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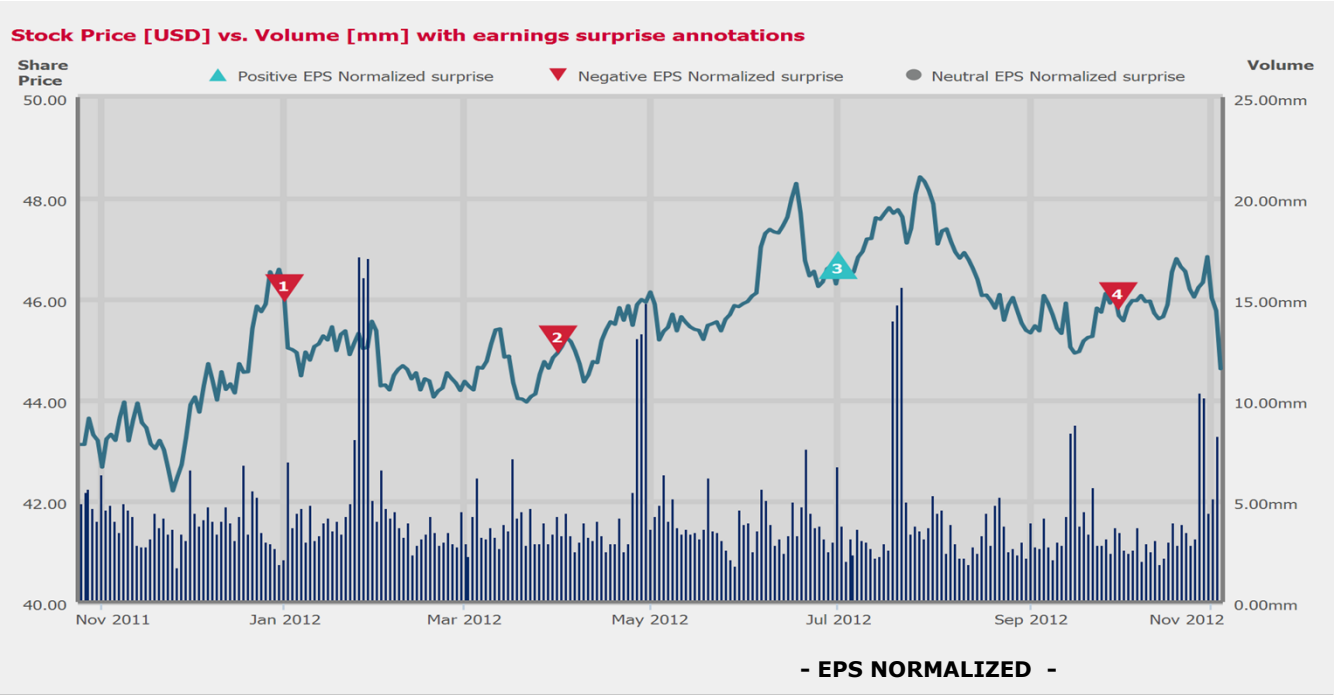
FQ3 2012 Earnings Call Transcripts

Monday, November 05, 2012 4:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2012-			-FQ4 2012-	-FY 2012-	-FY 2013-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.13	1.11	▼(1.77 %)	0.33	2.62	2.81
Revenue (mm)	6239.79	5049.00	▼(19.08 %)	4066.92	18026.84	18787.62

Currency: USD
Consensus as of Nov-05-2012 2:11 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2011	0.30	0.28	1 (6.67 %)
FQ1 2012	0.45	0.42	2 (6.67 %)
FQ2 2012	0.68	0.69	3 1.47 %
FQ3 2012	1.13	1.11	4 (1.77 %)

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Presentation

Operator

Good morning. My name is Laurel, and I will be your conference operator today. At this time, I would like to welcome everyone to the Southern Company Third Quarter 2012 Earnings Call. [Operator Instructions] After the speaker's remarks, there will be a question-and-answer session. 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. Welcome to Southern Company's Third Quarter 2012 Earnings Call. Joining me this morning 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 those 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 morning, and thank you for joining us. Before we begin, I'd like to take a moment to acknowledge those of you that have been directly affected by Hurricane Sandy. Our hearts go out to you and your loved ones during this difficult time, and we are doing all we can to help. Our industry's response has been unprecedented, with virtually all EEI member companies contributing resources to this enormous effort.

Our own operating companies have dispatched more than 2,400 workers to help restore power. These workers and all the other responders have left their own loved ones and are working long hours under challenging and often dangerous conditions to get -- these folks are some of the real heroes of this disaster. The affected areas are beginning to show signs of recovery, and we expect that the process to continue. In the meantime, please stay safe and know that everything is being done to restore electric service to your area as safely and as quickly as possible.

Now let's turn to a review of our operational performance, including our recent progress on several important initiatives. The most important operational metric, as you know, is safety. In 2012, we are having one of our safest years ever, with one of the lowest recordable incident rates in our history. It is a testament to our continuing commitment to do every job safely every day. We also continue to excel in executing our business model, which, as you know, is based on putting customers at the center of everything we do. The best evidence of this [Audio Gap] our most recent customer benchmark survey, which shows all 4 of our traditional operating companies in the top quartile for customer satisfaction among U.S. utilities.

A key driver of our success is system reliability, where we continue to distinguish ourselves as being among the best in the industry. In this effort, our generation, transmission and distribution operational

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areas we have performed exceptionally well. I'm especially proud of our team for these achievements and their ability to maintain focus on these priorities.

I'm also pleased to announce that earlier this month, we achieved, under budget and ahead of schedule, the milestone of 4.4 million Smart Meters installed, completing our installations in Alabama, Georgia and Florida. This exciting new technology will help improve reliability, lower costs and minimize our environmental footprint. For example, we have already avoided approximately 40 million miles of driving by meter readers since the program began. Our customers have also seen benefits from the new system in the form of faster outage response time. And during major storms, the technology has proven to be an invaluable tool for coordinating restoration activities. Smart Meters are just one more great example of Southern Company's commitment to driving and leveraging energy innovation, all for the benefit of the customers we serve.

We continue to make progress on our major construction projects, including Vogtle 3 and 4. In fact, we are now halfway through our project schedule and more than 1/3 of the way through construction. We recently achieved a major milestone of more than 10 million work hours recorded on the construction site, where our success continues to be driven by our uncompromising focus on safety and quality. Recent progress include the installation of approximately 480 tons of rebar in the Unit 3 Nuclear Island and completion of the Unit 3 turbine building foundation, which includes approximately 1,100 tons of rebar and 8,600 cubic yards of concrete. Extensive progress has also been made on the cooling towers for both units. Assembly of the Unit 3 containment vessels bottom head is complete, and the Unit 4 bottom head is more than halfway finished. The structural steel cradle, upon which Unit 3 containment vessel bottom head will be set, is also complete.

We continue to highlight the quality assurance and oversight processes associated with this project. A significant recent example of our focus on quality is the concrete pour we completed on 1,000 cubic yard Nuclear Island mockup structure. The event lasted approximately 9 continuous hours and simulated the first Nuclear Island concrete pour, which will entail approximately 50 continuous hours of work. The mockup pour was a success, and the lessons learned will benefit all of the participants in the upcoming basemat pours.

Major upcoming milestones include the arrival of the Unit 3 reactor pressure vessel and the pouring of the Unit 3 Nuclear Island basemat. Both are expected to occur around the end of this year.

The achievement of recent licensing amendment requests discussed in prior earnings calls has helped to clear the way for pouring the Nuclear Island basemat concrete. The nuclear regulatory commission approved 2 license amendment requests, also known as LARs, one associated with the rebar design and the other with basemat thickness. These approvals demonstrate that the new licensing process works as it was intended.

Since the last earnings call, the Georgia Public Service Commission approved another $292 million in expenditures. This means approximately $2 billion has been approved through December 2011. On August 31, 2012, Georgia Power filed the seventh Vogtle construction monitoring or VCM report. This fully unredacted and publicly available report highlights the EPC contract has contributed to stable capital costs, how the projected cost of completing the nuclear facility are still less than the original certified amount and how up to $2 billion of potential additional savings for customers has been identified since the original certification.

Also highlighted in the reporting process is the disclosure of cost disputes between the project owners and the contractors. Our EPC agreement stipulates a specific path for dispute resolution. The required steps are, in order: negotiation, mediation, and finally, depending on the size of the dispute, either binding arbitration or litigation.

