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The Southern Company NYSE:SO

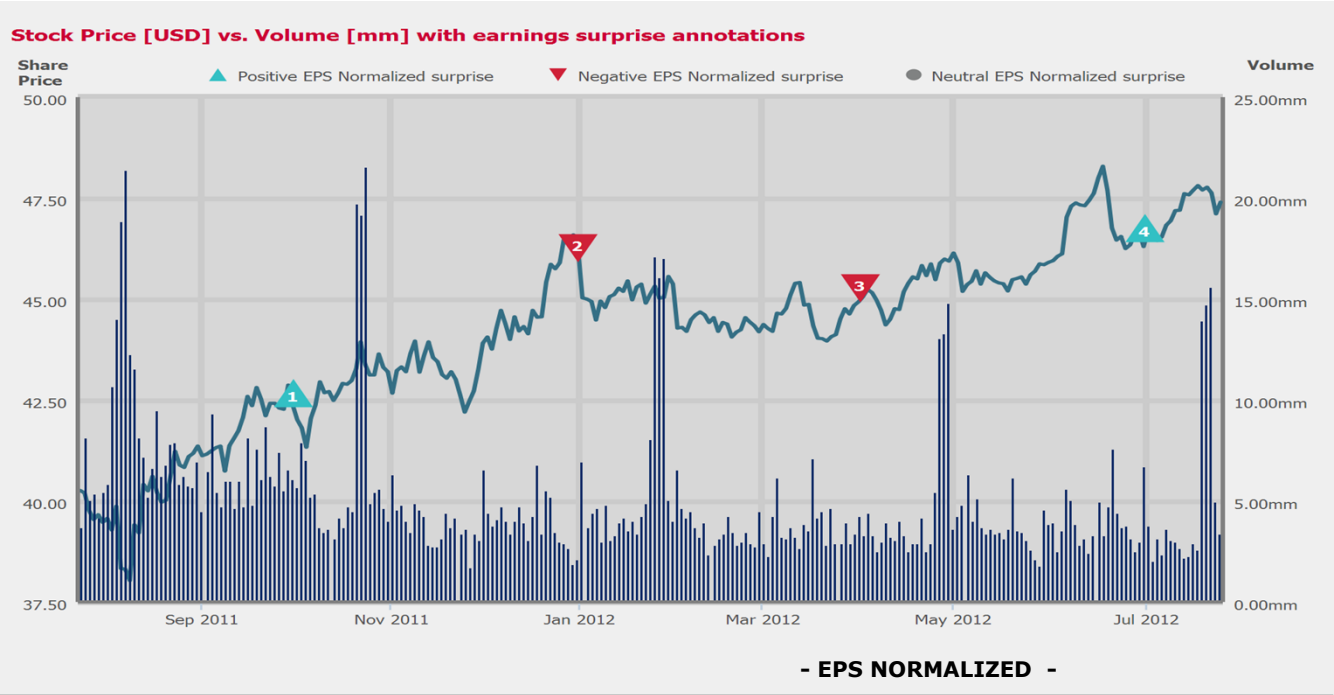
FQ2 2012 Earnings Call Transcripts

Wednesday, July 25, 2012 5:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2012-			-FQ3 2012-	-FY 2012-	-FY 2013-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.68	0.69	▲1.47	1.17	2.66	2.82
Revenue (mm)	4755.54	4181.00	▼(12.08 %)	5885.47	18308.97	19123.17

Currency: USD
Consensus as of Jul-25-2012 1:31 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2011	1.04	1.06	1 1.92 %
FQ4 2011	0.30	0.28	2 (6.67 %)
FQ1 2012	0.45	0.42	3 (6.67 %)
FQ2 2012	0.68	0.69	4 1.47 %

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Presentation

Operator

Good afternoon. My name is Regina, and I will be your conference operator today. At this time, I would like to welcome everyone to the Southern Company Second Quarter 2012 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, and welcome, everyone to Southern Company's Second Quarter 2012 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. In addition, we will present non-GAAP financial information on this call. Reconciliations to the applicable GAAP measure are included in the financial information we released this morning.

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. In addition, we are now making these slides immediately available for download on our website.

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

Thomas A. Fanning
Chairman, President & CEO

Good afternoon, and thank you for joining us. Before we turn to Art for a review of our second quarter performance and latest outlook, I'd like to make a few -- take a few moments to update you on our recent progress on several important operational and strategic fronts. As we continue our shift away from coal and increase our use of lower priced natural gas, we are passing the benefits along to our customers. For example, at our largest subsidiary, Georgia Power, we recently reduced fuel rates by 19% and overall retail rates by 6%, which represents a $567 million reduction. At Gulf Power, several incremental fuel rate adjustments had cumulatively reduced fuel rates by 25% and overall rates by 10% since the end of last year.

As we look ahead, our energy mix will continue to shift along with fluctuations in the cost of various fuel sources. But no matter what the future holds, we will continue to seek the best combination of available sources for the benefit of our customers with the goal of keeping retail prices as low as possible.

With that in mind, we remain focused on promoting a sensible national energy policy, first by preserving all available sources of generation, including new nuclear, 21st century coal, natural gas, renewables and energy efficiency; and second, by leading our industry in driving energy innovation, creating real solutions, not rhetoric, to meet the needs of this nation's energy future.

Two excellent examples of such innovations are Plant Vogtle Units 3 and 4 and Plant Ratcliffe in Kemper County, Mississippi. Once online, these 2 projects are expected to provide value to our customers in terms of very low energy costs and relative price stability.

The significance of the Ratcliffe and Vogtle projects cannot be overstated. While natural gas appears plentiful and inexpensive today, it is not a panacea, and there are many reasons to be cautious about its future. These include the need to resolve potential environmental issues related to frac-ing; the need to develop infrastructure, including both pipelines and storage; the need to reach decisions about exporting

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natural gas, both quantity and time frame; evaluating the price and volatility impact of a shifting demand curve; and improving the relatively high counterparty credit risks that hinder our ability to hedge long-term gas exposure. Because overreliance on any single fuel source is never a good idea, we must continue to preserve existing sources, such as coal and nuclear, even as we cultivate new ones, such as renewables and energy efficiency. And as seen on this slide, even relative to a combined cycle plant burning natural gas at $3 per million BTU, the variable cost for electricity from plants Vogtle and Ratcliffe are expected to be significantly lower, with natural gas at $5 per million BTU, the cost differential is even more dramatic.

The relative energy cost benefits at Plant Ratcliffe are driven by the low cost of the project's abundant mine amount of lignite, as well as the benefits of long-term offtake agreements for CO2 and other by-products.

For Vogtle Units 3 and 4, the value of production tax credits, which are not included in this analysis, are expected to further lower the variable cost for the first 8 years of commercial operation.

Now please understand, we remain convinced that natural gas generation will continue to be a dominant solution in a balanced portfolio. In fact, we expect to have more natural gas capacity in our fleet than any other resource over the next decades. But clearly, the innovative new facilities we are adding should help preserve our fleet's diversity and provide relatively stable, low-cost energy to our customers for many decades.

With that in mind, I'd like to update you briefly on our recent progress with both of these major construction projects. Construction continues at the Ratcliffe site as we move toward our target completion date of May 2014. Our most recently filed status report reflects an estimated cost for the project of $2.88 billion, including a $62 million contingency. Earlier this year, the original certification order for Plant Ratcliffe was remanded back to the Mississippi Public Service Commission. The PSC acted quickly to enact a temporary order so that construction activity could continue while it considered the remanded order. The PSC later issued a new order with 70 additional pages of supporting detail and 300 references to the original record to protect against future challenges to the certification.

