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The Southern Company NYSE:SO

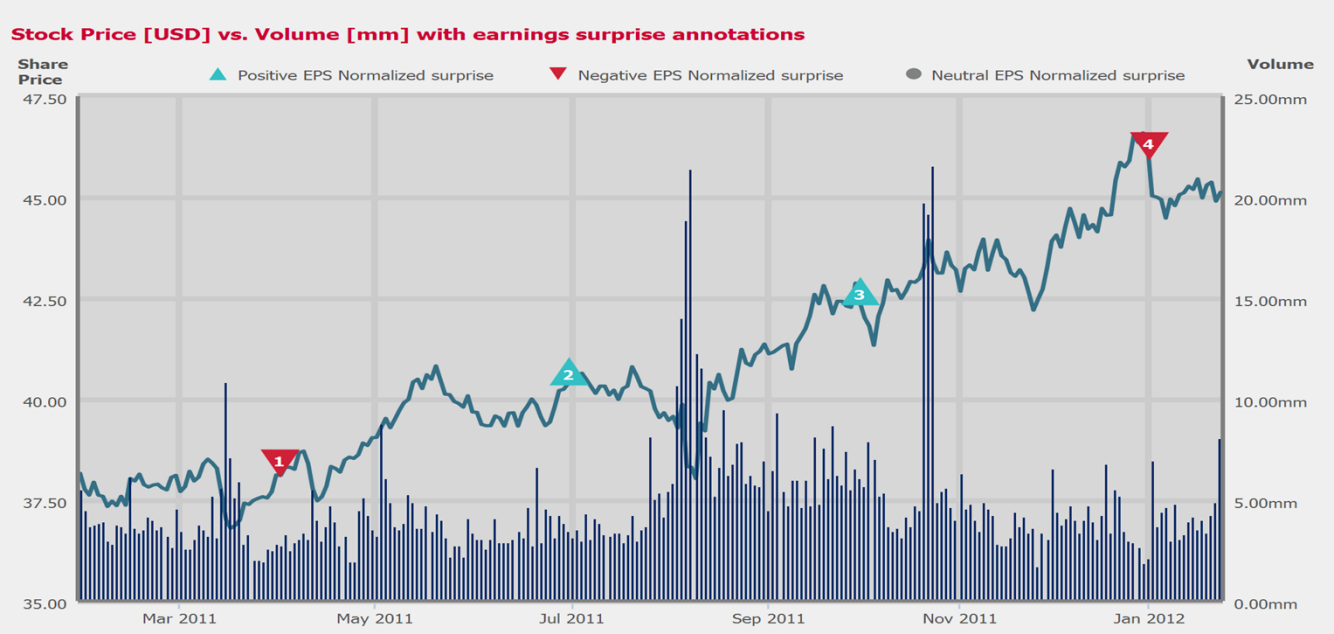
FQ4 2011 Earnings Call Transcripts

Wednesday, January 25, 2012 6:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2011-			-FQ1 2012-	-FY 2011-			-FY 2012-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	0.30	-	▼(6.67 %)	0.53	2.56	-	▼(0.39 %)	2.68
Revenue (mm)	4010.24	3696.00	▼(7.84 %)	4113.49	18009.43	17657.00	▼(1.96 %)	18769.72

Currency: USD
Consensus as of Jan-25-2012 4:13 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2011	0.51	0.50	1 (1.96 %)
FQ2 2011	0.64	0.71	2 10.94 %
FQ3 2011	1.04	1.06	3 1.92 %
FQ4 2011	0.30	-	4 (6.67 %)

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Presentation

Operator

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

Daniel S. Tucker
Former Senior VP & Treasurer

Thank you, Carrie. Welcome to Southern Company's Fourth 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 statements, including those discussed in our Form 10-K and subsequent filings.

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

Now at this time, I'll turn the call over to 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. As you can see from the materials we released this morning, we had a solid year overall in 2011. I'm especially pleased that in a business environment filled with challenges and uncertainties, our systems still performed in an exemplary fashion, delivering exceptional value to customers throughout our territory. I'm also proud to report that on January 5, we celebrated our 100th anniversary as a holding company. You may be aware that on that day, Art Beattie rang the opening bell at the New York Stock Exchange. We were tapped by the New York Stock Exchange as a charter member of their new century club, and we held a celebration in Atlanta that featured our 4 most recently retired CEOs: Ed Addison, Bill Dahlberg, Allen Franklin and David Ratcliffe.

Few businesses can claim to have been around for 100 years, but Southern Company is now one of them. And even as we honor our past, we're already building for the future, harnessing the energy and innovative spirit of our more than 26,000 employees to begin our next 100 years.

Against that backdrop, I'd like to take a moment to update you on where we stand with our 5 strategic business priorities. First, remaining committed to our business model. We continue to provide superior customer value in the form of industry-leading reliability, low prices and exceptional customer service. The 2011 peak season equivalent forced outage rate for our fossil/hydro generation was 1.3%, the second best in our company's history, and it compares to a historical industry average of around 7%. We also continued a long-term trend of improved performance for our transmission and distribution assets. And our employees performed heroically in restoring service to customers throughout 2011, during a series of catastrophic storms that included ice storms and tornadoes.

Meanwhile, the price of our products remain well below the national average and our customer satisfaction is among the best in the nation. These results and others are indicative of our strong commitment to customer value and are also a major reason Southern Company was named Power Company of the Year in December at the Platt's 2011 Global Energy Awards.

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Second, achieving success with 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 remained achievable. We see that the combined construction and operating license, or COL, for Units 3 and 4 Plant Vogtle is imminent.

In the meantime, nearly 2,000 workers are moving ahead with work on the site under the parameters of the original Limited Work Authorization. Once the COL has been obtained, we will begin placing rebar in the Unit 3 Nuclear Island to prepare for the pouring of the first concrete for the containment structure. By year end 2012, we expect to increase the number of workers at the Vogtle site to 2,650, ultimately reaching a peak of approximately 5,000 workers in 2014.

The Vogtle project will ultimately impact some 25,000 jobs across the country, offering a much-needed boost to our nation's ongoing economic recovery efforts. At Plant Ratcliffe, we continue to make progress as we prepare to introduce 21st Century Coal technology to the United States. As of December 2011, we have already confirmed 2/3 of the project costs and expect to have confirmed nearly 90% by the end of 2012. We have 1,100 workers on site today and expect to have around 2,000 at the project's peak.

Third, arguing for a sensible national energy policy. We continue to promote the concept of a common sense national energy policy that leverages all the arrows in the quiver, nuclear, 21st Century Coal, natural gas, renewables and energy efficiency and develop technology solutions, not rhetoric, through proprietary research and development.

On the regulatory front, we are currently reviewing and assessing the EPA's final 1,100 page order for utility MACT, now referred to as mercury and air toxic standards, or MATS. Our focus remains on finding the solution that's in the best interest of our customers. We are also involved in other key constituencies in this review, including the communities we serve, as well as our state and public service commissions and permitting agencies. We will discuss the MATS rule in greater detail later in this call.

Fourth, promoting Smart Energy. We are focusing R&D efforts on promoting clean, efficient and economic electro technologies to grow our share of energy sales. This year, we expect to achieve major progress, adding to our Smart Grid infrastructure, as we near completion of the addition of more than 4.6 million Smart Meters for customers throughout our territory. This initiative will lead to better data gathering, faster restoration times and improved power quality, and provide one more illustration of our commitment to enhancing the value we provide to customers.

Fifth, developing our people. I think it's interesting to note that our results in 2011 were achieved with about 25% of our officers in new positions. In addition to leveraging our own outstanding bench strength, we also brought in a few key leaders from outside the company, and we completed more than 400 transfers of employees between our various subsidiaries, further proof of our commitment to keep developing our workforce. The result of this is a more diverse, more experienced and better functioning leadership team.

Elsewhere, we continue to make strides in our efforts to build our reputation as an employer of choice. Since our last earnings call, we've been ranked by G.I. Jobs Magazine as the number one military-friendly employer among all U.S. utilities, and the second highest among all U.S. industry. We were also recognizes as one of the best places to work in America by Business Insider Magazine.

In summary, 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 the communities we serve.

At this point, I'll turn to Art for a discussion of our financial highlights for the fourth quarter and the full year, as well as our guidance for 2012 and a summary of our financial outlook for the future.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Thanks, Tom. First, I will review the fourth quarter and full year 2011 results, then I will discuss our sales data, economic outlook and sales forecast, followed by our capital budget in 2012 financing plan. I will conclude with our earnings guidance.

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As Tom said, our performance for the fourth quarter of 2011 was solid as was our performance for the full year. In the fourth quarter of 2011, we reported earnings of $0.30 per share, compared with $0.18 a share in the fourth quarter of 2010, an increase of $0.12 a share. For the full year 2011, we reported earnings of $2.57 a share, compared with $2.37 a share for the full year 2010, an increase of $0.20 a share.

Let's turn now to the major factors that drove our numbers for the full year 2011, compared with the full year 2010. First, the positive factors. Increased industrial demand added $0.02 a share for the full year 2011 compared to the full year 2010. Retail revenue effects in our traditional business added a total of $0.60 a share to our earnings for 2011 compared with 2010. Most of this increase was the result of regulatory actions at Georgia Power that became effective in 2011.