The most significant dispute is Georgia Power's potential $425 million share of a claim related to the delay of securing approval of the design control document or DCD. Late last week, the mediation phase of this dispute ended, and both parties filed lawsuits associated with the claim. We continue to assert that the EPC contract is clear as to which party is responsible for certain costs and that Georgia Power and the other owners had no obligation for the cost in question. At this very early stage, there is no definitive

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timeline for resolution of this plan, but we will continue to keep you posted on its progress. We do not anticipate that the litigation will have any negative impact on the continuing work at the site.

At Plant Ratcliffe in Kemper County, Mississippi, construction remains on schedule to begin commercial operation in May of 2014. Cost projections remain on target to finish at or below $2.88 billion. We continue to actively manage ongoing pressures on costs and schedule, which are typical for a project of this scale. Installation of the gasifiers and assembly is proceeding exceptionally well, and the carbon dioxide absorbers are all in place.

Natural gas and effluent water pipelines, as well as critical transmission upgrades, have all been completed on time or ahead of schedule. Contracts for the sale of final byproducts of the gasification process had been finalized, which, combined with the expected savings from financing and factoring in current capital estimates, are projected to provide approximately $500 million more in value to Mississippi Power customers than was originally projected.

Over the next few months and early into 2013, the remaining gasifier lift will be completed. Other major elements, such as the water plant and air compressor are scheduled to be completed in the spring. Start-up activity begins next year as well, with the first fire of the gas turbines scheduled for the second quarter of 2013.

Heat-up of the gasifiers is scheduled for late '13, and reliable flows of SIM gas are expected to begin in early 2014. Once the plant is finished and operational, customers in Mississippi will enjoy the benefits of a clean, cost-effective, cutting edge energy for decades to come.

Now, I'd like to turn it over to Art for a review of our third quarter performance and the economic outlook for the remainder of the year.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Thanks, Tom. In the third quarter of 2012, we reported earnings of $1.11 per share compared to earnings of $1.07 per share during the third quarter of 2011, an increase of $0.04 per share. Earnings as reported for the first 9 months of 2012 were $2.26 per share compared with $2.27 per share for the same period in 2011, a decrease of $0.01 per share. This includes a previously announced $21 million net benefit during the second quarter of 2012 for an insurance recovery that resulted in earnings of $0.02 per share associated with the 2009 Mirant bankruptcy settlement. Excluding this item, year-to-date 2012 earnings were $2.24 per share compared with $2.27 per share for the same period in 2011, a decrease of $0.03 per share.

Let's turn now to the major factors that drove our numbers for the third quarter of 2012 compared to the third quarter of 2011. First, the negative factors. Usage and economic growth decreased earnings by $0.03 a share during the third quarter of 2012 compared with the third quarter of 2011. Weather effects reduced our earnings by $0.07 a share during the third quarter of 2012 compared with the third quarter of 2011. Weather was $0.04 below normal during the third quarter of 2012, whereas weather was $0.03 above normal during the third quarter of 2011.

An increase in depreciation and amortization, representative of our growing rate base, decreased earnings by $0.01 a share during the third quarter of 2012 compared to the third quarter of 2011. An increase in interest expense reduced our earnings by $0.01 a share during the third quarter of 2012 compared with the third quarter of 2011. Finally, an increase in the number of shares outstanding reduced our earnings by $0.02 a share during the third quarter of 2012 compared with the third quarter of 2011.

Now the positive factors. Retail revenue effects in our traditional business added $0.09 a share to our earnings for the third quarter of 2012 compared to the third quarter of 2011. Decreases in nonfuel expenses for our traditional operating companies increased earnings by $0.07 a share in the third quarter of 2012 compared with the third quarter of 2011. As we have shared in previous calls, we typically build flexibility to respond to weather and other revenue variances into the second half of the year. A reduction in income tax expense increased earnings $0.01 a share during the third quarter of 2012 compared with the third quarter of 2011.

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Finally, Southern Power added $0.01 a share to earnings during the third quarter of 2012 compared to the third quarter of 2011. In conclusion, we had $0.14 of negative items compared with $0.18 of positive items or a positive change of $0.04 a share.

Moving now to a discussion of our third quarter sales and the economic outlook for the remainder of 2012. On a weather-normalized basis, total retail sales decreased 1.4% during the third quarter of 2012. Year-to-date, weather-normalized retail sales are essentially flat. Our industrial class showed mixed results with some pockets of strength and some pockets of weakness. A slowing in export volume seems to be consistent with slowing demand among certain global markets. However, industrial sales on a year-to-date basis remains at approximately 95% of prerecession levels.

As for bright spots, we continue to see strength in transportation and fabricated metals related to the continued growth of auto production in the region. Other customer expansions and pipelines in lumber drove strong gains of 7% and 5%, respectively.

The last quarterly sales trend -- the latest quarterly sales trend reflects a slowing of economic activity, which we believe is driven by uncertainty around upcoming elections, the fiscal cliff and the global economy. Many of our industrial customers appear to be waiting until these issues have been addressed before taking any further steps, such as hiring new workers, opening new facilities or expanding existing ones. The best evidence of this can be seen in the U.S. economic uncertainty index, which shows economic policy uncertainty at an all-time high. In fact, since 2008, economic policy uncertainty has averaged about twice the level of the preceding 23-year period.

As further evidence that businesses are waiting to make decisions can be seen in the tremendous backlog of active economic development projects in our region. Our economic development pipeline currently features more than 300 projects representing more than 43,000 jobs and $15 billion in capital investment. Announcements in the third quarter alone represented -- represent 3,700 jobs, a 36% increase over the same period in 2011. Those same projects represent $1.5 billion in capital investment, a 155% increase over the same period in 2011. These projects should begin to impact our sales over the next few years. Examples include Mando, an auto parts manufacturer bringing 660 jobs to Georgia; and Huntington Ingalls Industries, which was awarded a $1.5 billion Navy contract to design and build amphibious vessels that could provide up to 2,000 jobs along the Gulf Coast.

Also, last quarter, Home Depot opened their previously announced call center that's expected to add 700 jobs in Georgia. We continue to monitor events and economic activity as we develop our forecast for next year. As always, we'll share our outlook during the fourth quarter call in January.

Now I'd like to share our earnings estimate range for the fourth quarter of 2012. Our earnings estimate range for the fourth quarter of 2012 is $0.38 to $0.40 per share, which puts us in the middle of our annual guidance range.

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

Thomas A. Fanning
Chairman, President & CEO

Thanks, Art. In closing, I'd like to share with you some exciting news we had just last week. As I've said many times, a critical component of any common sense national energy policy is pursuing energy innovation through investments in research and development.

Southern Company continues to lead in this area, particularly with our development of 21st century coal technology, which is already being implemented in China and it's scheduled to make its debut in the United States in 2014 at Plant Ratcliffe in Kemper County, Mississippi. This proprietary technology, known as TRIG or transport integrated gasification, is now ready to be offered all around the globe, allowing for low-carbon generation using an affordable, abundant resource. Toward that end, we have announced an alliance with KBR to market TRIG technology worldwide.

More than 1/2 of the world's existing coal reserves consists of low-rank coal, such as lignite and sub-bituminous coal, the very types of fuel that TRIG was developed to utilize. While leveraging this

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technology, we can preserve coal as an energy resource and ensure that more customers have access to clean, safe, reliable and affordable electricity. It's just one of the more -- it's just one more example of Southern Company's long standing industry-leading commitment to energy innovation, which continues to reap benefits for customers and shareholders alike.

At this point, we are ready to take your questions. So operator, we'll now take the first question.

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Question and Answer

Operator

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

Daniel L. Eggers
Crédit Suisse AG, Research Division

Listen, Tom, just on the economic outlook and a little more pessimism in your voice than probably I've heard in a little while, do you think it's one of these issues that we get through the election into the fourth quarter that '13 is looking better when you talk to your guys? Or is this something that could linger longer in the doldrums as you talk to folks?

Thomas A. Fanning
Chairman, President & CEO

Well, that's really it, Dan. I mean I think we've tried to call it as we see it. We started out the year like gangbusters. We're meeting many of our annual goals in the first half of the year, and then we started seeing things start to slow down. And we've kind of changed our tone from being cautiously optimistic to being just plain cautious. It does appear -- and this is not a Southern Company issue -- this appears to be a United States economy issue. That during the third quarter, largely because of uncertainty, we're just seeing the economy kind of come to a halt. This morning on Bloomberg, there was an analyst from BlackRock who called this out. We just saw from NAM, the National Association of Manufacturers, they said the #1 issue facing manufacturers today is uncertainty in the economic climate. That's why we wanted to show you this kind of uncertainty index. It's a fascinating issue. When you look at the number and magnitude of issues that need to be resolved, it's really unprecedented in this nation's recent history. It is my firm belief that for the good of America, the policymakers in Washington will address these issues in a timely manner. And no matter who's elected, these are not Republican issues or Democrat issues, these are American issues. For the good of America, I believe that will happen. When you look at the quality of our backlog, so when we try and look through the numbers to find out what's out there, the quality of the backlog is as good as it's ever been. And so if we can just break through the logjam of resolving be the uncertainty, I believe the economic future and the continued recovery of the United States could occur.