In its original order in 2010, the PSC agreed to allow Mississippi Power to recover its financing costs during construction. This agreement was a key to Mississippi Power's initial decision to proceed with this project. The revised order included in April -- issued in April of 2012 contained the same provisions.

In June 2012, the commission decided to deny CWIP recovery pending the resolution of outstanding legal challenges to the certification. Mississippi Power has asked that Mississippi Supreme Court, consistent with the stipulation reached with the PSC staff earlier this year, to allow it to begin recovering these costs subject to refund until such time that the court makes a final ruling. Denying these rates will increase costs for Mississippi Power's customers over the long term, and we are, therefore, hopeful for a timely resolution of this matter.

In the meantime, our current analysis indicates that the overall cost to customers for Plant Ratcliffe will be less than projected than the original certification due primarily to the lower cost of debt financing and the proceeds from the by-product sales mentioned earlier. In the end, our intent is to provide customers in Mississippi with the benefit of a cost-effective cutting-edge technology that exceeds even the EPA's proposed new source CO2 standards.

Construction is also proceeding on Plant Vogtle Units 3 and 4 with approximately 1/3 of the project now complete. This project is expected to provide tremendous benefits to the state of Georgia over the next several decades, contributing to job creation and increased tax base and fuel diversity.

Our next regulatory milestone for this project will be the decision by the Georgia Public Service Commission on the costs included in our sixth construction monitoring report, which was filed earlier this year. This decision is scheduled for August 21. It is important to note that the commission's independent monitor has stated repeatedly that Georgia Power continues to manage the project well. It is also recommended that the commission approve all costs incurred during this reporting period.

Georgia Power is scheduled to file its seventh construction monitoring report on August 31. Tremendous progress can be seen at the plant site and at supply chain facilities located around the world, where some

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of the major components are being manufactured, all of which are on schedule. Testing on the heavy lift derrick commenced last week, and significant foundation work has been completed on the turbine islands, cooling towers and nuclear island.

As we look ahead to the next several months, major progress is expected to be made in the nuclear island's turbine building and module assemblies. Perhaps the most exciting progress will be the arrival of major components of the site later this year and early next year, the first of which is the reactor vessel for Unit 3.

In the meantime, we are continuing discussions with our contractors over the current project schedule and costs, and we'll continue to make decisions that are in the best interest of our customers. Any adjustment in cost or schedule is dependent in part on the outcome of these negotiations and must be approved by the Georgia Public Service Commission during the semiannual review process. We are keeping the Georgia PSC updated as these negotiations continue.

We are also reviewing the loan guarantee terms and conditions, including the new issues raised by the United States Department of Energy since the Solyndra default. Recall the nuclear loan guarantee program was put into place to incentivize utility companies to pursue new nuclear construction for the first time in decades. However, if we determine that the final terms and conditions for the DOE loan guarantee will not add value for our customers, we will finance the project through more traditional means. Even without these loan guarantees, we believe that we can still deliver up to the $2 billion in potential benefit to Georgia Power's customers from this project.

In addition to the work being done at plants Ratcliffe and Vogtle, we are continuing to place new units into service that reflect our commitment to innovate to innovative and diverse energy resources. In April this year, Georgia Power placed a second combined cycle gas unit in the service at Georgia Power's Plant McDonough-Atkinson. This 840-megawatt facility is one of the most efficient gas plants in our portfolio and will benefit customers with lower fuel costs. The final unit of Plant McDonough-Atkinson, another 840-megawatt combined cycle gas unit, is scheduled to be placed into service during the fourth quarter of 2012.

Meanwhile, Southern Power's new 100-megawatt biomass facility near Nacogdoches, Texas, began commercial operation in June of this year, ahead of our schedule and under budget. The Nacogdoches project is the largest biomass plant in the United States, utilizing the world's largest bubbling fluidized boiler. It will provide energy under a 20-year contract to the City of Austin, Texas.

Southern Power is further expanding its renewable portfolio by announcing a new project with its partner, Turner Renewable Energy, for a 20-megawatt solar photovoltaic plant in Nevada. The Apex Solar Project began operation this week. It is supported by a 25-year purchase power agreement with Nevada Power Company. This is Southern Power's second joint venture with Turner, the first being the Cimarron Solar facility in New Mexico.

We are increasing our use of other renewable resources as well. Alabama Power recently procured 200 megawatts of wind energy from Oklahoma and also filed an application with its Public Service Commission for another 202 megawatts of wind capacity from Kansas. We anticipate a hearing on the Kansas agreement in August and are hopeful for a positive ruling sometime this fall.

In a few minutes, Art's going to share our current projections for environmental compliance capital. As a reminder, there were several changes made to the EPA final mercury air toxics or MATS rule that provide for more flexibility than the originally proposed rule. Our public comments on the proposed rule were part of an effort to protect our customers from the significant and unnecessary cost of this rule and its burden on an already fragile economy.

Although these efforts have resulted in a lower expected cost for MATS compliance, this is still a very expensive rule that will be difficult to comply with on a continuous basis. Utility MATS is part of a combination of well intentioned, but overreaching rules and regulations that will eliminate a significant portion of America's current coal generation fleet and effectively prohibit new coal plants from being built.

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EPA, which is responsible to no electorate, is essentially creating America's energy policy, which is the job of Congress. We will continue to be engaged at a national level on these matters.

Now I'd like to turn it over to Art for a review of our second quarter performance and a few other economic and financial updates.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Thanks, Tom. In the second quarter of 2012, we reported earnings of $0.71 a share, equal to our earnings of $0.71 a share in the second quarter of 2011. We recorded a $21 million net benefit during the second quarter of 2012 for an insurance recovery associated with the 2009 settlement that rose out of the 2003 bankruptcy of Mirant. This insurance recovery resulted in earnings of $0.02 per share in the second quarter of 2012. Excluding this item, earnings for the second quarter of 2012 were $0.69 per share compared with $0.71 per share for the second quarter of 2011, a decrease of $0.02 per share.

Our year-to-date as reported earnings for the first 6 months of 2012 were $1.14 per share compared with $1.20 per share for the same period in 2011. Excluding the insurance recovery item, year-to-date 2012 earnings were $1.12 per share compared with $1.20 per share for the same period in 2011, a decrease of $0.08 per share.

Let's turn now to the major factors that drove our numbers for the second quarter of 2012 compared with the second quarter of 2011. These drivers will exclude the insurance recovery item mentioned earlier. First, the negative factors. Weather reflects -- weather effects reduced our earnings by $0.06 a share during the second quarter of 2012 compared with the second quarter of 2011. Warmer-than-normal temperatures contributed $0.01 in the second quarter of 2012 compared with a $0.07 impact in the second quarter of 2011. Increases in nonfuel O&M expenses for our traditional operating companies reduced earnings by $0.02 a share in the second quarter of 2012 compared with the second quarter of 2011. Increased depreciation and amortization, representative of our growing rate base, reduced our earnings by $0.01 a share during the second quarter of 2012 compared with the second quarter of 2011. An increase in interest expense reduced our earnings by $0.01 a share during the second quarter of 2012 compared with the second quarter of 2011. Finally, an increase in the number of shares outstanding reduced our earnings by $0.02 a share during the second quarter of 2012 compared with the second quarter of 2011.

Now the positive factors, retail revenue effects in our traditional business added $0.05 a share to our earnings for the second quarter of 2012 compared with the second quarter of 2011. Usage and economic growth increased earnings by $0.02 a share during the second quarter of 2012 compared with the second quarter of 2011. A reduction in income tax expense increased earnings $0.02 a share during the second quarter of 2012 compared to the second quarter of 2011. Finally, parent and other added $0.01 a share to the earnings during the second quarter of 2012 compared with the second quarter of 2011.