Other operating revenues, primarily increased transmission revenues, added $0.02 a share to our earnings in 2011 compared with 2010. Changes in our non-fuel O&M spending for our traditional operating companies increased our earnings by $0.06 a share in 2011 compared with 2010. This effect is due primarily to reductions in O&M spending in 2011, as compared to increased spending in 2010 that result -- resulting from better-than-expected weather-related revenues in 2010.

A reduction in interest expense for our traditional operating companies increased our earnings by $0.02 a share during 2011 compared with the full year of 2010. The addition of new long-term contracts and higher energy margins in Southern Power, driven largely by the low price of natural gas, increased our earnings by $0.04 a share in 2011 compared with 2010.

Finally, lower parent and other expenses increased our earnings by $0.01 a share in 2011 compared with 2010.

Now let's turn to the negative factors that drove our earnings for the full year 2011. Weather effects reduced our earnings by $0.21 a share during 2011 compared with 2010. Weather was actually positive for the year, coming in at $0.09 above normal, but was negative when compared with the same period in 2010, which came in at $0.30 above normal.

Lower wholesale revenues at our traditional operating companies reduced our earnings by $0.05 a share in 2011 compared with 2010. This decline in revenues is primarily due to the expiration in May of 2010 of a long-term capacity contract.

Increased depreciation and amortization reduced our earnings by $0.15 a share during 2011 compared with 2010. Most of this was due to the expiration, at the end of 2010, of the Georgia Power cost of removal accounting order and also to increased environmental transmission and distribution investments.

Other income and deductions reduced earnings by $0.05 a share in 2011 compared with 2010, the most significant contributor being a transition from AFUDC to cash recovery or Plant Vogtle cost construction financing cost. Income taxes in our traditional business reduced earnings by $0.01 a share in 2011 compared with 2010, while taxes, other than income taxes, reduced our earnings by $0.02 a share in 2011 compared to 2010.

Finally, an increase in the number of shares outstanding reduced our earnings by $0.08 a share in 2011 compared with 2010.

In conclusion, we had $0.77 of positive items compared with $0.57 of negative items, or a positive change of $0.20 per share over the full year 2010. So overall, our performance for the year came in at $2.57 per share.

Before I discuss our earnings guidance for 2012, I'd like to update you on our 2011 sales and the outlook for 2012, as well as our capital budget and financing plans. We'll begin with a look at our 2011 retail sales.

In 2011, weather normal retail sales grew 1% compared with 2010. Meanwhile, GDP growth for 2011 was 1.8%. Sales growth was driven by the continued recovery of industrial sales, which grew 3.2% in 2011 compared with 2010. Industrial growth continued to be led by primary metals and fabricated metal sectors, which grew by 15% and 11% respectively in 2011 compared to 2010. These sectors were

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driven by demand for flat steel in the auto industry and steel pipe associated with oil and gas exploration and delivery. Petroleum refining and pipelines increased usage by 13% and 8%, respectively, in 2011, following expansions and production capacity.

Other steady performers in 2011 included the transportation sector, up 4%, and chemicals, up 1%. As we have reported all-year-long, construction-related sectors, particularly related to housing, continued to experience weakness. Analysis suggests that a great deal of the positive industrial performance can be traced to increases in export activity. The value of exports from the region is 25% higher today than in 2007 and market diversity has increased, with exports to Europe dropping by almost 1/3 and market share to Asia and Central and South America expanding. Residential and commercial sales continued to be flat in 2011 due to weak job growth.

Now let's move on to the economic outlook for 2012. Earlier this month, we reconvened our economic roundtable group, which is composed of regional economist and major industrial and commercial customers served by our operating companies. The observations of the group, which are consistent with our own view, can be summarized as follows: The national economy is expected to grow in 2012, but growth will be weak and sensitive to shocks; GDP growth is expected to be between 2% and 3%; The industrial sector will continue to lead the recovery, with exports playing a major role; The European economy will be a risk factor that could slow global economic growth; Employment is expected to grow, but not enough to significantly reduce unemployment; Job growth and increased availability of credit are keys to improving the housing market, which is a linchpin to the improvement of residential and commercial sales growth; And political and regulatory uncertainty is contributing to the lack of clarity about the pace of the recovery of the economy.

Translating this into implications for sales, we project that based on a GDP growth assumption of 2.6% in 2012, retail sales growth will be 1.3%. Industrial activity is expected to continue to lead our sales growth at 1.6% as export volumes remain strong and domestic demand increases. Manufacturing productivity is expected to continue to increase, aided by the ability of our regions' outstanding port facilities to reach out to new markets and create new opportunities for growth.

Weak job creation is expected to continue, tempering residential and commercial sales growth. Residential sales are expected to grow at 1.3% in 2012, while commercial sales growth is expected to be 1.1%.

The good news is that once the economic fog clears, stronger growth in the Southeast economy should return, given the strong long-term growth fundamentals of the region. Economic development activity remained steady, with more than 250 prospects considering locating within our territory, representing more than 40,000 potential jobs.

The auto industry remains a strong player in the recovery. In 2012, Kia will expand its manufacturing capacity, adding 1,000 jobs, and a variety of auto-related companies will likewise add jobs this year. Meanwhile, Mercedes-Benz has already begun work on its previously announced expansion, which is scheduled to be completed in 2014.

All of these indicates a continuing preference to locate in the Southeast, which reflects our region's low cost of living and of doing business, abundant labor and favorable climate. We remain confident in our region's ability to continue its ongoing recovery.

Now I'd like to move to a discussion of our capital expenditure forecast for the next 3 years. Similar to last year, our forecast is composed of 2 major elements: our base forecast; and potential compliance investments, which represents the uncertainty associated with MATS, as well as anticipated new coal, ash and water rules.

Our base forecast for 2012 through 2014 totals $14 billion. This reflects new generation for our traditional operating companies of $4 billion, including $2.2 billion for Plant Vogtle Units 3 and 4 and $1.5 billion for Plant Ratcliffe in Kemper County, Mississippi. Other major components of this base forecast includes maintenance capital of $4.3 billion and $1.8 billion for transmission and distribution growth investments.

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A crucial factor in the potential compliance investment portion of our capital forecast is the impact of the EPA's new MATS rule. As Tom indicated earlier, we are reviewing the final rule issued in December, but a number of uncertainties remain. I would like to summarize those briefly.

In the process of going from proposal to the final rule, the Edison Electric Institute recommended 11 modifications to the EPA. One of these was related to the compliance timeline, while the others were more technical in nature. The final rule, which we expect to be published by mid-February, did not grant much additional relief on the compliance timeline. There were some technical adjustments, particularly to the particulate matter standard and the plant-wide averaging, which may provide some additional flexibility. There were other changes as well, including emission limits during startup and shutdown that were offered. Much more analysis is needed before we know whether these changes afford us additional flexibility.

As Tom indicated earlier, we are engaged in discussions with community officials and state regulators to incorporate their input into our compliance plans. We are fortunate to have strong community leadership and knowledgeable constructive public service commissions and staffs in our territory. The participation of those entities will have an influence on our compliance plan and schedule decision and we cannot finalize our plans until those discussions are complete.

Based on our initial assessment, the compliance plan for Southern's 20,000 megawatts of coal-fired capacity could include the following: new emissions reduction equipment, primarily baghouses on up to 12,000 megawatts of our flagship coal-fired capacity; potential retirements of up to 4,000 megawatts; and fuel switching on up to 3,200 megawatts of coal- and oil-fired capacity to other fuels such as natural gas. Our plans also include significant infrastructure improvements, including natural gas and electric transmission upgrades to ensure adequate reliability on our system. Based on that, our potential compliance investments for 2012 through '14 are projected at a total of up to $4.4 billion. Of that, up to $1.6 billion represents potential compliance investments for other proposed rules around ash and water.

Overall, our 3-year capital forecast for 2012 through 2014 is for a total of up to $18.4 billion. The major trend reflected in this forecast is that the potential compliance spending is ramping up as some of our base projects are winding down. The 3-year break down also reflects that our potential compliance spending of up to $400 million in the first year is not a major component for 2012. We will continue to update you on our capital forecast as new details emerge.

Now let's turn to a summary of our financing plan for the same 3-year period. Long-term debt issuances are expected to be up to $10.4 billion over the next 3 years. In addition, DOE Loan guarantees for Vogtle 3 and 4 and for Plant Ratcliffe in Kemper County could represent up to $4.3 billion or about 40% of the total. Our 3-year financing plan assumes common equity issuances of up to $1.9 billion. We stopped issuing new shares through most of our equity plans in early 2011. Since then, we have only utilized stock option exercises to provide new equity.

We ended 2011 with an equity ratio of 44%, and our current plan assumes modest common equity issuances over the next 2 years. We anticipate turning our other equity plans back on later in this 3-year horizon, as potential environmental compliance spending increases. Overall, our financing plan continues to support our industry-leading financial integrity while maintaining our well-managed debt portfolio and a common equity ratio of approximately 44%.

To begin our earnings guidance discussion, I'd like to take you back to what we shared with you during our fourth quarter earnings call a year ago and at our analyst day shortly thereafter. At that time, we provided long-term EPS guidance that was based on our 2010 earnings guidance range of $2.30 to $2.36 per share. We profiled a trajectory that grew the bottom of the range by 5% every year and the top of the range by 7% every year.

And as we've said, our 2011 guidance was slightly higher than our long-term trajectory, largely due to the significant year-over-year improvement in earnings we saw coming out of the recession and some of the constructive -- and some of our constructive regulatory results. We are providing a 2012 earnings guidance range of $2.58 to $2.70 per share. This guidance reflects current uncertainties and normal variability. We believe our 5% to 7% long-term growth trajectory, which is anchored to 2010 guidance, is

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still appropriate, and our 2012 annual earnings per share guidance is positioned largely in the top half of that range.