Daniel L. Eggers
Crédit Suisse AG, Research Division

And then, Tom, on the residential side, you have had some customer growth this year, so are you seeing kind of efficiency taking hold? Or is it just more of a psychological impact that's causing usage to be flat to down versus prior years when the economy hasn't been particularly great either?

Thomas A. Fanning
Chairman, President & CEO

So we pride ourselves, Dan, on kind of providing lagniappe for these calls. We've done our own research on what's going on with efficiency and everything else. A trend that we have called out in the past has continued, and we are seeing actually the economy, at least here in the Southeast, get more and more electrified. And in fact, there is a small amount of energy efficiency weighing against the growth of electricity sales. And what we're seeing, if you strip out kind of exogenous factors, we're actually seeing per capita use of electricity grow. Now when you look at the number -- this is why you got to peel back and get information around the data -- we have seen, frankly, some -- and maybe we should cover this on the post call, but there have been some details that involve, really, accruals for unbilled revenue and unbilled sales around what were before typically estimated unbilled revenue compared to now as we switch over to this new digital age and the AMI meters, we're seeing a different process in estimating unbilled revenues. We think that may be largely responsible for the slight downward performance you see in residential. We believe that the real performance in residential sales is roughly flat.

Daniel L. Eggers

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Crédit Suisse AG, Research Division

Okay. I guess one last one, Tom. O&M has been a pretty good success story as managing against demand. If we were to look to next year, some sort of normalization, what kind of inflation do you guys think you're going to have on the O&M line based on kind of the surplus you've been able to accumulate in the last couple of years?

Thomas A. Fanning
Chairman, President & CEO

Well, so we kind of build the budget assuming kind of 2 things for O&M. One is that we have normal inflation associated with the economy wages, et cetera. The other associates a growth in O&M associated with an increase in rate base, an increase in assets that must be maintenanced, if you will. Here again, when you peel the onion back on O&M for this year, I think the companies have done a beautiful job kind of managing performance relative to exogenous factors. If you just think about it for a minute, look at year-to-date weather this year versus last year. We're down $0.21. This has been one of the mildest years on record for Southern Company, a mild winter, a mild summer. Even for the third quarter year-over-year, we're down $0.07 on weather. Now when we look forward on O&M growth, you would expect to see something like 3% to 3.5% growth for the reasons I mentioned. And I think when you look year-over-year on O&M, we're essentially flat. So we've eaten up not only inflation, but also O&M associated with new assets. We will continue to monitor that, of course. We'll get into our earnings projections for 2013 in the January call.

Operator

And your next question comes from the line of Angie Storozynski with Macquarie.

Agnieszka Anna Storozynski
Macquarie Research

I have 2 questions. Could you comment about your long-term earnings growth projections now in light of the slower load growth? And as you said, your ability to control cost is largely absorbed at this point, and so how should we think about the EPS growth going forward?

Thomas A. Fanning
Chairman, President & CEO

Well, Angie, we'll cover that in the January call. That's what we always do. So key update, long-term earnings guidance once a year, and we'll do that in January. Just one comment on your statement. It is -- and I've tried to convey this so far on this call and really even in our remarks, but there is more uncertainty in the economic climate than we've seen in a while. Now, uncertainty is reflected in the uncertainty index and all the fiscal policy issues that need to be dealt with. Depending on how those get dealt with, obviously, we'll be able to be much more precise in our view of the economy. What we're trying to reflect right now is with the election, with the fiscal cliff, we have some challenges around the worldwide economy. It is less clear, more than ever. Hopefully by January, we'll get some sense as to how that is being resolved. And with respect to O&M, we'll just see. I wouldn't conclude, as you have, that perhaps we've used up our flexibility.

Agnieszka Anna Storozynski
Macquarie Research

Okay. And secondly, about your IGCC, we're pushing another IGCC project with some cost of runs and some issues with the gasifier. You mentioned that your gasifier's going to be installed or heated up on the late 2013. How can you be comfortable with the performance of the gasifier before it's actually being installed?

Thomas A. Fanning
Chairman, President & CEO

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Perfect. It's funny, we love our earnings calls, and we love preparing for them. I remember Jim von Riesemann asked me a question about why we were different than Edwardsport, and I went off on a soliloquy for 20 minutes. I'll resist the temptation to do that, but let me give you some headlines as to why we're different. Number one, this is our technology. We're not buying from a third party. Number two, you know that we are the only one in the industry with an engineering and construction services group of 1,600 people. We're able to self build this effort along with several main subcontractors, but this is our effort. And when you look at the fact that we've deployed, I guess, by the end of '13, $13 billion of the environmental equipment, we know how to build stuff. We think we're going to do, likewise, a great job here. Thirdly, remember that we're the only company engaged in proprietary research and development in a robust way in the industry, and the heartbeat of that effort is in our Wilsonville facility. We call it the PSDF, Power Systems Development Facility. We grew this technology and it really -- it evolved into some R&D that we started way back in the '60s with liquefaction. It is now gasification. We've run that thing for like, I forget how many man-hours, 50,000 man-hours or some enormous -- we have enormous experience running this technology with this fuel at that. So we actually imported fuel from that site to run through our PSDF facility. So for a variety of reasons, we think we're going to be in very good shape to fulfill the promise of this for the benefit of the customers in Mississippi Power.

Operator

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

Jonathan P. Arnold
Deutsche Bank AG, Research Division

My question is, could you remind us in Georgia what level of sales growth is embedded in the current rate plan, sort of part 1. And then on this kind of O&M management and sales outlook, if I remember rightly, there was a facility in that plan to go in for an interim increase if you thought you were going to underearn your ROE. Is that something you could envisage absent a reacceleration in the economy triggering and maybe just remind us how that works?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

I'll deal with the second part of your question first. There is a mechanism and I can't remember the acronym for it, but that would be applicable to the 2013. And it would foresee some event in the economy whereby you didn't find to the bottom end of your range. I think it's called the ICR provision, and you would go back in for some kind of accelerated hearing process, whereby you might be able to come to some solution of that by year end or allow them to get inside the bottom end of their range. The actual increase in sales embedded into their plan is -- I have to say, Jonathan, I don't have the exact numbers on me, but somewhere in the neighborhood of 2%.

Operator

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

Gregory Harmon Gordon
ISI Group Inc., Research Division

I apologize, I came on the call a little bit late. When is the -- when do you guys actually file the next Vogtle VCM? And is it your expectation that you'll ask for a certification of an increase?

Thomas A. Fanning
Chairman, President & CEO

Well, so we just filed once, so we do it every 6 months, right? And so the next one will be February, yes. So you'll see then. All the numbers look really good right now, and we've been helped by some good luck. I mean, let's be clear. When we think about this $2 billion of additional benefit that our customers are getting relative to what was originally estimated, this has been a dynamite environment in which to finance big CapEx projects. I forget, Art, what is our number across the system? It's like $3.5 billion of debt financed at about 3%.

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Arthur P. Beattie
Former Executive VP & Chief Risk Officer

About 3% for an average term of 19 years.

Thomas A. Fanning
Chairman, President & CEO

Yes. I mean just think about -- and I think the estimates when we started this project were more like 6% and 7%.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, yes.

Thomas A. Fanning
Chairman, President & CEO

So we are developing a tremendous amount of value. And when I look at just the EPC part of it, forget what we're doing on capital costs, we're actually under budget, but we're doing great.

Gregory Harmon Gordon
ISI Group Inc., Research Division

Yes, I mean you guys had certified this at almost $6.5 billion, and I know right now you're at $6.1 billion. So even if you went back up towards the original certification, it would still be a win. I'm just wondering whether -- because you already had a current estimate of $6.2 billion, if there are other things that may cause that to drift higher.

Thomas A. Fanning
Chairman, President & CEO

Well, the big factor that would cause it to move around, I think, is probably schedule. The construction is going very well.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Greg, you also had the claims issue, too, that's still pending. So we are waiting until that was resolved before we went back to commission with any kind of requests for an increase in the certified amount.