In conclusion, we had $0.12 of negative items compared with $0.10 of positive items or a negative change of $0.02 a share, excluding the insurance recovery item.

Moving now to a discussion of our second quarter sales and our economic outlook. On a weather-normalized basis, our residential sales grew 2.1% during the second quarter of 2012. This reflects the nearly 20,000 new residential customers we have added across our system since the end of 2011. Improving economic conditions and migration into the Southeast are translating into positive signs for the housing market, with surveys of regional brokers and builders by the Atlanta Federal Reserve indicating increased buyer traffic, increased sales and declining inventories.

Meanwhile, Atlanta was recently ranked as the fifth most popular moving destination in the United States by the American Moving and Storage Association. As expected, residential growth was a leading indicator for commercial energy sales, which had a modest weather-normalized growth of 1.2% for the second quarter of 2012.

Our industrial sales for the second quarter of 2012 were essentially flat compared to 2011. These results reflect a broad range of drivers that vary from slowing global demand to increases in self-generation to

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increased production. Sales to our largest industrial segment, chemicals, were flat in the second quarter of 2012 due to slowing global demand. Our second largest segment, paper, continued to grow while its electricity demand declined as a result of an increase in self-generation. Finally, a number of industrial segments increased their usage as their production expanded. These include pipelines, up 12%; auto production, up 9%; lumber, up 7%; and fabricated metals, up 6%.

Meanwhile, our region's economic development activity for 2012 is well ahead of its 2011 pace. Some 7,200 jobs were announced in the second quarter alone, a 134% increase over the same period a year ago. And our project pipeline remains robust across a variety of industries.

In just the past few months, Airbus announced it will build passenger jets in Mobile, Alabama, beginning in 2015, adding up to 1,000 direct and nearly 3,000 indirect jobs. This project is transformational and could be as significant to Alabama in the aerospace industry as Mercedes-Benz has been in the auto industry.

State Farm Insurance, meanwhile, will bring 500 new jobs to Atlanta later this year as it consolidates a customer service center. We are also very encouraged by last week's announcement that the Obama administration will support the fast tracking of the proposed port deepening project in Savannah. This project, which is in concert with the expansion of the Panama Canal, will enable larger cargo vessels to enter the Savannah Port and is expected to spur greater economic growth for our region.

Earlier this month, we reconvened our economic roundtable group, which consists of selected economists and representatives of several large and commercial and industrial customers in our territories. Overall, the consensus from the roundtable was for U.S. gross domestic product to expand by about 2% in 2012. The group generally agreed that the global economy is slowing and that this is slowing the expansion of industrial production. Low natural gas prices are offsetting this trend, and we continue to see signs of onshoring activity due to a shrinking cost advantage for Far East markets when compared to the U.S.

The group has seen indications of improvements in the housing sector, but believes that continued recovery will remain slow. Finally, the group expressed confidence in the ability of the Southeast to grow faster than the U.S. as the economy improves due to faster population growth, a strong industrial base and a continuing trend of foreign investment into the region.

Before I discuss our 2012 earnings guidance and estimate for the third quarter, I would like to provide an update to our environmental compliance capital forecast along with our revised financing plan. As Tom indicated earlier, the final utility MATS rule provides [indiscernible] compliance flexibility than the original proposal. While we still have a few decisions to make on certain coal units, we have completed most of our analysis and have revised our 3-year compliance capital forecast to reflect our updated expectations. This forecast is subject to change if the current challenges to the rule result in revisions to the standard.

As you'll recall, we previously provided a MATS compliance capital projection of up to $2.7 billion for the 2012 through 2014 time frame. We also indicated that this amount could be reduced by $500 million to $1 billion, depending primarily on the number of baghouses in our final compliance strategy, bringing the final number to between $1.7 billion and $2.2 billion.

Based on our current analysis, our projection for MATS compliance for 2012 through 2014 now totals $1.8 billion, representing a reduction of $900 million from our previous estimates. While the number of baghouses has been reduced to 4 or 5 from a high of as many as 17, other costs have been added to our plan to reflect the need for additive injection systems and related plant modifications. As before, this plan also includes significant investment in transmission projects as well as fuel switching to natural gas.

Additionally, as part of our review, we have revised our other compliance capital needs to include current estimates for coal combustion residuals, effluent guidelines and 316(b) requirements. While this portion of our forecast includes a reduction of approximately $1 billion over the 3-year period, this primarily reflects a change in the timing for coal ash compliance spending. We expect to spend this money eventually, but that money might not -- might now occur outside the 2012 through 2014 time frame. Our strategy now calls for approximately 13,000 megawatts of coal-fired generation to be preserved for the long term. Of the remaining 7,000 megawatts, about 4,000 megawatts remain potential candidates for retirement. Most of the remaining units will utilize alternative fuels, primarily natural gas, to provide needed capacity.

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As a result of this CapEx update, we have updated our debt and equity financing plans. This slide shows our 2012 year-to-date financing activity, as well as our current forecast for the remainder of 2012 through 2014. Based on revised CapEx projections, our updated financing forecast no longer reflects the need to issue equity in 2012 or 2013. As a result, we plan to use the proceeds from stock option exercises for 2012 and 2013 to buy back the incremental shares issued. This will keep net proceeds from equity at 0 for the 2-year period.

We continue to have success in the debt markets. Thus far this year, we have issued $2.5 billion of long-term securities with an average yield of 3.68% and an average maturity of 23 years. Our equity ratio target of approximately 44% is unchanged. By 2014, we see the need for approximately $700 million of new equity as our environmental spending ramps up. We currently anticipate the ability to fulfill this equity need through our existing dividend reinvestment and employee plans.

Now I'd like to share our earnings estimate for the third quarter of 2012. Our earnings estimate for the third quarter of 2012 is $1.12 per share, and our guidance range for the full year remains $2.58 to $2.70 per share.

Now, I'd like to hand it back over to Tom for his closing comments.

Thomas A. Fanning
Chairman, President & CEO

Thanks, Art. In closing, I would like to extend a heartfelt thanks to our many employees who responded recently when devastating storms struck our neighbors in Florida and also in the Midwest and the mid-Atlantic regions. Even though our own service territories experienced damage from these same storms, we managed to dispatch nearly 1,800 workers to assist 10 utilities in the most severely affected areas. It's always awe inspiring to witness the pride and dedication exhibited by these crews, whether they're working in their own backyard or in some other parts of the country. That pride and dedication is the backbone of our business and expresses itself and the value we provide to customers year in and year out. At this point, we're ready to take questions. So, operator, we'll now take the first question.

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Question and Answer

Operator

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

Daniel L. Eggers
Crédit Suisse AG, Research Division

First off, I guess in Mississippi with Ratcliffe, can you just walk us through kind of expectations of when you get a court decision. And if it goes your way and the commission feels like it's all cleared, how is the resolution going to get -- put back in place for cash recovery on financing costs?

Thomas A. Fanning
Chairman, President & CEO

Dan, it's not clear. There is a procedure within the state, such that if the Supreme Court does not rule by 30 days, we get 1/2 of the rates under bond put into effect. And if they don't rule by 180 days, we get the full asking put into effect. But as to when the Supreme Court will rule, it's just not clear. We hope it is quick.

Daniel L. Eggers
Crédit Suisse AG, Research Division

Okay. And then on the environmental CapEx changes, I guess baghouses accounted for a piece of it, but for the other compliance issues, is this just kind of the delay on 316(b) and that sort of stuff is just pushing out the CapEx? Do you think that those underlying capital expenditure numbers are still the right cost base for what you know today?

