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SCANA Corporation Q1 2009 Earnings Call Transcript

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SCANA Corporation (NYSE:SCG)

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April 23, 2009 2:00 pm ET

Executives

Betty Best – Director of Financial Planning and IR

Jimmy Addison – SVP and CFO

Analysts

Michael Lapides – Goldman Sachs

Steve Fleishman – Catapult

Paul Patterson – Glenrock Associates

Dan Jenkins – State of Wisconsin Investments

Chris Shelton – Millennium

Jim Ferguson – AIG

Operator

Good day, ladies and gentlemen. Thank you for standing by. My name is Michelle, and I will be your conference facilitator today. At this time, I would like to welcome everyone to the SCANA Corporation Conference Call.

All lines have been placed on mute to prevent any background noise. After the speakers' remarks there will be a question-and-answer period. (Operator instructions) As a reminder this conference call is being recorded on Thursday, April 23rd. Anyone who does not consent to the taping may drop off the line at this time.

I would now like to turn the call over to Betty Best, Director of Financial Planning and Investor Relations.

Betty Best

Thanks, Michelle, and good afternoon. I'd like to welcome everyone to our earnings conference call, including those who are joining us on the webcast. Earlier today, we announced financial results for the first quarter of 2009. In just a minute, Jimmy Addison, Senior Vice President and Chief Financial Officer will review those results and respond to questions.

The earnings press release that we will refer to in this conference call is available on our Web site at scana.com. I would like to remind everyone that certain statements that may be made during today's call which are not statements of historical fact are considered forward-looking statements and are subject to a number of risks and uncertainties that could cause actual results to differ materially from those indicated by such forward-looking statements, including the risks and uncertainties discussed in the company's SEC filings. The company does not recognize an obligation to update any forward-looking statements.

I will now turn the call over to Jimmy.

Jimmy Addison

Thanks, Betty, and good afternoon. I'd also like to welcome each of you to our call. SCANA reported first quarter earnings on a GAAP basis of $114 million or $0.94 per share compared to $109 million or $0.94 per share in the first quarter of 2008. This break even results were due primarily to lower operating and maintenance expenses and favorable weather in our electric service territory, which effectively offset the negative impact of lower natural gas margins, lower industrial and all system sales and share dilution.

Given the current economic conditions and the impact of dilution, we're very pleased with these first quarter results. As we looked to the remainder of 2009, we remained cautiously optimistic that the underlying strength of our service territories and our continued company wide cost control efforts will allow us to deliver solid financial results while still producing the level of service our customers have come to expect.

Now, I'd like to review the first quarter results for our principle lines of business. As a reminder, the majority of SCANA operations are regulated. Our regulated utility businesses; SCE&G, PSNC Energy, and Carolina Gas Transmission, collectively represent more than 90% of our total assets and annual earnings per share.

SCE&G, our largest subsidiary, reported earnings of $62 million or $0.51 per share compared to $60 million or $0.51 per share in the same quarter last year. These break even results are attributable to lower O&M expenses and favorable weather in our electric

service territory, which also set the negative impact of lower natural gas margins and share dilution.

As of March 31 of this year, SCE&G was serving approximately 652,000 electric customers, which represents a 1.4% increase during the past year. Over that same period, SCE&G's natural gas customer base increased 1.3% to approximately 309,000.

Yesterday, the South Carolina Public Service Commission approved an adjustment in the fuel component of SCE&G's electric base rates that will allow fuel recovery of higher fuel costs that were incurred for fuel to operate the company's electric generating plants over the past twelve months.

In recognition of the impact that rising energy cost are having on our customers, we agreed to spread the recovery of those costs over a three year period. And in consideration of the extended period, we're allowed to collect interest on the deferred balance. The Public Service Commission and the Office of Regulatory Staff, review SCE&G electric fuel costs at least annually and, if appropriate, the PSC authorizes an adjustment to the fuel component of rates to reflect increases or decreases in those costs.

Also yesterday, SCE&G and the city of Orangeburg reached an agreement for SCE&G to continue serving wholesale electric power needs under the existing agreement by extension through December 31, 2010. Orangeburg, long considered part of our native load, has been served by SCE&G and it's predecessor since 1919. SCE&G has served Orangeburg under the existing agreement with approximately 190 megawatts of capacity since May 2001.

In 2006, Orangeburg solicited competitive proposals for supply beginning 2009 from SCE&G and other providers. And it initially awarded the contract to another supplier. However, prior to commencement of service with the new supplier, Orangeburg decided to seek continued service from SCE&G under this mutually beneficial extension.