Thomas A. Fanning
Chairman, President & CEO

And recall, the issues around the claim really deal with schedule.

Operator

Your next question comes from the line of Mike (sic) [Mark Barnett] with MorningStar Financial.

Mark Barnett
Morningstar Inc., Research Division

It's Mark. Just a couple of quick minor details here. Obviously, the proprietary TRIG technology, as you've already discussed a little bit on the call, it goes back a long way. The inclusion of the slide here, I'm wondering, is this going to presage maybe some further details, given that you've got this partnership on the potential for this technology in terms of external revenues?

Thomas A. Fanning
Chairman, President & CEO

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Well, so here's what I would think about that. We've been very consistent, we're going to remain consistent until we have a reason not to be. But basically, we think there is a terrific market for this worldwide; so does KBR. That's why we entered into this relationship. You just think about megawatts of need. In the not-too-distant future, China needs to add 300,000 megawatts of generation; India, 100,000 megawatts of generation. Both India and China lend themselves to the kind of low-grade coal that is perfect as a fuel resource for our TRIG technology. Now, we're not going to get all that. We're going to get some segment out of it, we believe, and we look forward to that. Until the revenues and profitability of our licensing effort become clearer, we just will not have it associated with any of our projections. So if anything shows up, it will be upside, number one. And the other thing I will just remind you. You know that Southern Company is a conservative company. We're very proud of the fact that we, along with our partners, develop this technology, and we think it's going to work great. We think it'll be a solution, not only for America, but for the world to take advantage of this excellent fuel resource. We are going to stick to the business we know the best. And therefore, we thought it was better to give, via this contract, KBR than worldwide marketing rights. We'll still pay attention, as with our research and development facility, as with our engineering and construction services group, the engineering oversight and further developments on the technology. So we'll not be engaging ourselves in worldwide marketing.

Mark Barnett
Morningstar Inc., Research Division

Okay. One more quick thing. When we get the Q, might there be any kind of reserve or something along those lines for the lawsuits that have been filed or is it still way too early?

Thomas A. Fanning
Chairman, President & CEO

Way too early, and please understand, we've been very clear, I think, in all of this that while you cannot determine the outcome, we believe that the facts are very much in our favor. That's why we did not sell, and that's why we did not -- that's why we've taken the step of filing litigation. We've done this in a very transparent way with the independent monitor, with the commission, with the staff. We feel like we are representing the interest of Georgia's customers by taking this step. Please also understand that filing the litigation, we think, is a normal part of the dispute resolution process. And that going forward, we can still settle or go to some other kind of dispute resolution, like arbitration if we feel like that's prudent in the future. So this is -- people should view this as just another step in the process. Work continues; we don't believe there'll be any material slowdown as we progress the thing.

Operator

Your next question comes from the line of Steve Fleishman from Bank of America.

Steven Isaac Fleishman
BofA Merrill Lynch, Research Division

So just a couple of questions. First, if we think about -- I don't know if Art had seen any kind of sensitivity on sales, either for this year or thinking about it in the future, 1% change, and how that sensitivity is impacted in terms of like customer classes?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, Steve. Roughly, if it's spread across all of our classes, it's about $100 million. If you do a 1% change in industrial sales, obviously it's less, about $17 million. If it's a 1% change in your residential class, it's more, about $45 million. So you spread it across them all, you get, obviously, a bigger impact. But that doesn't assume that you're going to also manage your expense side of the equation. So you don't want to be just making assumptions that those kind of results and changes in sales will not directly lead to changes in net income.

Steven Isaac Fleishman
BofA Merrill Lynch, Research Division

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Sure, okay. And just, if things do remain weak, I recall during the crisis, you guys were able to work with your regulators on the Georgia kind of mechanism that you had as well as, I recall, you did something in Alabama. Do you have some of those things that you could work on to kind of help mitigate a weaker economy, if you think about it?

Thomas A. Fanning
Chairman, President & CEO

Sure. In fact, just as you recall, we put in place this mechanism that Art referred to earlier that takes into account a big change as a result of an economic slowdown, or whatever else, to get Georgia Power back to a place where it can operate effectively. So we've already contemplated that we've made the adjustment in Georgia. Because remember, that's typically been a 3-year accounting order process. If you go elsewhere across the system, RSC kind of operates every year anyway; it's a formulaic approach. Mississippi operates annually; it's a formulaic approach. The only one that doesn't have these kinds of features will be Gulf Power. And remember, Gulf Power has a traditional kind of rate-making approach. They filed for a rate increase last year. They have something like a great deal of their sales -- of their profits associated -- I'm sorry, revenues associated with clauses. It's like 65% -- 60%, 65%. So it's kind of a smaller issue to Gulf Power, and they're kind of small anyway.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Steve, we also had the COR issue at Georgia back in 2009 that -- where we amortized some of that back to help mitigate some of the impacts that Georgia was feeling.

Thomas A. Fanning
Chairman, President & CEO

And I think the COR impact is, as Art points out, is a great example of how we worked constructively with regulators to do the right thing all the time. So we always have an ongoing dialogue. People should know it is not a discrete relationship. It is a continuous relationship.

Steven Isaac Fleishman
BofA Merrill Lynch, Research Division

Okay. Then one last question. Just any update on the Plant Ratcliffe kind of Supreme Court reviews and timing of that?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Everything is still pending. The Sierra Club's appeal of the most recent certification order is still pending. It's a chance to re-court. We expect to hear from that any week now, so we already expected to hear from it, but just haven't heard anything yet. Everything else, our appeal to the Supreme Court is still pending. We don't -- that particular issue is around our ability to bill the cash CWIP, the order the commission gave us denying that request. That won't be heard until sometime in mid-March.

Operator

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

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Listen, I wanted to just be clear on your comments around the economy and the uncertainty, et cetera. If I'm hearing you right, you're talking more short term in nature and I believe elections, et cetera, should remove some of that uncertainty. Or are there other secular issues, efficiencies, et cetera, that you may be alluding to as well that may be causing the low-growth outlook to be slow or slower on the longer-term basis? How should I be interpreting your comments there?

Thomas A. Fanning

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Chairman, President & CEO

No, I think you nailed it in your question. Look, I think what we're seeing right now is a pause in the economy, and I think the economy is waiting for the uncertainty to be resolved. Obviously, the big issue facing us kind of post the election is the fiscal cliff, and what's the United States going to do to get its financial integrity in order. I think the kind of more secular change -- and I just don't know where this is -- is what's going to happen with the European Union, what's going to happen with the long-term growth rate in China, Brazil and other formerly growth-oriented economy. I think those are the issues, both for my work at the Federal Reserve, plus the work our economists do here. The economic uncertainty is just at an all-time high. And I think these issues, whether you believe you should cut costs or raise taxes, it is clear to me that what we've got to do is adopt, as a fiscal matter, policies that promote growth in the economy. I think if we do that, when you look at the quality of the economic development backlog that we have, I think we're poised to resume a really attractive growth rate. But the proof will be in the pudding. Let's see how Congress, the policymakers around the United States resolve the issues related to the uncertainty, and let's move forward. Believe me, we will be active in those discussions.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Separate question, coming back to Mississippi for a second. Are you comfortable there with the overall regulatory paradigm? I mean you were mentioning earlier, of course, we've got the CWIP issue, but separately, they had this ROE focus and discussion as well. Comfortable with what's going on there, and any concerns we should be aware of?

Thomas A. Fanning
Chairman, President & CEO

Well, I think you're aware of the concerns that we've had. I think, historically, Mississippi has been a constructive environment in which to do business; it has been for a long time. We were all surprised by the decision to defer the recovery of CWIP pending the resolution of the Supreme Court matters related to the certification of the project. Now, listen, we're confident, we believe the certificate -- the certification process of the plant, once now amended, will go through. So we're very confident of that. That surprised us. That's, frankly, quite about the only negative that I can put there. I think the folks in Mississippi, the policymakers are working hard to create a way forward that will work for both Mississippi Power and its customers. I spoke recently at Governor Bryant's Energy Summit. And Governor Bryant, I think, is doing a terrific job casting, as a primary economic development strategy, the State of Mississippi as an energy hub. I think he is spot on, frankly, and not only carrying forward, but extending the good work of Haley Barbour. Kemper County is so important to the state's future. And I think when you think about the low-cost energy similar to a nuclear plant in terms of its reliability and costs, I think it will serve Mississippi well for decades to come. So my sense is we'll get through this rough spot, and we'll move forward in a constructive way.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

And last question. Southern Power, historically, you guys have been telling us, either $150 million to $160 million annual net income kind of business; it's clearly been running ahead of that. I think third quarter was probably ahead as well, ahead of that. So any changes in the paradigm there or do you think that the move up in gas prices in the future, that may bring it back down? How are you looking at that sort of going forward now?