Thomas A. Fanning
Chairman, President & CEO

You got it exactly. We think this is just movement in time rather than a change in magnitude.

Daniel L. Eggers
Crédit Suisse AG, Research Division

Okay. And then the comment on maybe firing some of these coal plants of gas, can you just walk through how that works, the ability of the plants to run that way. And do they functionally distributed sort of like a peaking asset for super peak moments, or are these assets going to run more regularly?

Thomas A. Fanning
Chairman, President & CEO

No, you got it. Essentially, you change the fuel feed system, so you're going to change a cold feed into a gas feed. Burner tips obviously change, so the production modifications are not that significant. So capital costs associated with changing is not that big. You are, however, going to be using gas in a relatively inefficient manner, but recall, we're doing this in order to accommodate EPA's own kind of onerous schedule requirements. We think that in general, the heat rates of these units will be in the 10,000 to 11,000 range and will serve essentially as heat made as a peaking capacity.

Daniel L. Eggers
Crédit Suisse AG, Research Division

Tom, do those serve as a permanent solution or is it just an interim kind of fix to make sure you maintain reliability with the need to replace those with a CCGT or some sort of base load resource later?

Thomas A. Fanning
Chairman, President & CEO

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Yes, look, over time, we'll transition these units out, so it's hard to say kind of when that will occur. When you look at kind of our expansion plan on generation right now with Vogtle 3 and 4, with Kemper County, with bringing the Miller units, recall we did that last year, back from wholesale into retail in Alabama, with the McDonough units at Georgia, and then I guess another third-party capacity purchases that Georgia PSC has undertaken this year, I guess that's about 1,000 megawatts, when you add all those together, that really speaks pretty well to our capacity needs, including these MATS transition issues through 2020. So you're really asking a question post 2020, we'll see.

Operator

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

Steven Isaac Fleishman
BofA Merrill Lynch, Research Division

Just a clarification on the Mississippi filing. So what legal provision allows you to implement the rates if you don't hear from them? Is that under some kind of provision of the Mississippi, just general law or specific to this project?

Thomas A. Fanning
Chairman, President & CEO

It's a state statute. It's state statute #77372. And the other thing that I just wanted to make sure everybody understands, when all this happened, 2 of the commissioners there, Leonard Bentz and Lynn Posey, came out with their own press releases. Let me just quote these guys. Bentz said, "It is imperative to understand that I believe that the IGCC Plant is the best option for the customers of Mississippi Power." He goes on to say some other things. And then Posey says, "I am still in support of the Kemper County plant and believe CWIP will ultimately save the ratepayer millions of dollars." The issue really arose with their reluctance to put CWIP in place while the other challenges in the state Supreme Court continued.

Steven Isaac Fleishman
BofA Merrill Lynch, Research Division

Okay, and we don't know when the other challenges will be ruled on, that could be whenever?

Thomas A. Fanning
Chairman, President & CEO

You're right. We don't know.

Steven Isaac Fleishman
BofA Merrill Lynch, Research Division

Okay. And then just I'm curious on the coal to gas switching, did it change much even just first quarter to second quarter, though, or has it been pretty consistent this year?

Thomas A. Fanning
Chairman, President & CEO

If you look at the appendix, we have some stuff in there -- in the appendix, we show kind of how it is changing. And I would argue that kind of as time goes by, it's fascinating. So for the first half, we're kind of 45% gas and 38% coal. Recall, we kind of projected for the year kind of a 47-35 relationship. So for the year-to-date '12, we're pretty well there. Now what's interesting is, during the third quarter, you should expect the ratio to kind of flip back a little bit more centric on coal. That's because we still have a lot of kilowatt hours. And I was just looking at kind of late-breaking data, we may set a new peak today. We're going to come very close for a yearly peak today. So these are things that we're keeping our eye on. And as total demand increases as a percentage just because the capacity is there, we'll burn a little more coal. But we'll keep our eye on it. We still feel confident with the 47-35 relationship with gas to coal for the year.

Steven Isaac Fleishman
BofA Merrill Lynch, Research Division

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Okay. And then one clarification on Vogtle 3 and 4, it sounds like the resolution of the $400 million of claims will also be, whenever that happens, is also a likely time frame to update any -- to do any overall cost updates, as well as timeline updates for the project. Is that the fair way to look at it or could they've all come at different times?

Thomas A. Fanning
Chairman, President & CEO

I would argue that is the dominant theme of any change. I mean, recall that, that commercial issue really arose kind of with the delay originally of the DCD, which kind of was 11 months long; and then ultimately, the delay of the COL as a result, which was, I forget, 7 months long. And so their claim kind of centers on that circumstance. And recall also that the construction period uses, as a trigger point, the DCD and the COL, so that kind of starts the clock on the contracts. So that really is the kind of commercial issue on discussion, who's responsible for the DCD delay and also, therefore, the COL delay. So my sense is, Steve, there really hasn't been anything material since then. We talked about rebar last time, and just to remind everybody, we did that intentionally to say that we will always have issues and we shouldn't measure success or failure based on the presence of issues and challenges, rather how well we find success paths to solve those challenges. Well, in fact, I think we've got one on rebar, and we don't believe that the rebar issue will be at all any kind of material effect on cost or schedule. We'll file a license amendment request, and we'll get that done expeditiously. So it's just one of those issues where we're going to work through it and continue to derive constructive results. So I would say now, going back to your original question, it probably will coincide with the resolution of the commercial claim with us in the consortium.

Operator

Your next question will come from the line of Jim von Riesemann from UBS.

James Darrell von Riesemann
UBS Investment Bank, Research Division

The question I have is on a totally different topic. Can you talk a little bit about some of the industrial cogen that might be going on in the system and if it really means a longer term trend over there -- that we're going to see given the natural gas deck?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, Jim, this is Art. Obviously, in the paper segment, you're going to see more of that than anywhere else. They're beginning to use a little more natural gas in that self-generation. It's an economic decision for them. In terms of size of that, I don't have any. I can get back to you with some of that, but I don't have any data at hand to talk about megawatts and how many are being impacted. But that's a normal operation that we would expect with companies like that.

James Darrell von Riesemann
UBS Investment Bank, Research Division

Okay, so in terms of like industrial growth going forward, we shouldn't expect to see a material change. Is that what you're saying at the end of the day?

Thomas A. Fanning
Chairman, President & CEO

No, I wouldn't think so. Look, I think our industrial growth is still pretty robust. We want to go through this math. If you adjusted for cogeneration and kind of the major plants that we knew were on sort of maintenance outages -- in fact, we've gotten some intelligence that one of the maintenance outages is going to result in greater consumption once they come out, they're actually expanding. We think industrial sales quarter-over-quarter, year-over-year would have been a little less than 1%.

James Darrell von Riesemann
UBS Investment Bank, Research Division

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Okay. Switching to just usage and everything else, what do you see in terms of residential usage with some of the pickup in customers? It looks like it was up in the quarter.

Thomas A. Fanning
Chairman, President & CEO

Yes, yes. So if you look at weather-normal residential sales, you were 2.1%. And if we had to break that out between kind of increasing customers and then usage, you would get to a usage increase of about 1.6%. But you got to be careful in how you view that because we've been adding new customers, and especially, it seems like we're gaining momentum there a little bit. When you think about usage, let's think about kind of a couple of things. One, unemployment is coming down, jobs are showing up, and as a result of people getting more jobs, personal incomes rise and so you see a normal cause-and-effect relationship with usage. More money begets more consumption. Another issue that is important really goes to when the new customers arise and how we keep score here. Whenever you look inside a quarter, you've always got to kind of be careful as to the longer term implication to the annual trend or the sustaining trend. Say, for example, we get a new customer in March, so they come at the very end of the first quarter. It will show up as a new customer, but very little increase in usage because they've just joined us. In the second quarter, you won't see the new customer, you will see the new usage, and therefore, there's probably an effect tied up in that 1.5% or 1.6% increase in usage. It really is kind of the catch-up effect as we add new customers. So look, there's a variety of effects here. We're gratified with the trend. We think the increase in customers is something that will provide sustainable benefits down the road to our growth projections. And even as Art mentioned with his economic roundtable, if they expect 2%, and that's interesting in terms of GDP growth for the Southeast, we're still staying with our about 1.3% electricity sales growth for the year.