PSNC Energy, our retail natural gas distribution company in North Carolina, reported earnings for the first quarter of $30 million or $0.25 per share compared to $28 million or $0.24 per share in the same quarter in 2008. That improvement was due mainly to new rates effective in November of last year, more than offsetting the share dilution. At March 31, 2009, PSNC Energy was serving approximately 469,000 natural gas customers, an increase of 1.8% over the last 12 months.

SCANA Energy, our retail natural gas marketing business in Georgia, reported earnings of $22 million or $0.18 per share in the first quarter of 2009, compared to $22 million or $0.19 per share in the first quarter of 2008. This decline is also due primarily to dilution. At March 31, 2009, SCANA Energy was serving approximately 465,000 customers in Georgia, maintaining its position as the second largest natural gas marketer in the state.

SCANA Energy was again selected to serve as the regulated provider for the fourth consecutive two-year term beginning September 1st of this year. We're pleased to continue in this important role serving the elderly and low income citizens of Georgia. SCANA Energy has served as the State's only regulated provider since market deregulation, and currently provides service to approximately 100,000 customers.

Carolina Gas Transmission, our interstate natural gas transmission subsidiary, recorded earnings of $0.02 per share, unchanged in the same quarter last year. We continue to be pleased with the earnings stability we are seeing at CGT with its transportation only business model. We expect to see its earnings remain very consistent going forward and we forecast $0.07 per share on earnings for full 2009.

SCANA's corporate and other businesses, which include SCANA Communications, ServiceCare, SCANA Energy Marketing, and the Holding Company reported a combined loss of $0.02 per share, essentially break even when compared to the same quarter of last year.

We have completed two significant financings in the first quarter 2009 with the closing of the $102 million follow-on equity offering that was executed in conjunction with the addition of SCANA to the S&P 500 index, and the $175 million 30-year first mortgage bond offering at SCE&G. We're pleased with the reception of our strategy for both the equity and debt markets in these uncertain market conditions. As you were well aware, our ability to access capital markets is a key part of our financial strategy as we implement our nuclear plans.

For the remainder of 2009, we're currently planning a financing of approximately $250 million of SCE&G's first mortgage bonds in the second half of this year. Additionally, we're continuing to fulfill our equity needs by issuing new shares through our 401-K in dividend reinvestment plans. These plans will provide an estimated $85 million of equity during 2009, and we anticipate keeping this strategy in place for the foreseeable future. The minimally dilutive effect of these shares had been considered in our earnings guidance.

Yesterday, S&P announced a downgrade in our credit ratings. While we're disappointed in these downgrades, were pleased that they recognize the strength of SCE&G's secured ratings and maintained the A minus rating and changed the outlook from negative to stable.

From a practical stand point, we expect the vast majority of our debt needs to be fulfilled through SCE&G first mortgage bonds and short term borrowings of commercial paper. And are pleased that the overhang of the negative outlook is removed and the rating has been maintained to the A minus level.

With these solid first quarter results, we are reaffirming our 2009 earnings guidance of $2.65 to $2.95 per share, and continue to target a long term average annual earnings growth rate of 4% to 6%. We believe that with the continued uncertain economy, it is premature to adjust our guidance at this time, and we anticipate narrowing the range later in the year.

Keep in mind our guidance assumes normal weather in our electric and natural gas service area towards for the remainder of the year, and excludes any potential impact from changes in accounting principles or certain gains or losses from investing activities, litigation, and sales of assets. Other factors that may impact future earnings are discussed in our SEC filings.

Turning now to a few important regulatory filings in the coming months that I would like to address, on May 15th we will file our first quarterly status report with the Office Regulatory Staff as required under our recent base load review order associated with our new nuclear activities. This report will provide a detailed update our capital costs incurred and updated milestones for our new nuclear project. A copy of this report will be available on our Web site.

On May 29th we also expect to submit our initial annual revised rate adjustment filing with the Commission for the annual recovery of financing costs related to CWID [ph] The requested rate adjustments will be based on the incremental CWID incurred from the May 2008 filing through June 30, 2009, and on an updated capital structure. The ROE is set at 11%. New rates under this filing will go into effect October 30th of this year after review by the ORS and approval by the PSC.

And finally, I would like to thank everyone who participated in our analyst day event at V.C. Summer on April 2nd. We had a tremendous response with approximately 150 analysts participating in some fashion.

A replay of the webcast, the detailed presentations, and a transcript of the event are available at scana.com on the webcast and presentations page. If you have not had a chance to review this material, I would strongly encourage you to do so as we've provided a detailed update on our new nuclear strategy and pre-construction process, as well as recent and upcoming regulatory activities.