That said, we recognize that continuing to anchor long-term growth to 2010 guidance may be impractical over time. Therefore, we will now characterize our long-term earnings per share growth trajectory as being 4% to 7% as indexed against the 2012 earnings guidance range.mAs you can see from the slide, this is essentially equivalent to our original long-term trajectory. In fact, it narrows expectations in the near term to the higher end of the range we provided in 2010.

In summary, our earnings guidance for 2012 is $2.58 to $2.70 per share, and our longer term growth trajectory is 4% to 7% off of that range. As always, the variability and long-term range is based on several factors, including uncertainty in our compliance investments and uncertain pace of economic recovery and other considerations. We remain confident in our ability to pursue our goal of growing earnings and dividends in a sustainable manner. Lastly, our estimate for the first quarter of 2012 is $0.45 per share.

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

Thomas A. Fanning
Chairman, President & CEO

Thanks, Art. In closing, let me reiterate that our business model, priorities, and financial objectives remain in place for 2012. We are well positioned to continue providing exceptional customer value, which should translate into exceptional shareholder value in the form of reasonable EPS growth, with an attractive dividend yield, at one of the lowest risk profiles in the industry. Despite the uncertainties that remain, we are confident in our ability to navigate the challenges of 2012 in much the same way that we have navigated the challenges of 2011, by staying true to our fundamentals and delivering on our commitment to customers, employees, communities, and shareholders.
At this point, we are ready to take your questions. So operator, we will 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

Just kind of now we have MATS in place and you've put some numbers out there for what the environmental CapEx could be. Are those numbers cumulative to what you'd have to spend over the entire compliance period or is that just the 3-year period and there would be additional spending in '15, '16 to get the full compliance that you see right now?

Thomas A. Fanning
Chairman, President & CEO

Just 3 years.

Daniel L. Eggers
Crédit Suisse AG, Research Division

So that should be that 3-year period? So there will be more money in that Q beyond that.

Thomas A. Fanning
Chairman, President & CEO

That's correct. Absolutely.

Daniel L. Eggers
Crédit Suisse AG, Research Division

When did you guys expect to kind of get to the process with the regulators to formalize that CapEx plan?

Thomas A. Fanning
Chairman, President & CEO

Well, I think we need to get clarity on the proposed rule. And from time to time, we move from proposed rule to final rule to published rule. I think haven't [ph] we seen in cross states that from final rule to published rule, things can change. So we still wait with a lot of interest to see what the published rule will be. And like I said, we're going to have to go through with the stage and just -- and all the people we mentioned that kind of fully assess. Because remember, this is not some academic exercise. What happens here when you start talking about changing out plans and retiring or mothballing some or converting some, you're impacting tax base of local communities, you're impacting unemployment in largely rural areas, you're impacting real income of people out there. These are not bloodless decisions. These are things we take very seriously when we think about how we engage with customers on a day-to-day basis. Look, the time frame varies from state-to-state. You know that we deal in Georgia and Alabama and Mississippi and Northern Florida. So each state will have it's own process and own timeline to go through. It's hard to say, in kind of a general statement, what that might be.

Daniel L. Eggers
Crédit Suisse AG, Research Division

Then, I guess, with the 4% to 7% growth rate, is that taking into -- would 7% reflect if you had to do the full amount of spending? Or would that -- or how does, I guess, this environmental CapEx fit into that band?

Thomas A. Fanning
Chairman, President & CEO

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That's generally correct. The more CapEx we spend, the higher you are up [ph] in the range. And of course, there are other factors too, right? But that's a reasonable way to think about it.

Daniel L. Eggers
Crédit Suisse AG, Research Division

And the slide has vanished in my screen, but it seemed to go to the right -- further than a couple of years. Is this kind of a decade-long growth rate? Is that -- how are you guys thinking about it now?

Thomas A. Fanning
Chairman, President & CEO

No, 3 years.

Operator

Your next question comes from Brian Chin with Citigroup.

Brian James Chin
Citigroup Inc, Research Division

Sorry, if I missed this earlier in your prepared comments, but that base environmental number, would that -- does that already include some element of CSAPR in it? Or if the CSAPR rule gets finalize at some point in the next 12 to 18 months, do you expect [indiscernible]?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

The base CapEx includes projects that most of which are currently ongoing. I believe the Daniel scrubber might be in that particular project, but when you talk about CSAPR, most of the -- we'll address most of the CSAPR issues through the MAT compliance. So you won’t have a whole lot of extra stuff on top of what we're doing for MATS to comply with CSAPR.

Thomas A. Fanning
Chairman, President & CEO

Let me just add in a different way too. It's a very important point we raise right here. It's one thing to say your CapEx budget is going to be influenced by MACT, by CSAPR, what you really have to do and what we've been consistent about arguing about here is that the whole litany of cascading regulations coming out of the EPA will have some bear on what our CapEx, and ultimately, our generation and transmission expansion plans ultimately will look like. So we could make estimates on that. So we can make estimates on CSAPR, but ultimately, it's the whole consequence of what's happening with ash and 316B and a variety of other things. The other thing that I think we should point out here, too, CSAPR, cross state rule, has never been all that important on its own for Southern. In other words, we would handle that mostly through our dispatch, and it would show up in energy as opposed to capital.

Brian James Chin
Citigroup Inc, Research Division

Very, very helpful. And then just one other follow-up question. That is the retail sales growth outlook for 2011 was, I think, 2%. Now it looks like the outlook's closer to 1.3%. Just any -- a little bit of extra color on what's causing that deceleration?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, we're looking on a lot of uncertainty out there, Brian. One of the economists in our economic roundtable group kind of described it as fog on the road and there's not a whole lot of clarity out there. And when there's fog of the road, people either drive a lot slower or they don't drive at all. And so with that uncertainty and the range of GDP estimates you have out there, I think that's kind of describing the

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outlook we have. So it's cautious on our regard. There are still risks out there. But the data, economic data, we've seen here of late is on the positive side so...

Thomas A. Fanning
Chairman, President & CEO

Yes, [indiscernible] we've seen unemployment tick down, in December, particularly in the Southeast, about 0.5% round numbers in the Southeast. So it looks like jobs are starting to be created. We do a survey, companies that are going to either, there are kind of 3 states in nature, increased hiring, keep hiring constant or decrease hiring. Some time ago, it was 1/3, 1/3, 1/3 among those 3. And the Atlanta Fed now projects that it's about 45% round numbers, 45% it will increase hiring, 45% it will keep it constant and then 10% that will decrease hiring. So we're starting to see signals. The other things we've talked about are all coming to fruition. Everything we've suggested in the past about economic development is, in fact, happening. So as we start to see these expansions at Chevron or at Austal, or at Mercedes, or at Kia, or at Gulfstream, those things are happening and they will generate jobs as they come to fruition.

Operator

Your next question comes from Paul Ridzon with KeyBanc.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

Just a quick question on drivers of 1Q earnings guidance? What are the drivers 1Q earnings guidance?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Go ahead. I thought you had a specific question. Okay. Actually, a lot of it was driven by the same revenue effects that we described for the annual period, about $0.16 there. Weather was an offset at $0.08. Non-fuel O&M was a $0.05 positive. Depreciation and amortization was negative $0.04. I believe this is outlined on the slide at the top end of the earning slide. Did you want Q1 of '12 or did you want Q1 of -- Q4?

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

I'm sorry, I wanted Q1 of '12.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, you've got some rate effects that go into effect -- that were outlined in the same rate settlement at Georgia last year. The weather effect from last year, we had some positive weather in the first quarter of last year. So on a year-over-year basis, you would expect some mitigation there. Our estimate of growth last year was stronger for sales growth in residential commercial. It's a little bit weaker this year. So are you trying to get to our 45% -- $0.45 earnings estimate for the first quarter?

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

Yes. I'm just trying to reconcile 50 to 45?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, we have a lot of weather in last year, first quarter. I think that's the biggest driver.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

You have that offhand?

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Arthur P. Beattie
Former Executive VP & Chief Risk Officer

We can probably get it. Hold on.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

Opening that big black book?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. Are you kidding me? That's $0.02.

Thomas A. Fanning
Chairman, President & CEO

And you know -- everybody knows that we do our estimates on weather-normal basis, so any comparison will just be...

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, correct.

Operator

Your next question comes from Greg Gordon with ISI Group.

Gregory Harmon Gordon
ISI Group Inc., Research Division

So, I guess, I got to ask because as I look at the tail of the tape and think about the economic assumptions that you baked into your forecast since '08, '09, you generally erred to the conservative side pretty much running out the strings since we came out of the recession in terms of the ultimate level of economic activity, sales growth, et cetera, that you've experienced. Is there a scenario that drives you -- what scenario would drive you to the high end or above the high end of your earnings guidance range? Or is there one that's even within the tails of your analysis?