Thomas A. Fanning
Chairman, President & CEO

That's a very interesting question. It's one we have a lot of conversation about here in Atlanta and around. Look, the earnings have been better. My sense is they'll be better again this year as the kind of year-to-date numbers would suggest. So they continue to do a great job. Recall one of the big projects that was kind of a centerpiece this year has been the biomass facility at Nacogdoches, Texas. Brought that in under budget on time. It's the world's largest bubbling bed technology, North America's largest biomass

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facility, I could go on. But it's just a great project. And then we've done some of these solar projects, none of which are all that big. We've put in place a kind of an appetite for us on solar, about 300 megawatts over 5 years, and we're just kind of being very faithful to that level of participation. We don't want to go overboard on that. One of the interesting ideas, though, that we've had is you know that our ethos as a company, our business model, is to put customers in the middle of everything we do and to provide clean, safe, reliable, affordable electricity to those customers. And that has served us so well in our integrated, regulated businesses. Likewise, it has served us very well with Southern Power. And I can tell you, when I was down there for the groundbreaking of Nacogdoches, we had lots of interested people, from co-ops and munis in the area, come to me and understand how favorable this has been to the city of Austin and wondered, could we do more business. Frankly, we get that wherever we do business, whether it's the Carolinas, whether it's New Mexico, Nevada. And so one of the things we're thinking about is, "Are there limited circumstances where we could use exactly the same model? And perhaps, instead of turning down business, do some business with some other co-ops and munis, particularly, and maybe some other IOUs." If we do, let me assure you that we will follow exactly the same conservative model. That is: long-term bilateral contracts -- contracts really in 2 segments, one of which we earn a return of them, return on capital on brick-and-mortar investment; the other one earning, essentially, a pass-through on our energy cost, which is largely fuel. So we don't believe we want to take fuel risks, we won't take transmission risk, and we want to have creditworthy counter-parties. So we are thinking about maybe doing some business in some of the other areas of critical mass that we seem to be developing. We'll see.

Operator

Your next question comes from the line of Jim von Riesemann with UBS.

James Darrell von Riesemann
UBS Investment Bank, Research Division

I wanted to follow up on a couple of the questions that Steve and Greg and Jonathan were asking. I know this question may be premature, but can you discuss how you're thinking about the upcoming Georgia Power rate case? What the key objectives might be, how the case is going to align with the IRP plan that needs to be filed in 2013? And maybe a little bit about what the regulatory strategy is there for permanent rates from Vogtle, and how all the timing is aligned?

Thomas A. Fanning
Chairman, President & CEO

Okay, so let's kind of think about that in some bites. First of all, though, Vogtle was progressing very well, and you may note recently that Georgia, as I said it, just did another fuel decrease to its customers. I think it was about 1.7-or-so percent decrease in total builds. Recall, we did a fuel decrease earlier that was roughly 6%, 19% to fuel, 6% of total sales, so we produced fuel decreases that, in fact, will largely speak for a lot of the price increases we see for Vogtle. So if you think about price increases for Vogtle, you're typically in the range of about 1% a year that's already pretty well spoken for, through the processes that exist in the state. Now, we will file an IRP. Recall in, I guess it's February of next year -- January -- recall, too, this is a very collaborative process that we follow with the commission, whereby we and the staff, the commission, in essence, will evaluate trends in demand, we will jointly agree on that. We will jointly agree on the resources necessary to meet that demand, and then we will jointly agree on how best to supply those resources, whether it is self-build or third-party contracts. That has been an exceedingly effective way to think about providing the resources for Georgia in the upcoming years. If you think about it, we're building Vogtle 3 and 4, we've just finished the last of the McDonough units that we've converted from coal to gas. Now we're over 2,550 megawatts of new gas supply. And right here in the Atlanta area and those units are behaving beautifully. In fact, they're producing capacity greater than their nameplate rating. We've also announced some initiatives in the solar arena in Georgia. And my sense is, when you combine that plus some other power purchase agreements, we will have spoken for the capacity needs of Georgia, probably through the end of the decade would be my guess. We'll find that out in the IRP going forward. With respect of the rate case that we will file right around the beginning of July, it's way too early to say, but it would argue that having spoken for Vogtle, having spoken already for McDonough, it would seem that the issues in the upcoming case will be similar to the issues in the last

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case. That is the normal O&M and CapEx associated with building the best electric system in the United States here in Georgia or in the Southeast, really.

Operator

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

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

What was weather compared to normal?

Thomas A. Fanning
Chairman, President & CEO

$0.04 negative for the quarter.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

Right. And year-to-date?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

It's about $0.08 for the year-to-date period.

Thomas A. Fanning
Chairman, President & CEO

And it was $0.08 for the year-to-date and 13 -- we were $0.13 positive year-to-date, so $0.21 negative year-over-year, $0.08 versus normal.

Paul Thomas Ridzon
KeyBanc Capital Markets Inc., Research Division

And, Art, you gave an answer to Steve's question about 1%. Were those pretax numbers, were those revenue?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, yes, yes, they were.

Operator

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

Michael Jay Lapides
Goldman Sachs Group Inc., Research Division

The couple just -- I want to think about risks around authorized ROEs. You have the Georgia Power rate case next year, so authorized returns will get set during that normal TRC process. Can you talk a little bit about how the process in Mississippi will work in terms of the ROE dock that they have kind of looking at the methodology for reviewing ROEs there? And can then you also touch on, in Alabama, when do they -- in the RSC process, do they actually even look at authorized rates of return in that annual process, or does that not happen until some other process down the road?

Thomas A. Fanning
Chairman, President & CEO

Well, I'm going to let Art. Art was for many years the CFO of Alabama, I'll let him handle that one. Mississippi is really just an informational hearing, as I understand it, and it's not at all clear how that's

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going to go forward. You do know that by the structure of the test mechanism, they, in essence, go through a theoretical cost of capital calculation by the mechanism. And then that mechanism is adjusted by a performance, and Mississippi has always performed well with respect to safety, customer satisfaction, operational excellence, et cetera. So they've always -- they historically anyway, have earned a premium to the theoretical cost of capital that it calculates, so it's interesting to see how that will work together, but it is not has been set, it is all not clear. Art, Alabama?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, Mike, as you know, when we chatted before about this, the discrete conversation in Alabama occurred constantly. There's not a specific date for review of those, but those conversations take place between the staff and management on a continuing basis. But I'll remind you in Alabama, their equity ratios are lower than the industry average. If you look at their return on invested capital, it's more in the second and third quartile compared to peers rather than the top of the quartile. So the amount of return reflected in price is not near severe when you lower the balance of equity in the equation. And I'll also point out that Alabama ranks in the top quartile when it comes to customer satisfaction. So it's not a one-element issue. It's a multifaceted issue that has lots of elements to it.

Thomas A. Fanning
Chairman, President & CEO

And the other thing that people should just understand, too, this model that we have been very faithful in following -- that is to provide the highest level of financial integrity in running our business -- has served our customers exceedingly well. And I know we've shown you in many times in the past, this kind of efficient horizon curve -- where you look at cost of debt by the average life of maturities of the debt portfolios of us versus our competitors -- and frankly, Southern Company, all of the operating companies, look terrific on that basis. At the end of the day, when you look at the decisions that our regulators make, in a, generally speaking, a constructive business climate part of the United States, there is no reason for any of our commissions to take punitive action against the company. We are performing well in customer satisfaction and reliability in any notable measure. And so we think we'll continue on in that vein for years to come.

Operator

Your next question comes from the line of Leslie Rich with JPMorgan.

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

Just wanted to ask you about Slide 16 and your coal gas comparison in the third quarter. It looks like you continued to burn more coal than -- I mean burn more gas than coal with the gas plants continuing to run at higher capacity factors. I'm wondering sort of, as you look forward over the next 12 months, sort of how you view that, because you obviously dispatched on a very economical basis. And just, are you sort of maxed out on coal gas switching? Or do you think now that gas prices have come up a bit, that it's -- you're going to be burning more PRB, sort of how are you thinking about that and also inventory levels?