James Darrell von Riesemann
UBS Investment Bank, Research Division

Okay. The follow-up question is a different topic, but on the highway bill, in the recent act, is there any impact on you guys with your funding contribution or potential funding contribution requirements going forward?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Dan, we're still looking at that.

Thomas A. Fanning
Chairman, President & CEO

We think it's beyond 2015, is kind of what we're guessing right now.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

So nothing in the short term.

Operator

Your next question will come from the line of Anthony Crowdell with Jefferies.

Anthony Christopher Crowdell
Jefferies LLC, Research Division

I'm kind of following up on Steve and Dan's question on Ratcliffe. And I understand, I guess, in 30 days, Mississippi Power can institute or recover 50% of, I guess, the CWIP. Is that accurate and is that your plan if no decision comes out of the Supreme Court?

Thomas A. Fanning
Chairman, President & CEO

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Sure. Yes, that's what the statute provides.

Anthony Christopher Crowdell
Jefferies LLC, Research Division

And will you guys introduce the interim rates?

Thomas A. Fanning
Chairman, President & CEO

Yes.

Anthony Christopher Crowdell
Jefferies LLC, Research Division

Do you know when the 30 days is or roughly?

Thomas A. Fanning
Chairman, President & CEO

Let me make sure I get the right date. It's around August 8.

Operator

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

Jonathan P. Arnold
Deutsche Bank AG, Research Division

Tom, I just -- I think you've probably answered half of my question on customers and usage, but I want -- you also made a comment that you felt you're picking up momentum and you have this 20,000 customers in the first half. But you have 15,000 in the first quarter, and so that would sort of suggest that the -- yes, the sales showed up in Q2 rather than Q1, but the pace of additions dropped off pretty sharp in Q2.

Thomas A. Fanning
Chairman, President & CEO

Well, that amount that you're referring to was the positive income impact. And recall also that sometimes the addition and subtraction -- the ebb and flow of customers is seasonal. So we think there's still reason to believe that we have good growth ahead of us here.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

So that normal seasonality, you'd see more hours in Q1 than Q2, if you look back to when you were adding, I guess, in the past?

Thomas A. Fanning
Chairman, President & CEO

Yes, but we still believe there's some ahead of it as well.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

Okay. And then -- and could I just follow-up also on the rebar issue. I remember before, you were kind of talking about the fact not having to make a license amendment request, which is kind of the right path forward, but now you are going to have to do that, or it sounds like you're going to have to do that, but you still think it can be done expeditiously. Can you talk a bit more about -- why that won't impact the schedule, how long you think it's going to take and what you can do in the meantime -- can you keep working in the meantime? How we sort of get into the details of that statement?

Thomas A. Fanning

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Chairman, President & CEO

Yes, I'd be glad to provide you information. I remember at our recent Vogtle executive oversight meeting, Buzz Miller shows us essentially a schematic of work that continues in the nuclear island, even besides, the fact that we're working on a rebar. Now let's kind of go through the blow by blow a little bit as to what happened there. So in an inspection, we found that the configuration of the rebar along a particular wall was not per the DCD. We stopped work, we tried to figure out, along with the NRC, what the right path was. Recall, too, this is a new procedure that we're borrowing with. In the old days, you build a plant and then you had the NRC basically certify it. And now we have a design certified and we've got to build to the design. So this is a little bit of a new process for everybody to come along with. We thought that we had -- that really, Westinghouse Shaw had a design that was not going to require a license amendment. We're the licensee here, and one of the things we did was to send a letter to the NRC to basically seek clarity. You know that we have a conservative [indiscernible] towards these things, probably didn't need to do it, but we sought their oversight here to make sure that the changes that were being proposed met the NRC requirements. And so what we got back from the NRC was actually helpful, that is, that the NRC responded, in fact, we probably should pursue a LAR, a PAR, a license amendment request, preliminary amendment request. So we know now that we're building to the license and the path forward is as we've suggested. My sense is that with all the other work going on, this rebar issue is not critical path, and we do not believe this endorse to our cost responsibility in completing the plant.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

So in terms of any sense of how long it might take to -- how long is that the case?

Thomas A. Fanning
Chairman, President & CEO

I'm a little reluctant to do that, but what's in my mind is a number of weeks, like 3 weeks, something like that. But that's all dependent upon how you get the license amendment request turned around. We hopefully will complete all the rebar by the fall of '12, but the weeks I'm talking about is the amendment request from the NRC. But we think that'll be turned around expeditiously.

Jonathan P. Arnold
Deutsche Bank AG, Research Division

Depending that, we should think -- look for that to be turned around in less than a month kind of thing?

Thomas A. Fanning
Chairman, President & CEO

Well, yes, that's my estimate now. [indiscernible], but that will be my best judgment as I sit here.

Operator

Your next question will come from the line of Greg Gordon with ISI Group.

Gregory Harmon Gordon
ISI Group Inc., Research Division

A very, very, very brief question. We, I guess, had not assumed that your compliance forecast would ultimately come in near the high end, so I think net of this $1.945 billion reduction, is it fair to say when we, because I'm not in front of all the data, that this takes you to your budget just down to the $16.3 billion that's closer to the midpoint of what you had laid out when you gave that big analyst presentation a year or 2 ago?

Thomas A. Fanning
Chairman, President & CEO

So it's -- so at least in terms of kind of what we said before with respect to MATS, we said $2.7 billion. And then we -- as we got kind of the new rule, not the proposed rule, we said it could be between $0.5

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billion or $1 billion less, and therefore, we said $1.7 billion to $2.2 billion. Well, sure enough, it ended up at $1.8 billion. When you think about the total amount of CapEx, it was $18.2 billion or $18.3 billion, and now we kind of think it's going to be $16.4 billion, $16.3 billion, somewhere in that realm.

Gregory Harmon Gordon
ISI Group Inc., Research Division

Certainly -- probably, it takes some of the pressure off on the financing side, which is [indiscernible].

Thomas A. Fanning
Chairman, President & CEO

Well -- and in fact, that's why Art was very clear about the lack of equity needs over the next 2 years.

Gregory Harmon Gordon
ISI Group Inc., Research Division

Right. And you feel like relative to the long-term earnings growth aspiration of the corporation this keeps you inside the skids on that?

Thomas A. Fanning
Chairman, President & CEO

Yes.

Operator

Your next question will come from the line of Mark Barnett with MorningStar.

Mark Barnett
Morningstar Inc., Research Division

Just a couple of quick questions. I know you had already given some good detail on these splits. When you're looking at the 20k number of customers for the year, just a little granularity, if possible, on new connections and newbuild versus maybe some reconnections and kind of what's driving that in the mix.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, we've done a little more research on that, and it appears that we've got a good mix of maybe some homes that have been foreclosed that had meters removed from the premises that have now been reinstalled and sold. The inventory of unsold homes is down in Atlanta, and that's a reflection, we think, of that fact. That is also supported by the fact that most of the 20,000 customers, 60% of them are in Georgia, about 25% in Alabama and the remainder would be in Gulf and Mississippi. So it's not just one state, it's across the system that we're seeing this increase in customers.