Thomas A. Fanning
Chairman, President & CEO

Sure. I mean, the question of is there a tail in our estimates that would drive us one way or another, that's absolutely right. Now we've got to figure out how likely that is, I guess that's the key. But obviously, when you think about it, if you look at – and help me out with the numbers here -- 1% change in sales is worth about $120 million -- I'm looking here real quick, $120 revenue, something like that. And so if we project $1.3 million, so if we get up to $2.3 million, you're up that much, right? If essentially sales are flat, you're down that low. What we've been able to do is just kind of manage our systems to adjust to the normal variables. That's how we've been able to be very consistent over time. For example, weather. For example, changes in the economy. For example, what's going to happen with commodities? One of the stories I think that's interesting in our industry over the past year has been what's going on with natural gas. Southern Power, obviously, has benefited from that. What's going to happen with oil prices in the Strait of Hormuz? And what's going to happen therefor to the weight of oil in the economy? What's going to happen with Europe? What's going to happen with our ability to generate real job growth and sustain the growth of the economy in light of this fog that Art metaphorically spoke for? But hopefully, kind of this notion of tail risk is kind of that plus or minus 1%, $120 million, with our ability to manage our business to accommodate those changes? Greg, over the years, we've been pretty good at both managing our business to fit within the variables that we normally face and providing the best operations arguably in the industry for the benefit of our customers.

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Gregory Harmon Gordon
ISI Group Inc., Research Division

Yes, I see that. I listen very closely to what you guys say about economic activity because you appear to be very diligent and plugged into your customers, and that shows up in lots of ways. But I guess, I look at the earnings forecast, and I contextualize it based on what you've actually earned relative to the guidance ranges for '10, '11 and now for '12, $2.37 and $2.57. Now the guidance range. So as investors look at the actuals, we're looking at 0.4% growth at the low end and 5% on the high-end off of what you've actually earned last year. And I understand that, that you contextualized it in terms of anchor aspirations off of '10. I think it's just giving some people some pause that maybe there's something going on in terms of economic activity not being as robust.

Thomas A. Fanning
Chairman, President & CEO

No. I think if you just look at weather compared to normal in past 2 years. Remember, we're weather normal; it's the way we estimate. You had big weather 2 years ago, good weather, I mean, positive for the last year.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

I think, another thing Greg, if you look at weather-normal sales growth in residential commercial, we've had basically flat growth for 2 years now. So our estimates about economic growth continuing there are still kind of tentative. We're still waiting for that to catch and start moving northwards, so we've estimated increase in sales again this year not quite as robust as we did last year. But we were able to offset that loss with what Tom just mentioned, some positive weather.

Thomas A. Fanning
Chairman, President & CEO

And if you go back, I'm interested in your comment about the context of earnings growth. That's why we show these charts that say we started with 2010, 230 to 236, and we grow at 7% and 5%, and we explained why we thought we will be higher in '11, sure enough we were, and we explained why we think we're in the top half roughly in '12. One of the benefits of the way we run our business is that we provide a business, I think, that provides a regular predictable, sustainable growth and earnings per share. That's been our history, and I hope it will continue to be our history. There's nothing -- there's no lack of transparency in, I think, our assumption of the economy.

Operator

Your next question comes from Ali Agha with SunTrust.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Tom, I wanted to come back to your comments on the MATS rule that's come out. If I'm hearing you correctly, is the implication that the rules are now final? I know you said final wasn't published. There could be something tinkering there. But unlike CSAPR, should we not assume any legal challenges? Should we assume that you're going to plan around this? Can you just give us a little more insight on your strategy on this?

Thomas A. Fanning
Chairman, President & CEO

Sure. Strategy remains the same, really, for any of these issues that are in front of us; and that is to represent the interest of our customers, to provide the cleanest, most reliable most economically sensible product available. And so therefore, we will engage constructively in any front that represents the interest of our customers, whether that's a regulatory issue, a legislative issues or litigation, if necessary.

Ali Agha

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SunTrust Robinson Humphrey, Inc., Research Division

So, I mean, is there a scenario in which you could see some kind of delays or MATS legal challenges to this MATS rule?

Thomas A. Fanning
Chairman, President & CEO

Sure. I mean, there always is. If the question is if there's a scenario, the answer is yes. But you have to assess kind of the fact that the situation at hand and what the issues are.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

My other question was given the CapEx that you've laid out for us and whether you layered in the extra environmental CapEx above of that. Can you remind us what kind of annualized rate-based growth over those 3-year period that supports?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, Ali, this is Art. Roughly, about 7%, but remember, that that's a lumpy growth as plants go into service. So you'll see fits and starts there. But on average, about 7% will run.

Thomas A. Fanning
Chairman, President & CEO

Yes, 7%.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

That's an annual number, right?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Correct.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Yes. And does that include the extra environmental CapEx in there as well?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Probably, that would be on top of that, but it's further out. Remember those projects won't go into service until after the 2014 time line we've outlined for you.

Thomas A. Fanning
Chairman, President & CEO

And remember, that's the difference, is what clears in the rate base and what's spending before that.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

So I mean, on that note, last question, I mean, if you look at your CapEx budget, and if you layer on top of that, the environmental CapEx, that's going to go in at some level. Does that have implications to that earnings growth rate you've layered out for us or does that still give you in that 4% to 7% range, even factoring in that extra environmental CapEx?

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Arthur P. Beattie
Former Executive VP & Chief Risk Officer

It's what we said before, I think. The more CapEx you will see, the higher in the range we will be.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Like in the range?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes.

Thomas A. Fanning
Chairman, President & CEO

Yes.

Operator

Your next question comes from Mark Barnett with Morningstar.

Mark Barnett
Morningstar Inc., Research Division

Quick question on the retirement forecast. I know this is something out in 2011, but does that include, I can't recall if it included any impact from the ash and water rules? I know you give the kind of CapEx sensitivity there, but is that a number that might move higher if there's kind of a more aggressive case regulation?

Thomas A. Fanning
Chairman, President & CEO

Certainly, it could. I mean, we believe that -- for, example, ash -- coal ash should not be classified as a hazardous waste. To the extent it was, that certainly would change our thinking on what our portfolio looks like.

Mark Barnett
Morningstar Inc., Research Division

Okay. But you don't really have kind of a number around what that might look like?

Thomas A. Fanning
Chairman, President & CEO

Well, what we've said about ash and 316B, I think, is that we're looking at 3-year CapEx about $1.6 billion. And I think our assumption there is that it is...

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

It's non-hazardous.

Thomas A. Fanning
Chairman, President & CEO

Non-hazardous. Hazardous designation would change the game of energy supply in America in a really dramatic way.

Mark Barnett
Morningstar Inc., Research Division

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Okay. So when I look at that $1.6 billion number then, that's almost all coming from the coal ash and not necessarily the water or -- I'm sorry, that's both.

Thomas A. Fanning
Chairman, President & CEO

That's both.

Operator

Your next question comes from Andy Levi with Caris.

Andrew Levi
Caris & Company, Inc., Research Division

Just a couple of questions. As far as the slight reduction in the growth rate, I mean, that's, primarily kind of uncertainty around sales, is that...

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

It's really tied to the economy. Yes, and I wouldn't denote it as a reduction in the earnings growth rate. If you look of the slide, it actually still outlines the same cone of growth that we expected. before. So the 4% at the bottom, yes, you might justify it based on some combination of scenarios that work against you, but it's still no different than what we outlined a year ago.

Thomas A. Fanning
Chairman, President & CEO

Yes, and if we were using 2010 as a base, it's still 5% to 7%. All we're doing is the guidance we're giving you is in the top half roughly of the range that we've laid out here for 2 years.

Andrew Levi
Caris & Company, Inc., Research Division

Okay. And again, that -- so that growth rate is off in 2011, not off of 2010?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

No, it's off of 2012.

Andrew Levi
Caris & Company, Inc., Research Division

By 2012, excuse me. Okay. That's very important. Okay and then just as you're thinking, I mean, the Fed came out today, said they're going to keep interest rates low through 2014 versus 2013. In your assumptions, what were you assuming as far as just future financing and kind of where interest rates would be in '13 and '14 as an example?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, Andy, I don't have the specifics of what we're assuming. But we take generally the input off of what we get from the economic advisers to us. They maybe may be a little higher than what the Fed kind of forecasted out today, but we can call you back and get you that number.

Andrew Levi
Caris & Company, Inc., Research Division

Okay. I'm just thinking maybe there would be some type of benefit for you considering you guys do a lot of financing.

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Thomas A. Fanning
Chairman, President & CEO

Well, we do.

Andrew Levi
Caris & Company, Inc., Research Division

And the last thing, just any update on when we're actually going to get this deal out. I mean, obviously, the process is basically done, but anything you'd like to share with us?

Thomas A. Fanning
Chairman, President & CEO

Yes. [indiscernible] I said was imminent. It's any day now. I know we're all impatient on getting this COL, but you got to remember this whole process undertaken by the NRC has been really thorough, it's been thoughtful. It's had the participation of all the different constituents that have an interest and whether or not nuclear is built in America. This thing all works to all our benefit. So getting it right and having everybody satisfied, dotting every I and crossing every T, at the end of the day is a good thing. Because we've got a lots of years ahead of us and lots of money to spend, so we all are impatient to get it, but I think it's actually a good thing at the end of the day.

Operator

Your next question comes from Angie Storozynski with Macquarie.

Agnieszka Anna Storozynski
Macquarie Research

Okay. So I just wanted to go back to the discussion about the low-growth assumptions and the potential conservatism that is built into those numbers. I'm looking at your actual weather-normalized data for 2011, and your sales grew about 1% versus 2.2% that you expected. Looking at the March presentation. And also you are assuming quite a significant pickup year-over-year for commercial and residential sales. Can you actually, I mean, I don't quite understand what could drive this. I mean, do you have maybe limited visibility on the economy, as we all do? But what would be the drivers for commercial and residential growth?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Angie, this is Art. What we are assuming there is, as we mentioned in our script, I believe that job growth would begin. It wouldn't be a lot to alleviate the unemployment situation, but enough to stimulate growth in both our residential and our commercial areas. Tom alluded to an Atlanta Fed survey where CEOs of companies around the Southeast are now indicating that more of them are in a hiring position than they were 6 months ago. These are all indicators that we have that will lead to more job growth, more household growth, create increases in customers on both residential and commercial side.