Thomas A. Fanning
Chairman, President & CEO

Listen, I think we can -- I have to look back at some prior data. I'm going to go from memory here, so hopefully, I'm not wrong as I say this, but we have still a great deal of optionality in our fuel mix. So let's go through that, for example. If gas prices are cheap and coal prices are expensive, we, in the future -- and I think this is a 2015 number -- could take our gas-fired energy generation up to around 55% and back our coal down to around 25% is my guess, round number. If the reverse happens, if for some reason gas gets very expensive and coal gets cheap, I think we can take our coal up to about 45% or so and back our gas down to around 35%. That's kind of the broad range of optionality we have going forward. One way to think about that is to think about kind of where are the breakeven dispatch curves going forward. So gas at $1.25 per million btu, it has to fall below that before dispatch is ahead of nuclear, and frankly,

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Kemper County. Kemper County is going to be in that same neighborhood. When we think about PRB, you kind of have gas in the range of $3 to $4, call it $3.50, somewhere in that range for gas to dispatch ahead of PRB. So that would be sheer Miller [ph], the big units there.

And then the Central App coal. Now one of the things that you will see is that we've been moving, transitioning away from Central App to Illinois basin. Some of that depends on how we unfold. In the years ahead, we signed a HashMac and a variety of other things. But in fact, those numbers have come down just a bit with the move more to Illinois coal. We used to say Central App coal was kind of $6, $6.50, now with Illinois being a more important part of our future as we conform with MACT, that number looks more like $5 to $6, somewhere in there per million btu. Does that cover it for you?

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

Well, so that would sort of imply looking forward to 2013 that you'd continue to run your gas plants really hard?

Thomas A. Fanning
Chairman, President & CEO

Yes.

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

Okay. And then secondly, just to circle back to the lower nonfuel expenses, the $0.07 a share year-over-year, I mean, that's a really big swing. Could you give me just a couple of examples of the kinds of things that you've been doing, or do you sort of budget for normal weather? And then, if it's not normal weather, there's less sort of maintenance that needs to be done?

Thomas A. Fanning
Chairman, President & CEO

To everyone's dismay at Southern, I could talk about this for hours. I'll try and be economical here. We go through what we call a flexible budgeting system, whereby we identify a financial plan based on a level of O&M. We already planned for certain normal variances of weather above and below. So we basically find ourselves with a slug of O&M that we kind of keep in reserve pending the results of third quarter weather. We call those approved, but not budgeted -- I mean they're budgeted, but not approved. I'm sorry, I said that backwards. So in other words, we keep that powder dry, if you will. And so as we see weather become either mild or the other way, then we turn on or off that flexible budgeting part of our program. The other thing that's interesting about our budgeting process right now really goes to where we've gone with the generating fleet. So recall the O&M associated with the coal fleet is bigger than, say, with the gas fleet. I think people would mostly get that. So when we think about the MACT issue, recall we had about 20,000 megawatts of coal. It appears that we will maintain, I don't know, 12,000 to 13,000 megawatts of coal in the future. Some of that will be through fuel switching like from -- I'm sorry, from Central App to Illinois basin. So for the remaining, say, 7,000 or 8,000, some of that is fuel switched to gas, some of that is just retired. As we evaluate the plants that are subject to be retired, obviously, we have opportunities to scale back while maintaining safety, scale back some of the O&M that we otherwise would dedicate to those plants, but we will let their EFOR statistics rise up, whereas otherwise in the past, we would really be very hawkish about keeping those in perfect condition.

Operator

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

Paul Patterson
Glenrock Associates LLC

Just to go over sales growth again, what's your current projection? I think it was 1.3% at the end of the first half of the year.

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Thomas A. Fanning
Chairman, President & CEO

That's right.

Paul Patterson
Glenrock Associates LLC

Where are we now, and where do you think it's going to be for 2012 now, weather-adjusted?

Thomas A. Fanning
Chairman, President & CEO

I don't know, man. It could be somewhere between 0.5% and 1%, somewhere in there, 0.5%. It just depends. We've had some strange things happen in the third quarter -- I mean strange. They happen regularly, but like DuPont, we had a major facility undergo a prolonged outage in order to retool. Art?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

That's correct. Silicon manufacturer -- silicon metal manufacturer in Alabama was down a lot in the third quarter. They came back in the fourth and we expect them to operate in the fourth. And another major issue that nobody thinks about anymore after Hurricane Sandy was the effects of Hurricane Isaac. Hurricane Isaac shut down a lot of our large industrial load on the coast for periods of a week or more. OLB [ph] and our biggest industrial customer was down for a while along with Chevron and some other major consumers of electricity. We don't normally weather-normalize our industrial loads, so you see those effects impacting some of the sales loads in the third quarter.

Thomas A. Fanning
Chairman, President & CEO

And some of that weather effects where they couldn't get railcars and product in.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

That's correct.

Thomas A. Fanning
Chairman, President & CEO

It was things like that with the railroad problem as opposed to the [indiscernible] problem.

Paul Patterson
Glenrock Associates LLC

Let's look beyond industrial, though. I mean, if we look at leap year, the leap year impact, not too many, around 0.37%, 0.4% approximately. And we add that into these numbers, it looks like residential commercial industrial roughly down about 1/2 -- leave industrial out, but 0.5% down. And I mean, I'm just trying to get a sense as to what GDP growth has been, at least what you guys are now looking at being. You mentioned that there was some concern on the industrials. But leaving the industrials because that's going to evolve through all the reasons you mentioned. How should we think about what's going on here?

Thomas A. Fanning
Chairman, President & CEO

Well, Paul, this a great question. Listen, we've got as much uncertainty as everybody. I always feel like we do more homework than anybody else that I know of in terms of understanding economy and holding these customer groups. There is -- one of the trends out of this call will be that there is a general heightened level of uncertainty in the economy. At this point, there is a tremendous amount of pent-up economic activity pending the resolution of some of these really important issues. It is clear to me that

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while the year started out great, it started to slow and now it has really slowed in the third quarter. There are all of the kind of chemicals in the sea, if you will, for economic growth to resume. But we've got to deal with those issues.

Paul Patterson
Glenrock Associates LLC

If we look at GDP for the third quarter, I'm thinking, at least my recollection is around 2%. It came in a little bit stronger than what people had expected. I mean, is it different in the Southeast or are you talking about something that just isn't being picked up by regular GDP numbers, if you follow me. I mean, I guess, one of the concerns, I guess, that I have, at least, is that on the natural gas side, we saw for many, many, many years a reduction in absolute sales growth due to, basically, efficiencies. And I'm wondering whether or not we're beginning to see this on the electric side, because you guys are relatively thought of as being relatively strong economically compared to the rest of the country. In other parts of the country, we've seen, in some cases, negative sales growth weather-adjusted for 3 years.

Thomas A. Fanning
Chairman, President & CEO

Yes, look, what we've done, and in fact, we ought to share this with you, being interested in the call after the call, the blurb we call it here, but we've done a lot of research on kind of looking at, really diving deeply into this notion of what's really going on with existing home sales. In other words, if you strip out all the noise on housing, or who was the customer before and who is the customer now, what we're finding is that from existing premises year-over-year, actually it goes back something like 5 years, we have found that absent kind of 2009, we have seen a continued increase in per capita usage. Now we know that there is some small effect of energy efficiency and everything else, but we think that is getting washed out by a greater electrification of the economy. Now the ratio that we have found as a rule of thumb still works, and that is electricity sales will probably be around 50% of GDP, so if -- you tell me what GDP is going to do, hit it by 60%, that's what electricity sales will do.

Paul Patterson
Glenrock Associates LLC

Okay. But GDP was 2% in the third quarter, right? And for some reason, it's not translating -- leaving out the industrial, it's not translating that way for the other guys. That's why, I guess, that's what I'm missing.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Paul, Tom mentioned this earlier, but there's lots of stuff going on that makes us believe that the third quarter numbers, especially for residential, are far worse than what we actually experienced.

Thomas A. Fanning
Chairman, President & CEO

Far better.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, yes, far better. Excuse me. I misspoke. But the first issue I want to talk is weather normalization, which I've always talked about as more of an art than a science. And so when you compare quarter-over-quarter to that, you're going to get some noise. And more importantly, the second issue is, what Tom mentioned earlier, is the fact that we're now using to estimate our kilowatt hours yet to be billed or unbilled kilowatt hours, we're using our new digital platform, our new metering system to provide those estimates for us, which are much more accurate than our prior methods. They can cause noise year-over-year when comparing to a year that did not utilize that. We think this is a abnormal reflection of what's actually going on in the residential market.