Thomas A. Fanning
Chairman, President & CEO

A little more color, too. One of the effects you have to consider are the tornadoes that impacted Alabama. And we think the people stayed in the region, so what you see is kind of this interesting migration of people that may have been living with relatives or in temporary residences now moving either into multifamily homes or moving into primary residence looking homes. And another just data point that underlines what Art just told you, unsold housing inventory now is about 2.8% relative to kind of a normal level of about 2.3%. You may recall during the depths of the recession, we were in the 4s, so we're really making good progress on eating up that excess inventory.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

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And, Mark, I guess one other element of that is we saw some multifamily additions as well, so it's not just new homes, it's some new apartments. And we're just surmising that folks that we're doubling up before are now creating new households and that's begun to take shape.

Thomas A. Fanning
Chairman, President & CEO

And in fact, I hear you've credited the Fed, I joined the board of the Atlanta Federal Reserve Bank, the multifamily housing sector is one of the fastest growing sectors in housing in the Southeast.

Mark Barnett
Morningstar Inc., Research Division

Great. And quickly on kind of the roundtable discussions that you've had and obviously some really positive news there, I guess just going forward from a big picture, how do you sort of view the, like, a strengthening dollar, the prospect for a strengthening dollar on the region's export economy, mixed bag between final assembly and maybe more domestic supply chain? I mean, how do you see that developing?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

That's a good question, but it's not one that we discussed at the meeting. It didn't come up amongst the economists or the chemical folks who would probably be exporting a lot of their goods with this low natural gas price. They were more concerned with global demand and where that was going. Especially in China and South America were more of their concerns. But obviously, the dollar is a factor that they will have to keep up with. And about 25% of the goods in the Southeast are, we think, are going toward -- the value of that is going to exports. So it will impact the Southeast.

Thomas A. Fanning
Chairman, President & CEO

And it's fascinating stuff. I mean, the value of our exporting has gone up 8% year-over-year, so that continues to be an interesting area. But I would say most of these businesses are adjusting off of because they will also talk about their fear of the continued malaise in Europe. And even though China has a 7% GDP growth, it's reduced from what everybody thought it was going to be. My sense is businesses in the Southeast are adjusting on the fly. We still benefit from the fact that even with potentially a stronger dollar -- but recall, we have our own challenges. We've got our own cliffs at the end of the year. We have our own fiscal challenges. It is not clear that we are inevitably heading towards a stronger dollar, perhaps we will against the euro, unclear about other worldwide currencies. I guess, people are watching this like they never have before and they are responding accordingly. At least we can stay in the Southeast, as we have in the past, but we have the prospects for a more robust economy given a business-friendly climate, willing and able workforce, et cetera. So we'll see.

Operator

Our next question will come from the line of Ali Agha with SunTrust.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

A couple of quick questions. One, Tom, going into the quarter, you guys had guided us to like a $0.65 number for the quarter. Weather obviously came out relatively normal. So what was the real driver in your mind that caused you to do $0.04 better than what you guys thought going in?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, Ali, it's -- if you look at the revenue effects in 3 of the 4 operating companies, those certainly offset the weather that we had compared to last year. Nonfuel O&M was a piece of that as well as we were able to -- even on a year-over-year basis, O&M were up, but on our expected basis, we reduced a good bit of

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that. I think on a year-to-date basis, we're some $100 million below our original expectation there, so we've done quite a lot to drive those numbers.

Thomas A. Fanning
Chairman, President & CEO

And I would like to -- as I said, Art and I obsessively compare for this call and everything else, we would like to look for kind of interesting relationships of data. And one of the things that we were just looking at, kind of that's true for the quarter, true for the year-to-date, it looks like 2011 year-to-date and for the quarter had much more favorable weather from an earnings standpoint than did 2012. And it completely masks kind of the increase so far we've seen from customers, usage and the revenue increases that we've seen through regulatory processes. So if you just look at it, year-to-date, we've increased on a cents per share basis $0.13 out of customers' usage and other revenues. Weather was negative $0.14. My sense is, as we go through the rest of the year, if weather is nearly the same as last year, you'll start to see the power of the earnings capability through the regulatory mechanisms and improvements in customers and usage come to bear.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Tom, second question, one of the interesting anecdotes that came out on the ongoing Duke hearings out of North Carolina was the sudden Progress discussions that apparently had gone pretty far along before not getting completed. So just curious, if would remind us what your thinking is on the M&A side and what works, didn't work, or I mean, how are you looking at the toleration in the industry today?

Thomas A. Fanning
Chairman, President & CEO

Yes, I always laugh about this because we're just remarkably consistent here, and you guys could probably get the same speech I'm going to give, but I'm going to give it anyway. Our view is it is part of our fiduciary responsibility to always seek ways to accrete to shareholder value. We think about M&A as a how, not a what. The "what" would be that we like our integrated regulated business model even in the competitive generation business, we structure it with long-term bilateral contracts of creditworthy counterparties not taking fuel risks in order to essentially replicate the model that we like that avails our customers, our shareholders with essentially -- our customers with reliable electricity at low prices and the best service possible, and our shareholders with reasonable returns with the lowest risk profile as possible. That serves us, we think, awfully well. During Franklin's tenure, even when I was head of strategy, we coined the phrase, "The business we know, with the place we know, with the customers we know." We really do like and believe in our model and think it serves our customers and shareholders exceedingly well. Now we always do look to seek ways to improve it, and that is an ongoing responsibility of management and we continue to do that. But I would just remind everybody, when you look at our track record over almost any time frame, our stand-alone proposition is awfully strong, so we're always looking for ways to improve upon an already strong value proposition.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Okay. So fair to say price was one of the key issue that gets in that specific discussion?

Thomas A. Fanning
Chairman, President & CEO

Well, obviously, I think having given you the generality, we won't comment on any specific situation.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Fair enough. Last question, if I could, Art, perhaps to you, given the reduced CapEx numbers that you're talking about now, what kind of rate base annual growth should we be thinking about for Southern?

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Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Ali, I believe the number that we're looking at is going to run at 6% to 7%. Remember, that's adjusted in the short run. Those projects wouldn't come online until '14, '15, so -- and recall that rate-based growth is lumpy, so you're going to see it occur in spurts rather than evenly over time.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

6% to 7% annually?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes.

Operator

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

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Two questions for you, Vogtle and Ratcliffe related, I'm going to -- going back to that slide you talked about, Tom, where you showed the variable cost on a per-megawatt-hour basis, do you mind giving that same information but all in, so including both variable and fixed?

Thomas A. Fanning
Chairman, President & CEO

Say that again?

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Well, just -- I'm trying to think about the total -- customers have to pay for the return on and return of capital, so it's not just a variable cost economic analysis. What would be the all-in dollar per megawatt hour or cents per kilowatt KWH numbers for Ratcliffe and for Vogtle relative to like a new combined cycle?

Thomas A. Fanning
Chairman, President & CEO

I don't have that in front of me. You guys may be able to deliver. But it's -- the numbers I have in my head would be on a dollar per KW basis. You're going to look at a new plant like 4,500. Kemper was like 4,200, but I think that's a $14 billion number for the nuke and a $2.4 billion number. So it's going to be slightly higher than that. We went through this math last night. We will be able to get it to you later. That is kind of the number that -- what I've always said is it's a sad thing about Kemper, it's a coal plant that has an environmental profile better than natural gas and has an economic profile roughly equivalent to a nuclear plant, and I think that's what that slide shows you. That's how it will dispatch.