Agnieszka Anna Storozynski
Macquarie Research

But isn't your residential demand more driven by migration into your space than maybe growth in usage or accounts?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, there's lots of factors there. And [ph] migration is still continuing. but it has slightly dropped since the recession. So we continue to look at those and try to evaluate what it really means for us as we move forward.

Thomas A. Fanning

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Chairman, President & CEO

But Angie, I mean, that's a good point. Look, industrial activity creates jobs; jobs create opportunities for people to move in. It unlocks the housing sector, and that creates more activity in stone, clay, glass and building materials and a variety of other things. So it primes the pump to restart the engine. Our belief is, that we'll just start seeing the jobs and, in fact, this whole process will start to regenerate. The key, I guess, is housing, at the end of day. That's something that we look for very closely in all our statistics.

Agnieszka Anna Storozynski
Macquarie Research

Great. And then when I look at your fourth quarter results, there is at least a chunk of the earnings came from lower O&M. And it's already -- we've been a couple of years into managing expenses. Should we assume that if sales were to disappoint you, that you have enough of the cost that you could trim to meet your expectations -- earnings expectations?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, Angie, in 2010, you remember we had a lot of weather-related revenue, and we spent a lot of that money in the fourth quarter of 2010 doing extra maintenance. We actually pulled some outages out of 2011 into 2010. And so when you do a year-over-year comparison, O&M went down. But that ability to do that, to fix the roof when the sun's out actually gives -- puts us in great shape to be more flexible on O&M as we move forward into 2012.

Thomas A. Fanning
Chairman, President & CEO

And I think if you look at our longer-term trend, don't go year-to-year, if you went back 3 years, 4 years, I think our number's around 2.8%.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Correct.

Thomas A. Fanning
Chairman, President & CEO

Compounding of growth in O&M. So it's a decent number.

Operator

Your next question comes from Jim von Riesemann with UBS.

James Darrell von Riesemann
UBS Investment Bank, Research Division

A couple of simple questions. The first one is on financing, if you don't mind. So back in December, Congress was considering this extension of the bonus depreciation to 100% in 2012 and then into 2013, and they are largely expected or they're expected to take it up again in February, right?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Right.

James Darrell von Riesemann
UBS Investment Bank, Research Division

So if it's passed, what are the sensitivities with respect to your equity needs going forward?

Arthur P. Beattie

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Former Executive VP & Chief Risk Officer

All right, good question. I think the assumptions we have for bonus depreciation, assuming the 50% level, are $450 million to $600 million. And if we were to get the extra bump, we'd pick up somewhere around $300 million to $400 million more, and that's just kind of rough numbers.

James Darrell von Riesemann
UBS Investment Bank, Research Division

And then incrementally into 2013, what does that look like?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

I don't have anything on '13, but it be more, and our ability to actually use it. So -- and the effect on equity would certainly reduce the effects, but we'd have to manage that as we move through time.

James Darrell von Riesemann
UBS Investment Bank, Research Division

Okay. Second question, I'll use your phrase, "fog on the road," you talked a lot about sales. Can you talk a little bit about what your customer growth expectations are?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, Jim. We actually had flat customer growth last year, which is again reflective of our results in the residential and commercial side. We're expecting about 14,000 customer growth in 2012. And that again reflects the assumptions we are making on job growth within those particular areas.

Thomas A. Fanning
Chairman, President & CEO

It's hard to mention that, in the good old days, back when I was CFO, we had something like, growth of like 50,000 customers a year. Our number this year, we're projecting like 15,000, round numbers. And customers were flat last year or have even -- some people had slightly negative. Remember, we had these enormous tornadoes go through Alabama, for example, that have devastated a lot of dwelling. And so, we had some effect, you've got to kind of look through those numbers to see what was the tornado effect. But anyway, so 15,000 is kind of what we're expecting out of a normal number of 50,000, but we certainly haven't been there in a couple of years.

Operator

Your next question comes from Jonathan Arnold with Deutsche Bank.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

Just a couple of things. One was, I think some of the commentary around your ability to manage a slower recovery kind of seems to have being focused on 2012. What kind of sales number do you need in that '13, '14 to kind of keep you in that growth cone, if you like? And how long do you have? And how far beyond '12 could you keep sort of moving the expense needle to keep you in that channel?

Thomas A. Fanning
Chairman, President & CEO

That's an interesting question. I suppose, normally, what you have seen with Southern is variability. Remember, we went through all of these other factors. It's not just economic growth, it's weather and a variety of other things, right? If you saw sustained low-economic growth, likely that would have some impact on the stress on your system and a variety of other things. In other words, you're not running your plants as hard, you're not having to stress on the wires part of the business, et cetera. So there is some correlation, if you will, between a slowing economy and a slowing O&M spend rate, number one. Number

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two, the folks that run our business that make, move and sell electricity, do a terrific job in thinking about the optionality of best bang for the buck with every dollar they spend on their base level of expenditure. And then they have very clear ideas as revenues start to appear with the variability of weather, where they spend it and where we get the best bang for the buck. The truth in that shows up in operating statistics, our industry-leading EFOR, our now more than 10-year trajectory of great performance in our transmission and distribution business. My sense is, Jonathan, through the period, I think we can handle, within the range that we've given you, a sustained very low-growth economy. Where wouldn't we, if that's your question. Where...

Jonathan P. Arnold
Deutsche Bank AG, Research Division

Tom, can I just frame the question a little differently, like how much of the 4%, if you like, is coming out of capital spend and environmental? And how much is coming from just organic growth in the business? Could that frame it a little better?

Thomas A. Fanning
Chairman, President & CEO

I don't know. So how much of the low end of the range? The low end of the range will be hit if you have bad economic growth, milder weather and low CapEx. That's kind of how you get there. To the extent CapEx picks up, to the extent you have better weather, you're going to be in a different spot.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

Add to that low -- the economic growth you'd define as?

Thomas A. Fanning
Chairman, President & CEO

Like 0.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

Okay. That's clear. Can I ask on one other topic?

Thomas A. Fanning
Chairman, President & CEO

Sure.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

Could you give us a sense of whether your contracted position on coal look sort of any different going into 2012, than say it did going into 2011? And a sense at these kind of very low gas prices, how much incremental kind of shift on the system we could see from coal to gas and probably due to contract and price?

Thomas A. Fanning
Chairman, President & CEO

Yes, look, we've been very kind of transparent in the past. We've got some really interesting stuff to talk about here. In the fourth quarter, wait, let me back up, 4 years ago, or way back when I was doing CFO or COO even, we were about 70% of our energy from coal, and about, I don't know, 16% from nuclear, about 12% from gas and the balance from hydro. In the fourth quarter, this was really surprising to me, -- maybe not surprising considering how cheap gas is now -- our energy production was 40% coal, 39% gas. I used to say, we would reach a 40-40 split sometime after 2015. Well, sure enough, we hit it in the fourth quarter of '11. Now moving forward, given where gas prices are, we will continue to see much more

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gas production, so it'll become more important. In terms of how we're managing our fuel stocks, we have already, going back into '11, started thinking about in light of what may come down the road with HAPs MACT, now MATS and a variety of other issues associated with new regulations out of EPA started putting more optionality into contracts, shortening up the term of those contracts and thinking about how to be flexible in transportation arrangement. So all of that is being taken into account. Kind of what I used to say 4 years ago would have been that if you looked at our weighted average coal supply, we were kind of in the 3.5 to 4-year range, remember it was 100% committed in the year and then it would go to 80% and 60% and 40% and all that. Imagine that being shrunken a bit, so it's shorter in its duration and it is probably more flexible in any given year. So what may be 100% today, maybe 60% tomorrow, may be 40%, maybe 20%. So we've already started working all that through the system. Is that okay?

Jonathan P. Arnold
Deutsche Bank AG, Research Division

Tom, do you think you could go north of 40% gas in Q1 here? It sounds like you've put it on the threshold?

Thomas A. Fanning
Chairman, President & CEO

Yes, you were on the threshold. Time will tell.

Operator

Your next question comes from Michael Lapides with Goldman Sachs.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Two easy, two quick questions for you. One, Art, have you ever framed what your EPS sensitivity as to every 1% change in retail load? That's the first one. And the second one is, do you think you're at the early stages when it comes to residential and small commercial usage in terms of a structural change in the kind of the megawatt hour demand versus GDP correlations?

Thomas A. Fanning
Chairman, President & CEO

I got the last one. You get the first.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

The first question was sensitivity to 1% change in sales? Was that it, Michael?

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Yes, that is it. If sales was 1% higher or lower than forecast.

Thomas A. Fanning
Chairman, President & CEO

Yes, I gave them revenue before.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Right, it depends on how it's spread, Michael. If you do it across all classes, it's about $98 million in revenue and if you assume that you don't mitigate it in some way in your spending side, then it would be about $0.075.

Michael Jay Lapides

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Goldman Sachs Group Inc., Research Division

Got it, okay.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Okay?

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Thank you. And on the other item?

Thomas A. Fanning
Chairman, President & CEO

So on the other item, that was the relationship between GDP growth and electric sales, right?