Thomas A. Fanning

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Chairman, President & CEO

But Paul, I mean, even as you suggest, even if residential is flat and not down for the quarter, there is still some really interesting issues and we'll just see how they evolve. When we peel the onion on the effect, we think there is still reasonably, there will be economic growth. And I would tend not to get distracted with quarter-over-quarter results. When you do the kind of analysis you're thinking about, which is exceedingly valid, you're better off using long-term trends, and I would rather focus on year-to-date results rather than a quarter-to-quarter conclusion.

Paul Patterson
Glenrock Associates LLC

Okay. I don't want to belabor this. I appreciate your guys' input and would love to talk to you guys further about it off the call. But just finally on the Georgia PSC election, any thoughts, I mean, we should see here or anything you want to share with us, you being there on Ground Zero?

Thomas A. Fanning
Chairman, President & CEO

Well, look, we have 2 commissioners up for reelection, Stan Wise and Chuck Eaton. We'll see. The whole Georgia Commission has been, I think, very tough, but very fair. And we'll see what happens.

Operator

Your next question comes from the line of Andy Levi with Avon Capital.

Andrew Levi

Just a question actually on the storm and just kind of -- I guess, you said you allocated 2,200 workers?

Thomas A. Fanning
Chairman, President & CEO

Over 2,400.

Andrew Levi

Over 24. How is that allocation set? Are the power companies here in this region, do they kind of contract beforehand, or how does that work? And also where did your -- the majority of your people go?

Thomas A. Fanning
Chairman, President & CEO

Okay, so there's a -- let me start real quick. There's a process where, for example, we're part of SEE, Southeast Electric Exchange mutual assurance group. There other mutual assurance groups in the United States. Of course, there are in the Northeast, New York, et cetera. Before it even hits land, we plan well in advance and then what we do is start to deploy before the storm hits the resources necessary to effectuate the restoration. I know that before Sandy hit the Northeast, we had deployed something like 2,000 personnel from Southern. Then the storm hits. One of the things that people must understand, and I've tried to be very public about this in all my Sandy -- Bloomberg and CNN and all the other stuff I've done, is that assessment process is so critical when you consider what you all had faced. And it's been very challenging, snow, wind rain, flooding. Some of the areas that had been impacted had been inaccessible. And therefore, without an assessment, it's been very challenging to deploy in the most optimal way. So there's been some time associated with that. Then they are deployed to the region to fix and then there's an iteration that goes forward. When you think about the total resources that we committed, it started at around 2,000 and now around 2,400. Our resources were deployed to Philadelphia, Baltimore, Washington, D.C. And pretty quickly, they moved some resources up to Atlantic City. In this iteration that I described where they fix, reassess, fix, reassess, our folks are all over the Northeast right now. So when I get a report every morning, they are in every affected area you can imagine. I know one of the big issues, our folks came in after the initial damage, were an underground crews in the Con Edison area, particularly in Manhattan. So they're all over the place right now.

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Andrew Levi

And do the companies up here kind of need to -- I don't need know if the word is contract, but I understand the assessment aspect. But do they have to kind of make arrangements with Southern Company beforehand that these assets will be allocated to them?

Thomas A. Fanning
Chairman, President & CEO

Yes. Hey, I'm sorry, I should have answered that one. Yes, so what happens is every -- like the Southeastern Electric Exchange mutual assurance group has, essentially, a contract in place that exactly calls for the reimbursement and the safety conditions and a variety of other things, conditions under which people will affect the restoration. So among the different mutual assurance groups, they basically adopt the same process, so that anyone requesting help will pay for the help that they receive and that work will be undertaken in the manner in which we are used to providing it.

Andrew Levi

So basically you need to be part of these mutual system programs.

Thomas A. Fanning
Chairman, President & CEO

Well, but everybody is. And then the mutual assistance programs work with each other when the damage occurs outside. There's been plenty of SEE resources that have been put into non-SEE regions.

Andrew Levi

And I'm just trying to understand why your men didn't come further north at first.

Thomas A. Fanning
Chairman, President & CEO

That was the original deployment and I can assure you they went north as soon as they were needed. When the reassessments were done. Remember that assessment is the big issue. And once the assessments were performed and the re-prioritization of the areas of critical need were performed, people were moved in, in the most effective, safest manner possible.

Andrew Levi

And is there a cost to the utilities up here to be part of these mutual assistance programs?

Thomas A. Fanning
Chairman, President & CEO

Nothing more than overhead costs, people associated with the administering the group.

Operator

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

Ashar Khan

Can I just -- I have 2 kind of like things I want your comments, one on the macro, one more towards Southern Company. Can I just ask you -- this my opinion -- I think so the utilities have shortcut themselves by going to these programs where you share employees and they have cut their own resources of employees. And hence, I feel that the U.S. is, I guess, getting more hurricanes and things and all that. But the amount of interruptions we have versus a #1, you can call it, or Tier 1 country is horrible at least versus other Tier 1 countries. And I don't know, I think so, this is my just feeling. I think that the EEI has to think of some way to get this thing up. It's just occurring -- so much reoccurring and we lose so much output because of this. And the service is -- the breakouts for the time period that they're out is just not acceptable for a country like U.S. I don't know what it is. Either the infrastructures

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is really bad or you guys have cut through so many people that they can't respond in a manner that it takes 2 weeks for service to come back. To me, in a country like U.S., that's just not acceptable under any scenario.

Thomas A. Fanning
Chairman, President & CEO

Yes, Ashar, look, I absolutely get the fact that a lot of people in the Northeast -- I'm originally from New Jersey myself -- are really disadvantaged and really going through a lot of pain right now. I completely understand that. The -- I would just dispute the notion about the state of our electric network. The electric network in the United States is the best in the world and the data supports it. We have to continue to focus on that and we have to deal with different regulatory models, frankly, that deal with it. We, in the Southeast, at least I can speak from Southern, we spend nearly $1 billion year on these issues. And our reliability, the statistics are SAIDI and SAIFI, that one deals with duration of outages and one deals with frequency of outages. We're on now more than a decade-long track record of performance and the system works great down here. We get buffeted with storms and I think what we're dealing with right now in the Northeast, and I know it's really hard being in the middle of it. And please understand, I certainly understand what you guys are going through, having gone through it a lot down here. It's just that, that storm, the misnomer of the perfect storm, level 1 hurricane being hit with a cold front that produced snow, wind, rain, flooding and an unprecedented amount of damage in a very highly concentrated area of population has just produced some unique circumstances. It is worthy always in evaluating lessons learned from these circumstances and understanding how we can serve customers better; that is always something we should do. But please understand you're dealing with an immense storm, unique circumstance, unusual part of the United States. We'll get through it. And when we learn something new, we will apply it in the future.

Ashar Khan

Tom, I get that. It's very unusual, but I'd still think that the workforce cuts in this mutual assistance programs in which the utilities have tried to shuttle this, this is just not working, okay? This is, I think, so what's hurting us, the customers. It's that you have these programs where you have kind of people coming in from all over the thing and not local people. Like I have a truck coming in from KCP&L. How does a KCP&L truck guy know about Manhattan? I think that's like waste of resources and efficiencies, okay? He cannot have a good view of how the underground network at KCPL truck, knows about what they would do in Manhattan. I mean, it's just like you throw these guys around and then, okay, whether they have the resources to get them back on, will just tackle with time. Just going to the second question. Based on what you gave us for the fourth quarter, what are we -- or is Southern, Georgia Power going to earn in 2012, can you share with us?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Southern Power will earn...

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Georgia Power, Georgia Power. GP.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Okay. Well, we outlined a range of $0.38 to $0.40. So Southern Company will be $2.62 to $2.64 within that range from our annual guidance.

Thomas A. Fanning
Chairman, President & CEO

About 12.5%.

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Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes. And for Georgia Power, it's roughly 12.5% -- excuse me, from a Southern perspective and about 12.5% ROE.

Thomas A. Fanning
Chairman, President & CEO

It's both. It's 12.5% for both Georgia and Southern.

Ashar Khan

Southern. And then Tom, just to remind us, when does that mechanism hit or when can we -- is it like at 9.5% or 10.5%, that we can go and get help under that mechanism?

Thomas A. Fanning
Chairman, President & CEO

10.25% is the bottom of the range.

Ashar Khan

So 10.25%. So if you can go below 10.25%, we can go and ask for help?

Thomas A. Fanning
Chairman, President & CEO

Yes.

Ashar Khan

Okay, so we have about 2 percentage points based on -- right now, of cushion right now, that we have?