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

Okay. You also, in one of the slides on Vogtle, you referenced some comments from the independent monitor, but if I go back and look at Bill Jacobs' testimony filed in late May, he makes some interesting comments about his concern that there's not -- I think he calls them integrated project schedule that's been published lately or has been disclosed in the public domain lately. He references a number of potential change orders above and beyond the rebar issue that could impact the timeline. These items are redacted in pages 16 and 17 of that testimony. Just kind of curious, at what stage do you have to go back to the commission and say, "Hey, look, here's what the new schedule is, here's where we'll take

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it forward?" Or is that really not mandated on you by the commission until you actually get everything resolved?

Thomas A. Fanning
Chairman, President & CEO

So, Michael, the way you ought to think about our relationship with the independent monitor and the staff and even the commission, it is continuous and not discrete. We have an exceedingly transparent process as we go through this effort together. So that's point one. Point two really goes back to Fleishman's question. When you think about kind of the major factors that could impact cost and schedule, I guess we have arrived all the time kind of commercial issues that we deal with and have settled and continue to deal with. It's just this one, this $800 million claim by the consortium against all of the owners, that's kind of gotten the most interest by people. Now obviously, we've already disclosed that we dispute the claim and all that. But I would argue that as we settle the commercial difference that we have with the consortium, if there is a change in the cost or schedule, it would likely be in association with that settlement.

Operator

Your next question will come from the line of John Alli [ph] with Decade Capital.

Unknown Analyst

Quick question, I think I might have missed this a little earlier in relation to Greg Gordon's question about growth CAGR, still intact? Could you just remind us what it is and what the base is?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, the base is our current range of guidance for this year of $2.58 to $2.70. Grow the top end of that by 7, grow the bottom of that by 4. And that, over the next 3 years, would describe the growth in earnings range that we see as possible within the model. With the change in CapEx, remember that, that would probably only affect some AFUDC during the 3-year time frame, so we still see it as possible with a strong economy, with supportive weather. And with Southern Power having the opportunity to do more as well, we still see that range as being reflective of possibilities for earnings growth.

Thomas A. Fanning
Chairman, President & CEO

If I'll just add to that, the change in CapEx through this 3-year period, you almost can't see the difference. It's -- over time, you'll start to see more, but in the near term, it -- the ones don't hardly matter. And remember, we're not going to be issuing -- we'll be issuing less equity as we have less CapEx, so that kind of offset some of the effects. We're very comfortable with the range.

Unknown Analyst

Got it. And then just the load embedded in those ranges?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Talk about growth in sales?

Unknown Analyst

Yes.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, that remains unchanged. That was the original forecast we put together. And we update that. We'll update you in January of next year, about 2013.

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Thomas A. Fanning
Chairman, President & CEO

And we're still good with our 1 3 estimate this year.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Right.

Unknown Analyst

Okay, excellent. Just on the Kemper County issue, the NPSC, they then filed, is it a brief, asking the Supreme Court to rule faster? Or what was the, I guess, their last filing in that case?

Thomas A. Fanning
Chairman, President & CEO

The Public Service Commission basically argued against the base -- I mean, the rates under bond just to reject the interim issue. All they're doing -- and it was very brief, there wasn't any kind of associated testimony or underlying facts or whatever. It was really just kind of restating the conclusion that they reached when they decided to defer the inclusion of CWIP rates until the state Supreme Court issue related to certification was settled. It was just that they didn't feel like they should put in CWIP until the issue with the Supreme Court was resolved.

Unknown Analyst

Got it. Does that create any -- I guess, if you guys continue along the path and the, say, the Supreme Court doesn't rule for, call it, 220 days or something you guys are already collecting, does that create any issues for the NPSC? I mean, they're supportive of the plant anyway, but why would they -- or I guess why would they oppose to the automatic collection?

Thomas A. Fanning
Chairman, President & CEO

I can't speak as to what was in their minds. We were surprised by this vote because if you think about it, when the plan was originally certified in the new order, it all contemplated having CWIP. The legislation that was passed in Mississippi contemplated CWIP. We think CWIP is warranted for a project of this magnitude.

Operator

The next question will come from the line of Paul Patterson with Glenrock Associates.

Paul Patterson
Glenrock Associates LLC

I kind of want to follow up on that last question by John and your answer there. I mean, do you think that they're concerned about what the ultimate decision will be in the Supreme Court? Or because, I mean, like you said, it was a little bit of a surprise and, I mean, it would suggest, I don't know, again -- me without -- not knowing all the legal intricacies that maybe there's some issue there, or is there? What -- can you elaborate a little bit on that?

Thomas A. Fanning
Chairman, President & CEO

Well, okay, so this is my opinion. I don't believe there's an issue there at all. I think when you look back at the testimony, when we decided to go forward with this plant, a lot of what Mississippi was concerned with was fuel diversity. If they had not built this plant, they would have been relying much more on natural gas. And we all know that, that is a higher beta energy policy, if you will. We've already seen some volatility in natural gas prices. Even though they're historically low, they're now creeping to about $3 per million BTU. And it's interesting there, since I've been out there in the weekend interview on The Wall

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Street Journal and some of the other speeches I've been giving lately, I think more and more people are realizing that while it's a wonderful circumstance we find ourselves in to have cheap natural gas, it's not hard to come up with data. I would argue that -- and if you want me to, I'll go through this, but I'll save it if you don't. It's not hard to say that you could go from an average daily consumption of natural gas in the United States from, say, a 67 million Bcf -- I mean, 67 Bcf per day to something well over 100. It's not far a put to get there.

Paul Patterson
Glenrock Associates LLC

Well, I think -- no, I don't want you to get into a lot of details. Just was -- I mean, I hear what you're saying. I just -- it just is sort of a little bit of a surprise, I guess...

Thomas A. Fanning
Chairman, President & CEO

Well, it was a surprise to us.

Paul Patterson
Glenrock Associates LLC

Right. Okay. And then just finally, the DOE loan guarantees, I mean, so what is the hang-up there? And I know you guys feel that you can finance it either way, and I just -- it seems like it's going on a long time now and I just was wondering if there's any sort of -- if you can give us sort of just a feeling as to what the specific issue is? And would it make an impact, I guess -- the financing numbers that you guys have, I assume, I guess, you don't have the loan guarantees in there, correct?

Thomas A. Fanning
Chairman, President & CEO

Correct.

Paul Patterson
Glenrock Associates LLC

Right. So any deal you'd come up with would be even a lower deal for customers, I would assume. So could you just sort of give us a little bit of a flavor for what's going on there?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, Paul, this is Art. As Tom kind of explained in the script, ever since Solyndra occurred, the DOE has gotten much more deliberate in its negotiations around terms and conditions of these loans. The conditional agreement that we had with them was around a corporate finance perspective, and where they are going is more towards a project finance-oriented terms and conditions. And some of the requirements that they have outlined for us are things that may increase cost to customers. And we're simply saying that at -- the bottom line for us here will be value to customers. We're not going to do anything to jeopardize the value of those elements that we represent. So that's kind of the bottom line that we'll use to measure as to whether or not we pursue these to final resolution or whether we bypass them and just go the credit markets for the capital.

Thomas A. Fanning
Chairman, President & CEO

And let me just add my own color here too. And Art said deliberate. I would add, it's not just deliberate in terms of slow and pedantic in style, it is new, and that really goes to these notions of project finance on a corporate finance deal that doesn't make sense and unnecessarily burdens our financial integrity and financial flexibility. We are making good progress. We are working through, and we're very hopeful that we can get all this done, but time will tell.