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Yes, especially for res and small commercial.

Thomas A. Fanning
Chairman, President & CEO

This is fun. I love this stuff. So we argue with each other all the time what's going on here, and we had used in the past a relationship -- it has really born its math. It carries its water as a theory. But that you should look at electricity sales as about 60% of GDP growth. Now what we've done here in our projections is use a number like 50%, not 60%. So we, in our normal conservative nature, backed off a little bit. But there's a very interesting development in our numbers. As we were peeling the onion, getting ready for this call, there is an interesting trend. If you look at usage, usage is flat among our customers, particularly in residential and commercial. And there is always this interesting question about, "What's the penetration of energy efficiency?" And yet usage was flat. One of the things that we're debating right now is this idea that the economy is actually getting more electrified, if you will. That as the economy grows, more and more of the energy share is going to electricity-driven technology. And I think you can see that with these beautiful plasma screen TVs and iPhones and iPads and all the other stuff we have. So that's kind of interesting. So what you may see is maybe some energy efficiency, certainly as you replace an air-conditioner, you got a more efficient air-conditioner. So I think you're seeing share of electricity as a part of GDP growth grow and some effect on either active or passive energy efficiency. So the relationship appears to be constant. But the components within the relationship appear to be changing. Fascinating stuff.

Operator

Your next question comes from Nathan Judge with Atlantic Equities.

Nathan Allen Judge
Atlantic Equities LLP, Research Division

Just on general kind of macro question here. As we look across the United States and there's been a lot more gas, natural gas coming to market than some had expected, at least I had a year ago, it seems to be continually -- the price was continually falling. Just thinking about how that relates to your CapEx forecast and options as it relates to what you do as far as EPA-related retrofits and how close are we -- for you instead of using a backhouse, you can perhaps convert some more old plants into nat gas plants?

Thomas A. Fanning
Chairman, President & CEO

Yes, sure. Piece of cake. So let's kind of dive through that a bit. So of the 12,000-megawatt, those are our flagship unit, Bowen, Scherer, Miller, some are Wansley, some are Barry, et cetera. Those will vary. The

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maximum amount of baghouses I think we're considering right now is 17. As we suggested, there could be a variable nature of that. We may require less, which gives us the spread that we try to indicate to you, and please let me reinforce with the community out there, we're trying to give you the best estimate we can. There is still a significant amount of uncertainty there, okay, number one. Number two, when you think about the expansion plans going forward, remember that one of the advantages we have being in an integrated regulated market as opposed to the so-called organize markets or merchant markets, is that we are able to account for expansion planning as a portfolio, and we are able to iterate around optimal solutions between the types of generation and transmission solutions, and they are iterative. So when I think about what's in front of us here, remember, that some of our portfolio divisions have already been cast. That is 1,000 megawatts or so from Plant Vogtle units 3 and 4, McDonough, 2,500 megawatts or a little bit more. Georgia Power is out for a solicitation, marginally it's going to be gas, I think of around 1,500 megawatts. That's coming a little bit later. We have Kemper County in Mississippi, which is going to have an environmental signature better than or equivalent to natural gas, 582 megawatts. Remember some time ago we moved Plant Miller, one of the greatest coal plants in America in terms of efficiency and cost profile to our customers into -- moved it away from wholesale into retail. So Alabama is pretty well spoken for. So those decisions have already been made, so what you're talking about is really decisions around the margin. In other words, shutting down, mothballing, whatever the right word is, 4,000-megawatt, that kind of appears to be a dominant solution right now. We'll see. And then of the 3,200 megawatts we talked about, in more specificity, what we have said is, likely candidates for that are: older, smaller, coal units that currently don't have SCRs or scrubbers that will be converted into rather high heat rate units like 10,000 to 11,000 heat-rate gas-fired units. Would we do more of that? No. That's about the right level, I think. And there's not a lot of future bandwidths for variability in how we had to the system going forward. There's going to be some around the edges, but I wouldn't expect big changes. As I suggested to you, we're already committed on a portfolio that we think meets all the needs of our customers in a clean, effective, low-cost way.

Nathan Allen Judge
Atlantic Equities LLP, Research Division

That's very, very thorough. Just as it then pertains onto the nuclear plant, could you provide some type of timeline or some type of idea what risks there are if -- I'm not suggesting there it will be, but let's say in 6 months' time or a year time or whatever it may be, investors should start looking at the NRC's lack of giving this COL out as being concerning?

Thomas A. Fanning
Chairman, President & CEO

In my opinion, either the delay, whatever, of the COL, the reason we haven't gotten it -- it's imminent at any day, whatever you believe about that, that shouldn't be concerning at all. In the bigger scope of things, like I said before, I think I applaud the process we've gone through. Do I wish it's gone quicker? Sure, but I think given the scope, given the timeframe, I think you're kind of quibbling around the edges here. I think it's more important to get it right and have all the parties involved either completed satisfied, and that's where we are. Recall, too, that the process that we follow in building Vogtle 3 and 4 is a commercial relationship between us and the consortium that is Toshiba, Westinghouse, Shaw. Recall, too, that we have a very transparent relationship with our commission, independent evaluator, the staff, the PSC itself. And recall, too, that from the time the plant was originally certified, we have delivered to the customers of Georgia Power company over $1 billion of incremental value. Remember and recall that it takes kind of 4 forms. One is, the fact that we had a variable contract, and we fixed portions of that contract, and you can look at our disclosure because otherwise it's protected under our commercial agreement. Secondly, that we got loan guarantees. Third, that we got CWIP that will inure to the benefit of our customers by about $300 million. And fourth, CWIP -- production tax credit, that's the other one. And I even think we're reasonably conservative there because remember the production tax credit amount was dependent upon how many nuclear projects were going to get built. Well, it's often SCANA it looks like. So I think our estimate there is conservative. So when we say that we've delivered over $1 billion of value and you do recall that, that is part of the testimony in the August proceedings in front of the Georgia Public Service Commission, I think we're in great shape. I think the Vogtle project Units 3 and 4 are going to deliver tremendous value and I think that is shared by the people in the state of Georgia.

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Nathan Allen Judge
Atlantic Equities LLP, Research Division

If I could just redirect that question, could you just give us a milestone and perhaps a magnitude of -- and I appreciate that, unfortunately, some of the investors including myself don't have clarity into the processes as some do, and I just wanted to see if there's a milestone that we could look to. I just take it in consideration of what you said in, I think in your Analyst Day as about being year-end and we're just past that now.

--

Thomas A. Fanning
Chairman, President & CEO

Yes, but I mean, okay, look, it's a 10-year project and the delay has been about a month. Remember the DCD was real important. We got 5-0 vote on the design. I wouldn't attach a lot of angst to the delay of the COL. We still have -- we've been able to work through the LWAB. Remember we put in the LWAA, and we still have 1,000 people or more on-site, they're doing productive work. We have been able to work within those structures in order to be efficient and effective. Recall, too, we talked about, when we say that all thresholds are achievable, that is in relation to cost and schedule. We have flexibility going forward. How we decide to execute that flexibility in some respects is a commercial matter between us and a consortium and us and our regulators. So I wouldn't personally feel angst about where we are right now. I actually think that the project is doing great.

Nathan Allen Judge
Atlantic Equities LLP, Research Division

Great. And just if I may one...

Thomas A. Fanning
Chairman, President & CEO

Yes, I'm sorry, was that responsive? Can I hit anything else specific? We have milestones, yes, you mentioned milestone. One of the things that will be interesting as we go forward will be the development of what they call ITAACS. It's an acronym for some I-T-A-A-C-S and I never remember what that stands for. But what those are, are tests that will be developed around the systems of each of the units as we go forward, there'll be hundreds of them. So it's almost like as you're building a house. You want to test the AC system. You want to test the kitchen. You want to test the -- and so, there will be several of those going forward. And one of the challenges that we have said to ourselves in our -- and we meet regularly on this project, is to be able to talk about developing the threshold to talk about clumps maybe of systems as we go through them to let you know how progress is occurring. I think it's a very fair question. We need to kind of give you better clarity going forward. We'll work on that.

Nathan Allen Judge
Atlantic Equities LLP, Research Division

I really appreciate that. I just have one last question. It's more of an informational question. Could you remind us how the Georgia riders work for the environmental spend, specifically as it relates to this potential up to 2 or I guess, $4.4 billion in Georgia? Is there -- more specifically, could there be regulatory lag there?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, they're covered within the 3-year rate hearings that are normally -- that Georgia Power has been going through for the last 4 or 5 processes. They'll defer them if they're not covered in the last rate case until the next rate case. So if they're under construction or if they've been approved for construction, then they'll collect AFUDC and that will be the normal accounting process.

Nathan Allen Judge

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Atlantic Equities LLP, Research Division

Okay. So just so -- if I do understand, if there is a fair amount of -- if there isn't [indiscernible] on those because they will have basically come in between interim rate case, is that...

Thomas A. Fanning
Chairman, President & CEO

Yes, and as I said, having been CFO at Georgia, you'd make an estimate, a forward estimate of the 3-year period essentially, and then you essentially count your rate base going forward every 3 years and it's an accounting order. The commission has shown in the past -- has shown a great deal of constructive thought as to how to recognize that over time, and we've been reasonably flexible over time. So there's a contemplation as to what it might be. To the extent there's a variance, there will be an AFUDC accrual, there will be a deferral in rate, it'll be captured in the next 3-year accounting order. Recall, too, that we have never lost $1 of expenditure associated with environmental.

