wisely. And in fact, what I want to do from a strategy standpoint is posture this company to play offense in an energy efficiency environment. That is, if I can demonstrate that electrotechnologies can displace other worse forms of energy, then I can, in fact, sell more kilowatt hours. So decoupling doesn't make any sense at all in that context. And in fact, our research and development group now is devoting a significant -- and really, it has been for sometime -- a significant amount of effort to developing electrotechnology applications that will have that effect. So let's get more efficient, and let's use more electricity. An obvious example is electric

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vehicles, right? We spend $1 billion a day on importing foreign oil, and we think you can charge your electric vehicle for the equivalent of about $1 a gallon. I mean, let's do that.

Carl Seligson
Utility Financial

How about a subsidy to buy them?

Thomas A. Fanning
Chairman, President & CEO

That's an interesting question, but here is the issue, the United States government has to get out of doing subsidies. We can't afford them and that goes to renewables and a variety of other contexts.

Operator

[Operator Instructions] Your next question comes from Ashar Khan with Visium.

Ashar Khan
SAC Capital

I guess, this was alluded into one of the questions. Just as you are talking, a headline went across the taper on 110 that they're going to have some hearings on the nuclear loan guarantees. Is that anything got to do with us or no?

Thomas A. Fanning
Chairman, President & CEO

I frankly don't know. I feel secure about our position with our loan guarantee.

Operator

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

Thomas A. Fanning
Chairman, President & CEO

Yes. I just want to give Glen Kundert a chance to express his appreciation. But before he does, I just want to say thank you all, for attending. We appreciate your interest in Southern Company. Glen, you have the floor.

Glen A. Kundert
Vice President, Investor Relations

Well, thank you, Tom. And I just want to say it's been great working with all of you in the financial community over the last 12 years. I've made some great relationships and have appreciated all of you. And I'm going to miss you -- maybe not miss the work so much, but I'll certainly miss all of you. And I look forward to seeing you during utility week in New York.

Thomas A. Fanning
Chairman, President & CEO

Thanks, everyone.

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

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