Paul Patterson

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Glenrock Associates LLC

Okay. And then on the tax, the income tax, I noticed that, that's been going well for the last couple of quarters here. Is there anything in particular that's causing it to be -- is that kind of unusual? Or do you think that, that's pretty much the run rate we should be expecting here at34% rate? And just the $0.01 at parent, other than the nonmarket benefit of parent is a guess what I'm talking about, what was that?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

I'm sorry, Paul. Your question on taxes was around the $0.02 in the second quarter?

Paul Patterson
Glenrock Associates LLC

The $0.02 in the second quarter, right, just -- and just -- it looks like it's been good the last couple of quarters, so just -- is that just the sort of the run rate we're thinking about here or there's -- were there any sort of special sort of settlement gig or there's something that [indiscernible]...

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

There were some ongoing normal routine kind of adjustments through some reserves, but these are normal recurring kind of things. Sometimes they move positive, sometimes they move negative. Our effective tax rate was 34%, so it's pretty stable as well in the second quarter.

Paul Patterson
Glenrock Associates LLC

Okay. And then just the parent benefit at $0.01?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

That was lower financing cost at the parent year-over-year.

Operator

Next question will come from the line of Andy Levi with Avon Capital.

Andrew Levi

Just a quick question, and I guess you've kind of touched on it as far as your long-term growth rate in the 5% to 7% range, but I guess kind of just playing with some numbers, changing some of the CapEx numbers and then obviously just understand -- on the common stock, so you're not going to issue any next year, right, and in fact, I guess you'll be buying back stock for your various plants, right, in the open market, is that correct?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

That's correct.

Andrew Levi

Right, so you'll basically have flat shares next year. And I guess this $872 million number you had on the second quarter, that'll probably be pretty close to what you have for the year this year, and then I guess you start issuing stock again in 2014. But kind of looking at that and looking at also what you've done as far as your financing plan on the debt side, would it be fair to say -- now, I don't want to put words in your mouth, but just kind of the numbers I'm looking at that you'd probably be closer to the 6% to 7% earnings growth rate, everything else equal, versus being down to the 5% range, is that kind of fair?

Arthur P. Beattie

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Former Executive VP & Chief Risk Officer

Well, Andy, there's lots of moving parts in there. As I mentioned earlier, it's going to take weather, it's going to take a strong economy, it's going to depend on the O&M flexibility we have within those same time frames. So yes, it's difficult to isolate one variable and make a -- and give you an answer on that.

Operator

Your next question will come from the line of Ashar Khan from Visium.

Ashar Khan

Can I just ask the third quarter guidance, what are the things that kind of, like, help in the third quarter versus last year, positives and negatives?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, Ashar, hold on a sec, I got something here to help me. We look at the revenue effects that you saw through the second quarter, those will continue into the third quarter at -- that's at Georgia, Alabama and Gulf. You should have some additional help from Southern Power as they picked up some new contracts this year around Nacogdoches and with Cleveland County. And they should be additive in the second half of the year. We continue to have O&M initiatives, which we think may add as well. And I think growth may be an add or dependent upon how our commercial and residential numbers look in the third and fourth quarter.

Ashar Khan

Okay. And then can I just ask, as you stand at the midpoint of the year, based on what you have earned, it seems like -- is the midpoint the better point where you can end up for the year as we are still trailing on an LTM basis? Or is there still a chance that you can end up at the higher end, upper end of the guidance?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, you could still end up there. There's lots of moving parts...

Thomas A. Fanning
Chairman, President & CEO

What we always do is we'll update you at end of the third quarter. You know the third quarter is so important to our earnings profile. And so far, we have reasonable weather in July. The one thing I would just point you to is that kind of interesting data profile I gave you for the first 6 months, and that is when you look at customers and usage and also the revenue changes we've had in some of our jurisdictions, that was up $0.13 in the first 6 months. Now year-over-year comparisons, we were down $0.14. So, so far, for the first 6 months, the adverse comparisons on weather have basically wiped away the other positive earnings profiles that we've been able to show. So far, if you look at the last 6 months of the year, if weather is the same -- and actually we had a mild fourth quarter in 2011, but if weather is the same for the next 6 months and you'll see the power of these new earnings profiles, new customers usage, et cetera, come to bear. So obviously, we'll update this later, but I think that's kind of interesting profiles, including what Art told you.

Operator

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

Dan Jenkins

I had a couple of questions, first related to your update to the financing plan and first focusing on 2012, that's up quite a bit from what you issued earlier. And I was curious how much of that is just, let's say, additional refinancing or callable debt that you did versus new net issuance versus the original plan.

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Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Let's see here.

Dan Jenkins

You originally had, like, 35.50 for 2012 and that's 42.59 now. So...

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

So let's see. We're at about $300 million ahead, so I would estimate that $300 million is probably some refinancing opportunities that we took advantage of.

Dan Jenkins

So you haven't increased your net debt issuance plan for 2012, it's all just out?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

We still have a number of other issues that are candidates, possible candidates, potential candidates, for refunding. But what we've outlined to you is either maturities or new money needed to finance the ongoing needs of the construction program in our business.

Dan Jenkins

Any refinancing wouldn't add to the net issuance, that would only -- because what you retired would subtract and what you issued would add and then it would net up to 0. So I guess -- so is that the entire reason for the increase in 2012 versus the 35.50 that you...

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, I believe it's just refinancing opportunities. Now if it can reduce CapEx, you may see some reduction in the second half, so we'll see.

Dan Jenkins

Okay. And then I also had a question related to the industrial, you've shown some industrial highlights on Page 10 of the presentation. And overall, industrial was flat. So I was curious kind of 2 things: One, what were the areas that were negative that kind of offset the positive highlights you showed. And then of the positive highlights that you showed, how many of those or what portion of that was related to, say, new plants or new pipelines that would be -- that continue in later quarters versus just expanded capacity here at existing facilities?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

The segments that were down for us, the biggest one that -- I don't have it in front of me, but it is paper, and that I believe we covered that in our information around self-generation. They've opted to self-generate with the low price of natural gas. The others -- hold on just a second. Paper was down. The military bases were down. That may be somewhat weather-related there. And textiles, which is really housing-related, is down about 10%. So those are the biggest elements of the negatives amongst the industrial segments.

Thomas A. Fanning
Chairman, President & CEO

And in line with the maintenance outages, right?

Arthur P. Beattie

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Former Executive VP & Chief Risk Officer

That's correct. But that was in chemicals. Chemicals were basically flat year-over-year.

Thomas A. Fanning
Chairman, President & CEO

But it was a great big one.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes.

Dan Jenkins

So for the ones that were up though, how much of that do you expect to continue going forward? Is that for mostly new facilities and so forth?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, if you look at transportation, auto production, they've added new ships to their production lines, so it depends upon how that demand relates to that. The pipelines, there was a new pipeline customer in Gulf, in our Florida Panhandle, so that would be an additive customer that would help that number to be positive through the rest of this year.

Thomas A. Fanning
Chairman, President & CEO

And then you go to the economic development thing as you start to build out Airbus and a variety of other things, Caterpillar.

Dan Jenkins

Okay. Further out, further out.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

[indiscernible] in the near term.

Dan Jenkins

And then just to follow up on -- earlier on your -- when you were asked about the marginal cost versus the all-in costs for those new facilities, I'd be interested in that information as well.

Thomas A. Fanning
Chairman, President & CEO

You bet, we'll give it to you.

Operator

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

Thomas A. Fanning
Chairman, President & CEO

I just want to say thank you all so much for joining us here this afternoon. It's always a pleasure to chat about the business. And we see a bright future ahead for the rest of this year and look forward to chatting with you about it in the months to come. Thanks for joining us.

Operator

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Thank you, sir. Ladies and gentlemen, this does conclude the Southern Company Second Quarter 2012 Earnings Call. You may now disconnect.

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