Operator

Your next question comes from Leslie Rich with JP Morgan.

Leslie Rich
J.P. Morgan Asset Management, Inc.

I just have a quick question on fuel. So you're running your gas plants more, you're running your coal plants less, that's got to overtime, since it flows through to customers, result in some rate decreases. And I'm just wondering sort of that's a nice tailwind in terms of benefits to customers. Is that going to be happening? Has it been happening in '11? And do we see a big adjustment there in 2012?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Leslie, this is Art. If you look at the balance of unrecovered fuel around the system, I guess Georgia's got the biggest balance at $130 million or so, $137 million under recovered, and to the degree their benefit from increased gas burn, that balance will be mitigated sooner than they expected. So -- but no word yet on when that fuel rate will change for customers. Mississippi, actually, they're commission approved a fuel rate reduction this month, a few weeks ago, that will begin in April, I believe, about $22 million. Alabama has under recovered about $31 million, so I wouldn't expect anything immediately there and Gulf has actually over recovered about $10 million. So it just depends on the company and when the -- what the balance is and when the commission will take action on it.

Thomas A. Fanning
Chairman, President & CEO

But, you know, it's so fascinating. So John Row [ph] and I got into this at one time. Southern Company benefits by low-energy prices. It's good for our customers; it's good for our us. We pass through the benefits of the lowest land [ph] that we can offer. And to the extent gas prices remain low, that is great for us and great for our customers.

Leslie Rich
J.P. Morgan Asset Management, Inc.

And then does it have incremental positive benefits for Southern Power? Are those units, to the extent that they are not fully hedged, can they run more?

Thomas A. Fanning
Chairman, President & CEO

Yes, you bet. I'd give you – [indiscernible] tag-team there but, Southern Power did better than we expected, significantly in 2011 as a result of that. Their energy margins were substantially higher. And we have designed that company to be gas-fired in the Southeast, and so as there are issues relating to retirement of assets in the Southeast and gas becomes a dominant solution, the ability for Southern Power

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to sustain its performance on energy margins and grow more, they have a lot of expandability on their site. We think it plays right into their strike zone.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. And Leslie, if you look at capacity factor of Southern Power's combined-cycle units, they were up 10% year-over-year. And if you look at the capacity factor in the fourth quarter, I believe some of them were up in the 70, mid-70 range.

Thomas A. Fanning
Chairman, President & CEO

So in 2010 and for the year, we were 47% capacity factor. In '11, we're 57% and if you just want to look at trends in the fourth quarter, it was 65%.

Operator

Your next question comes from John Ali [ph] with Decade Capital.

Unknown Analyst

Just a couple of quick follow-up questions. Jonathan Arnold was talking about getting to the bottom end of your growth rate, and you said you have to have lower CapEx. Is that just base CapEx?

Thomas A. Fanning
Chairman, President & CEO

It'd be lower everything. I mean, however it is, it's hard to -- you don't want to ever get in the business of tracing dollars. If we were substantially lower than what we're projecting, so we're projecting $18.4 billion over 3 years. I mean, I don't know what number would have to be to fall out. We described mild weather. We described no growth in the economy. We described less CapEx. That's kind of how you get there.

Unknown Analyst

Okay, great. And it looks like base CapEx applies around 7% rate base growth?

Thomas A. Fanning
Chairman, President & CEO

Yes.

Unknown Analyst

Okay. And Southern Power, are they experiencing any pressures from lower commodities or CSAPR delay in '12?

Thomas A. Fanning
Chairman, President & CEO

Southern Power benefits from lower commodities. Remember the way we structured their contracts. We have this very kind of well-developed notion here that risk matters as much as return in creating value. And so, when we thought about at the inception of Southern Power, we set up on a set of contracts that served us very well over time. That is, for any contract they enter into, it really has 2 segments. One segment deals with return on brick-and-mortar investment, and which is known over time through the length of the contract. The other deals with largely energy win, and largely that's a fuel pass-through to the customers. So when you think about the economic model of their contract business, it was very much like an integrated regulated utility. Okay? They do have the ability to earn some margins above what we projected in the base case should we sustain this low-commodity environment. That's what happened in '11.

Unknown Analyst

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Got you. Okay, I'm just a little bit, I guess, not confused, but curious why the bottom end of the CAGR dropped if all these things point to at least sticking to what it was in...

Thomas A. Fanning
Chairman, President & CEO

Gosh, I hope we didn't confused people. If you go to the original projection we gave you on 5% to 7%, it was based off of 2010 and, in fact, we are exactly there. We haven't deviated a bit. When you look now at '12, so just from '10 to '11 to '12, if you use '12 as a new base instead of '10, we are projecting guidance in the top half of that range. So the math of staying within that range -- so if we're in the top half of the range, the top remains 7%. If you want to go to the bottom side of the range, 5% goes to 4% because we're in the top half. It is exactly where we've been, it just uses a different base.

Unknown Analyst

Okay. So we shouldn't be reading into this if there's any more increment risk than there was...

Thomas A. Fanning
Chairman, President & CEO

No, not at all. In fact, I would argue there's incremental benefit. If you go to the slide in the package, you have a wonderful picture of what I'm talking about. Let me just say it a different way. The math is -- we are exactly where we said we would be way back in 2010, except that, because we're starting the top half of that cone of uncertainty, we may be in the near term better off.

Operator

Your next question comes from Paul Patterson with Glenrock Associates.

Paul Patterson
Glenrock Associates LLC

Just a clarification. You mentioned that there could be a change within the published and the final rule. Could you just elaborate a little bit more on that?

Thomas A. Fanning
Chairman, President & CEO

See Cross State.

Paul Patterson
Glenrock Associates LLC

Oh, just Cross State?

Thomas A. Fanning
Chairman, President & CEO

No, no, no, that's the example.

Paul Patterson
Glenrock Associates LLC

Okay, that was the example. Okay, I was thinking...

Thomas A. Fanning
Chairman, President & CEO

Well, from the time you get a proposed rule to a final rule, you think you kind of know where you are. But from the final rule to the printed rule, to the published rule, there could be some minor tweaks. We saw that in CrossSstate. So I can't sit here and tell you today that what has been put forth as the final rule, until it is finally published, is going to be, in fact, the same.

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Paul Patterson
Glenrock Associates LLC

Okay, I got you. But when you say minor changes, I mean, I know that minor changes can mean big things. How should we think about, I mean, in other words, I mean, are you thinking -- I guess, I was just wondering is there a potential chance that this could change a lot or?

Thomas A. Fanning
Chairman, President & CEO

Well, I mean, if you ask Energy Future Holdings where Texas became part of the printed rule under Cross State, it was major to them, it wasn't major to us. It just depends on what the tweaks might be.

Paul Patterson
Glenrock Associates LLC

Okay. But no clarity on that?

Thomas A. Fanning
Chairman, President & CEO

No, no idea what might change between now and the published rule.

Paul Patterson
Glenrock Associates LLC

Okay, I thought there might be something.

Thomas A. Fanning
Chairman, President & CEO

And Paul, one more thing, if I could just add to people. There is still uncertainty in the final rule. For example, in the startup and shutdown, there's all kinds of language in there about standard work practices and a variety of other things. Really understanding what that means will have some bearing on compliance. So there still needs to be clarity even though we have a final rule.

Paul Patterson
Glenrock Associates LLC

Okay. And then with the -- just to clarify some things here, you guys obviously had no customer growth, I mean flat customer growth last year. Is that right? Nobody, no increase in customers at all?

Thomas A. Fanning
Chairman, President & CEO

Correct. It was marginally negative, I think...

Paul Patterson
Glenrock Associates LLC

And this was...

Thomas A. Fanning
Chairman, President & CEO

And you can write that off to storms and stuff.

Paul Patterson
Glenrock Associates LLC

Okay. That's a good -- okay. So in other words, you had storms that knocked people out, I guess, is that what you mean?

Thomas A. Fanning

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Chairman, President & CEO

Yes, yes. If you recall the tornadoes that went through Tuscaloosa, that was a big deal. And I think one of the dynamics in housing that we're looking for, a normal unsold housing inventory in our area would be around 2%, 3%, 2%, 4%. We're kind of 3.5% right now in the Southeast. So what we got to do is make sure that we eat into that inventory over time.

Paul Patterson
Glenrock Associates LLC

Okay, in terms of what, occupied houses, is that what you mean?

Thomas A. Fanning
Chairman, President & CEO

Yes.

Paul Patterson
Glenrock Associates LLC

Okay. So we're not like -- you're not concerned about a housing price rebalance. We're not talking anything like that?

Thomas A. Fanning
Chairman, President & CEO

No, no, no.

Paul Patterson
Glenrock Associates LLC

Okay. I just want to make sure. And when you say 15,000, 14,000, 15,000 customers, I'd assume this is pretty much residential customers. Is that what we're talking about here?

Thomas A. Fanning
Chairman, President & CEO

Oh, yes.

Paul Patterson
Glenrock Associates LLC

Okay, and what is that as a percentage of just -- of a growth rate? What would that equate to?

Thomas A. Fanning
Chairman, President & CEO

So if usage is flat, it's going to be like, I'm looking around the table, 1%, maybe.

Paul Patterson
Glenrock Associates LLC

So it's got 1% customer growth...

Thomas A. Fanning
Chairman, President & CEO

Let us get back to you on that. Let's get back to you on that.