Thomas A. Fanning
Chairman, President & CEO

We gave you a corporate return there. So remember that Georgia corporate return is different than the allowed range. That's 10.25% to 12.5% with a midpoint -- I think they reset the midpoint at 11.15% last time.

Ashar Khan

Okay. So the difference between the corporate and the retail is, what, like, 150 basis points or something?

Thomas A. Fanning
Chairman, President & CEO

Yes, more like 100.

Ashar Khan

More like 100. So it's more like 11% than 10%?

Thomas A. Fanning
Chairman, President & CEO

Yes.

Operator

And your next question comes from the line of Vedula Murti with CDP.

Vedula Murti

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Let's see, I apologize if you addressed this earlier, but going back to Plant Ratcliffe. If you don't get the interim increase next year and then you have to put the full plant into rates in 2014, from, I think, previous meetings with you guys, I want to make sure that I'm clear about this is, is that unlike in the past where you would take a plant like that and maybe be able to do a couple-of-year phase-in with deferrals and things of that nature, that the accounting rules no longer permit that, such that you would, under that scenario, need to put the full plant into rate base or ask for rates in one fell swoop and that to the extent that rates would be -- that it would be considered excessive that you'd have to -- possibly have to come back again as opposed to having the deferral mechanism and that type of thing. Am I correct about that?

Thomas A. Fanning
Chairman, President & CEO

So, yes. So Vedula, part of it is and part of it isn't. In general, you're correct, let me say that. Now the part that I would agree with is, I think, Vogtle 1 and 2 may have been the last ones under the old accounting rules that you can do phase-in accounting essentially, if that's what you're referring to. There may be other ways to attack the problem. In fact, Art and I met recently with Moses Feagin -- he's the CFO of Mississippi Power -- Ed Day; they're regulatory people. We meet regularly on this project. We always call this kind of a "What's in the house" The "what" are building the plant and houses, how we're working with the regulators and with customers and all that. And in fact, I just went down and talked to the customer group of Mississippi about some of these things. I think we have some constructive approaches that we will work with the commission in which to be able to handle this plus all the other issues at Mississippi, and we're evaluating those options as we speak. I'd rather not speculate on those because it's just premature, number one, and we really want to kind of handle that in a very fulsome way with our regulators before we say too much about it in public.

Vedula Murti

Okay, and then secondarily, given that you're in front of the Supreme Court for CWIP, can you just remind me what the issue is there, why it's in court and kind of at this point in time, kind of like your level of confidence that CWIP would be permitted such that would help alleviate some of the issues in '14 or are you like maybe not expecting that to come through?

Thomas A. Fanning
Chairman, President & CEO

Sure. So the Supreme Court is dealing with -- actually, it's in the Chancery Court now. It's dealing with an issue related to the certification. It's not dealing with CWIP. It's dealing with certification of the project. We believe what's going to happen -- I mean, I believe so, write this down or whatever. For whatever it's worth, I believe we're going to be upheld at the Chancery Court. If we are, the Sierra Club could appeal to the Supreme Court. Now, the issue related to CWIP has not been contested as a legal matter right now. The commission voted to defer putting CWIP in place until the matters related to the certification of the plant were concluded, okay? It's at the Chancery Court, we've got a good decision there. It goes to the Supreme Court. If we get a good decision there, we put CWIP in place, at least that's what the regulators say. That's where we are. As a practical matter, you must understand that by the timing of whatever is going on with the Chancery Court and then it would have to be resolved in the Supreme Court, we're going to be in service, we believe, May of 2014. So as a matter of prudence, we are planning for the potential of not even having CWIP for Mississippi Power Plant Ratcliffe.

Vedula Murti

But when we think about 2013, though, irrespective of whether you have CWIP or not, it will not be an earnings issue for 2013 because you'll simply capitalize otherwise. So simply, it's a cash issue but not an earnings issue?

Thomas A. Fanning
Chairman, President & CEO

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Precisely. We are booking AFUDC. And we have been very clear -- in fact, the commission has been very clear, I should say, about their support for the project. I mean, I think we've read on maybe the last earnings call, specific language out of press releases that 2 of the 3 commissioners gave. And I've even spoken to one of the commissioners there. They remain resolute in their support of the project. They just didn't feel that it was appropriate to put CWIP in place while matters relating to the certificate were still being considered.

Vedula Murti

But it sounds like, though, that they are very supportive of CWIP also as a means of managing the rate trajectories while that they have a very clear understanding of that.

Thomas A. Fanning
Chairman, President & CEO

Yes, I think so. I absolutely say so. But if we defer putting CWIP in place until we resolve all the matters relating to certificate, we may have an in-service plant before those matters are concluded.

Operator

And your next question comes from the line of Dan Jenkins with the State of Wisconsin.

Dan Jenkins

Just first, a couple of follow-ups related to the demand -- customer demand issues. I was wondering what the customer growth is you're seeing? Is that in line with what you expected or is there -- or has that been slower as well?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, Dan. We thought we'd get about 19,000 new customers this year. And so far, through the first half, we got all of those. We didn't add any great amounts in the third quarter, but we still retain those. So we're ahead of where we thought we'd be from a customer perspective.

Dan Jenkins

Okay. And then on the industrial side, what sectors or what indicators are you kind of looking at to see if that's more persistent or have you talked -- I know you occasionally have a roundtable of manufacturers and so forth that you talk to. Have you done that?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, we didn't do that this quarter. We do it every 6 months, but this is the off quarter for that. But automotive is doing very strong and it has continued -- expected to be strong. And obviously, the suppliers and other industries that fabricated metals that support that, so we expect that strength to continue and that's on the fact that the age of existing inventory is so old. I think the average age of automobiles today is like 11 years. So that is expected to continue. The ISM Indexes are positive. They had been negative slightly in the second quarter, but now they've turned slightly positive. So that is a good indicator, and we've seen some indicators lately that there's more strength in the economy. Housing is beginning to come off the bottom but it's not -- it's coming off such a low level, it's not really going to make a whole lot of difference in the numbers that we're looking at. Really, it's the export-related industries like chemicals and primary metals that have been impacted the most. And we think as we look around what's going on in the export markets, it's the global economy that's beginning to slow a bit.

Thomas A. Fanning
Chairman, President & CEO

Hey, Dan, one more thing. Art mentioned this is our off quarter for doing the customer touches. Every operating company this quarter, I think, held a customer convocation where they bring 100 of their top

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customers whatever end [ph], and I know I visited all of Gulf, Mississippi and Georgia. I know Alabama did one also. So we stay in touch with our customers on a real-time basis all the time.

Dan Jenkins

Okay. Then I had a couple of questions just on your Slide 17, which is the financing plan. And are those primarily add issuances, or does that include your equity issuance for those projections?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

What year are you talking about, Dan?

Dan Jenkins

Well, for both -- for all 3, '12, '13, '14?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, we talked about equity issuances and the fact that we're actually repurchasing shares there, so we don't expect to issue any new equity this year or in 2013. We do plan on raising about $700 million of new equity in 2014, again, to support the capital program that we have in play. We've got about roughly $800 million of additional refinancing opportunities in the fourth quarter that we're hopeful to take advantage of. And then you can see the debt issuances in '13 and '14, I think they're roughly equally distributed, about $3 billion each.

Dan Jenkins

And then on your note there at the bottom, about potential DOE Loans, is that over '13 through '15 or does -- because it says over the next 3 years, I just want to clarify?

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Well, we're still negotiating those particular terms and conditions on the loans. And as soon as we're able to close those, we would begin to draw on the loan guarantees. But I wouldn't look for anything in 2012. I think 20 -- early 2013 would be a better date for the likelihood of that.

Dan Jenkins

Okay. And then the last thing I was curious about is you also have a note there that you're evaluating some callable debt for refunding and I think you could give a little more color on what acute problems are on those and what the criteria would be for you to call that.

Arthur P. Beattie
Former Executive VP & Chief Risk Officer

Yes, Dan, I don't have those. We can get back to you with that information as to specific issues. But roughly, it's about $800 million in issuances at Alabama, Georgia and Mississippi.

Operator

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

Thomas A. Fanning
Chairman, President & CEO

Yes, just briefly. Look, thank you so much for being with us. I know this was a long call. A lot of interesting topics to talk about. And please understand, too, as a matter of empathy, I know you are all going through a lot of hardship right now. Our hearts go out to you. I guarantee you, the industry is working as hard as it can to get the power back safely and as efficiently as possible. We'll continue that effort until every last one person has their power back. Thanks very much. Enjoying being with you today.

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

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