Paul Patterson
Glenrock Associates LLC

Okay. I mean, what I'm sort of just trying to figure out here is that basically, if I understand you guys, you guys are basically looking at 2.5% growth rate in your service territory in the Southeast, in general, is that

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right? And that's equating into about 1.3% retail sales growth rate, is that sort of roughly how we should think about this?

Thomas A. Fanning
Chairman, President & CEO

Say that again? I'm sorry.

Paul Patterson
Glenrock Associates LLC

You got 1.3% growth and you mentioned that you were using I guess of an algorithm that basically came up to 50% GDP growth equals that, right? So I'm just saying, so you're basically using like a 2.5%, a little more than that for what you're expecting will happen in GDP, is that right?

Thomas A. Fanning
Chairman, President & CEO

That is exactly right. Correct.

Paul Patterson
Glenrock Associates LLC

Okay. And -- okay.

Thomas A. Fanning
Chairman, President & CEO

And the growth in customers is 0.4%.

Paul Patterson
Glenrock Associates LLC

Okay. Customer growth is 0.4% that you guys expect.

Thomas A. Fanning
Chairman, President & CEO

Yes.

Paul Patterson
Glenrock Associates LLC

And so really what you're expecting is a rebound in usage and that's being driven by people feeling better about the economy, is that how we should think about that?

Thomas A. Fanning
Chairman, President & CEO

Well, if that...

Paul Patterson
Glenrock Associates LLC

Leaving industrial customers out, I mean...

Thomas A. Fanning
Chairman, President & CEO

Yes, yes. It's people moving out of apartments into homes. So usage goes ways up, but that's really just a factor of more homes getting occupied.

Operator

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Your next question comes from Gordon Howald with Doyle Trading Consulting.

Gordon Howald

This has been kind of touched upon, but I'm going to ask you maybe in a little bit of a different way, looking for different answer. I recognize all the uncertainty surrounding what the final regulatory EPA rules will be and what natural gas and power prices will ultimately be. But could you provide some color on the EPA-related CapEx? What could the financial impact be on customer bills for that incremental $4.4 billion number that you put out there on a percentage basis, less than 15%, greater than 15%, any color on that?

Thomas A. Fanning
Chairman, President & CEO

Yes, we've been pretty consistent with this and I'm sorry I'm going to be a little vague just because we don't know yet, it depends on what state you're in and all that. But what we have said is that after all of these expenditures cleared in service, you're talking about 10% to 20% across the United States, depending on where you live.

Gordon Howald

Right. That's fair. And could you give me a little color on what the base environmental spending is over the next 3 years?

Thomas A. Fanning
Chairman, President & CEO

Yes, we'll get you that in a sec. And when I gave you that 10% to 20% remember, I go back to something I said earlier. It's always hard to point out one rule. You really have to look at the consequence of all rules and the change in your generation and transmission expansion plans and the whole bit. All of that has to be taken into account.

Gordon Howald

Absolutely.

Thomas A. Fanning
Chairman, President & CEO

Okay, Art?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, the base environmental is on this slide, I believe, and it's about $1.5 billion over the next 3 years. But it would include the completion of projects that are under construction now. I believe a lot of those are in Georgia and some in Mississippi as well.

Gordon Howald

So essentially spending that you would have done irregardless of -- that you would have done even without EPA proposed regulations, such as CSAPR, which has obviously been stayed, and just things that you would have done anyway?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Correct.

Operator

Your next question comes from Ashar Khan with Visium.

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Ashar Khan

Can I ask a slightly different question? Can you just tell us what the rate base growth is from '12 to '14?

Thomas A. Fanning
Chairman, President & CEO

Well, it's 7% to 8%.

Ashar Khan

7% to 8%.

Thomas A. Fanning
Chairman, President & CEO

Per year, but it's lumpy. And it's lumpy.

Ashar Khan

So in the 2 years from '12 to '14 on -- it grows by, if I can just say, like 15%, is that correct from '12 to '14?

Thomas A. Fanning
Chairman, President & CEO

Yes. I mean, if you just do 7% to 8% per year and it's a little lumpy. So yes. Round numbers, you're right.

Ashar Khan

Okay. And that includes the environmental? Or that doesn't include the environmental, that number?

Thomas A. Fanning
Chairman, President & CEO

It does not. The environmental will be incremental with that.

Ashar Khan

Okay. So the environmental, if I'm right, if you include then the higher end, then how much does it become?

Thomas A. Fanning
Chairman, President & CEO

So there's -- I don't know. It would clear after in service. So a lot of the environmental will clear in service after '14. So we'll be having AFUDC and a variety of other things. But in terms of rate base growth, which is a different question, that will clear when it goes into service. So a lot of that would be after '14.

Ashar Khan

Okay. But you would get AFUDC positive impact, right?

Thomas A. Fanning
Chairman, President & CEO

Yes, yes, yes.

Ashar Khan

So then Tom, what then is, I guess, because we are cash flow deficient, so I guess we can use a rule that we are losing like 2% or 3% of that growth in the earnings because of being a cash flow negative company, is that correct? Is that the way we should kind of like think through this thing going forward?

Thomas A. Fanning

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Chairman, President & CEO

Well, I wouldn't think about it that way. I mean, let's -- at a practical matter, when you look at Southern Company, you go operating cash, less dividends, you look at CapEx, we kind of look cash flow negative, but that's because we're growing. We're getting AFU -- I mean, we getting CWIP on Vogtle. We're getting CWIP on Kemper County Plant Ratcliffe. So either it's been contemplated in a forward mechanism, so that would be Georgia, or in Alabama and in Mississippi, we have annual mechanisms, which capture this stuff and those are forward-looking. So it depends on what jurisdiction you're talking about. But they generally self-regulate. In other words, to the extent you spend more in Alabama, the next series of RSE would pick it up.

Ashar Khan

So -- what I'm trying to get from is that if you take the average growth rate, there's a discrepancy between rate base growth and the EPS growth. What would you attribute that to? Are you -- some are producing as regulatory lag, is that what you're saying? I'm just trying to get a more precise way to -- what are the reasons between the 2% to 3% difference between the 2?

Thomas A. Fanning
Chairman, President & CEO

Well, as you grow assets, you're going to grow some O&M and you're also going to have shares involved, right? More shares supporting it, that drags down -- the relationship between adding assets to rate base is always a function of how much more O&M do you have, you have more depreciation as a result of more assets, but you have more shares supporting the mix of capital supporting every dollar of investment. So you can't just say that a 9% rate base growth equates to 9% EPS.

Ashar Khan

Okay. So basically, it's a function of -- it's really that your -- as the rate base is growing, are ROEs on that rate base, actually earned ROEs are declining over that period of time?

Thomas A. Fanning
Chairman, President & CEO

No, no, no. It's not earned ROEs. It's the revenue requirement calculation on any investment. That really is constant. So if you -- go ahead, Art.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

The forward-looking rate mechanism address a lot of that. As it goes into rate base, it's either -- it's picked up by rate mechanisms and it's earned upon.

Thomas A. Fanning
Chairman, President & CEO

Yes, there's no, we're not missing anything, anywhere. In fact, if you think about it, if you contemplate Georgia's structure as a 3-year forward look when it's put into place, so it renews itself every 3 years to the extent you miss your projection, it's deferred and you earn AFUDC on it. Alabama is forward-looking and adjusts annually, [indiscernible] is forward-looking and adjusts annually. I guess the only other one you would think about is Gulf, Gulf's in the middle of a rate case.

Ashar Khan

No, I understand that. I'm just thinking through it. Tom, I guess EIX says they can grow earnings equal to rate base. I guess, they don't do any equity and they haven't done equity for 14 to 10 years, I don't know how long. Con Ed can't do it because they have to do equity. So I'm thinking if Southern is getting bigger and bigger and the CapEx needs are becoming bigger and bigger, I guess the ability to be able to grow earnings equal to rate base is now becoming more difficult because of the larger CapEx that is kind of like

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coming in because we have to issue equity to kind of finance it, and I'm just trying to think through the paradigm.

Thomas A. Fanning
Chairman, President & CEO

Yes, Ashar, it hasn't changed. This has been the relationship at Southern. Go back and look at our rate base growth over time, we'll be glad to kind of take you off-line and go through the numbers. But our rate base growth has always exceeded our earnings per share growth for a variety reasons that we talked about, depreciation, shares, a variety of other things other than that. We'll be glad to take you through that. There's nothing changing in Southern. This is a constant relationship.

Operator

Your next question comes from Paul Ridzon with KeyBanc.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

Could you have alternatively recast your growth rate by keeping it on a 2010 base but saying 6% to 7% off of that base? Would that have been the same in the same situation...

Thomas A. Fanning
Chairman, President & CEO

Yes, what we would have said is 5% to 7%. You're reflecting the fact that we're in the top half of that range. I mean, conceivably you could go there, but we're conservative. We like to have enough spread to accommodate a challenged economy, worries about Europe, a variety of other things. But yes, I mean, you're catching the point. If you start with '10, we are at 5% to 7%. And we're in the top half, that's where you come up with 6% to 7%. All we're trying to do is just use a more recent base.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, we just recharacterized the same growth.

Thomas A. Fanning
Chairman, President & CEO

The math is the same. We're not guiding down on growth.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

You caught people by surprise the way you cast it.

Operator

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

Thomas A. Fanning
Chairman, President & CEO

No, we just want to thank everybody. I know this was a long call, but we always respect the fact that you guys are interested enough to call in and listen to our story, and we thank you for your interest. And hopefully, you found the time valuable. I know we did. Thanks very much.

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

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