If you have any questions about these materials or our earning's results discussed here today, please contact our investor relations office

That concludes our prepared remarks and I'll now be glad to respond to any questions you may have.

Question-and-Answer Session

Operator

(Operator instructions) Your first question comes from the line of Michael Lapides of Goldman Sachs. Please proceed.

Michael Lapides – Goldman Sachs

Hey, guys. Congrats on a good quarter. Quick question, O&M down a ton year-over-year, first quarter to first quarter. Can you talk a little bit about that? Which segment did you – where did that occur? Meaning which of your businesses? How recurring is that difference when I think about the rest of 2009 or even first quarter of 2010?

Jimmy Addison

Sure, Michael. First of all, it really occurred across all of our businesses. It was a conscious effort. You've heard us talk about this for the last two or three quarters as it was obvious we were heading into a recessionary period. And our strategy has been to control those O&M costs that we can and restrain those that would not have an impact on safety, reliability, or customer service. And that's what we've done.

So it's really occurred across all of our businesses. There have been general reductions. For example, one of the more tangible ones is we only provided salary increases this year for predominantly our hourly employees. So the salary employees, the management, et cetera have not had wage increases over the last 14 plus months now.

With the slow down of the economy, we have in the past, with the robust growth we've had, we've had to rely on external contractors to do a lot of the expansion work. And with the slow down, we've been able to remove some of those contractors from the system,

use our existing personnel to do more of the construction work. So some of that cost is now being capitalized from our existing personnel where in the past it was more O&M expense.

Maybe a little surprising, bad debt expense is down. We're really encouraged by where we are to this point. We're still cautiously optimistic for quarter-over-quarter, that's over $4 million from a quarter-over-quarter year apart. And we attribute a lot of that to our enhanced process season in the Georgia market; enhanced security there.

We also attribute it to – a lot of it to lower commodity cost, especially on the GAAP side. The bills were substantially less than they were a year ago with the falling cost.

And then finally, with our – as you've seen our guidance for 2009, we obviously are in a year where we're not expecting growth year-over-year. And so our incentive targets for our incentive compensation throughout our employee base, including the management team, the board has set those at staggered targets that start at the middle of our earnings guidance and go up to the top of our earnings guidance. And so, we're clearly not expecting at the middle of the guidance to hit some of those. So we've got lower incentive CompCost recorded to date.

So that's a long answer to your question. But some of those we expect to be recurring, at least as long as the economy is in this kind of condition. And as the economy returns, we would expect some of these costs to come back. For example, the example I gave you about using our personnel to do construction cost. As we get to a more robust growth rate, we will have to bring back some contractors. And therefore our cost will go back up with those. But some of it will be more directly correlated to the economy.

Michael Lapides – Goldman Sachs

Got it. Okay. Thank you, Jimmy.

Jimmy Addison

You're welcome.

Operator

Your next question comes from the line of Steve Fleishman of Catapult. Please proceed.

Steve Fleishman – Catapult

Hi, guys.

Jimmy Addison

Hi, Steve.

Steve Fleishman – Catapult

Can you hear me okay?

Jimmy Addison

Yes.

Steve Fleishman – Catapult

Okay. Sorry. First, just a question on the weather impact because last year I think, you had below normal weather?

Jimmy Addison

That's correct.

Steve Fleishman – Catapult

So can you give us some sense? When you talk about favorable weather, is that primarily a benefit versus last year or was actually favorable versus normal?

Jimmy Addison

It's a little of both, Steve. It's $0.08 year-over-year, and about $0.05 of that is getting back to normal. So if you took ‘08’s quarter, you have to add $0.05 to get back to normal. And so we were about $0.03 above normal for the quarter.

Steve Fleishman – Catapult

Got you. Okay. When you gave guidance for 2009, you talked a lot about conservative assumptions that you incorporated.

Jimmy Addison

Right.

Steve Fleishman – Catapult

A couple things, one of them was this contract, the Orangeburg contract going away which you’ve now resolved.

Jimmy Addison

Right.

Steve Fleishman – Catapult

I think another was just – you needed to assume cost cutting which you seem to be doing extremely well. Maybe the industrial sales have been worse than you expected?

Jimmy Addison

Well, yes–

Steve Fleishman – Catapult

Is that a fair characterization of the gives and takes so far this year?

Jimmy Addison

It is. And the thing that I would say about the industrials is, if you remember our assumptions as we laid it out, we said what we did at the time that we gave guidance is we took every known; any plants that were idle at the time or any that have reduced production in any publicly known announcements, anything we knew from working with our customers. And we assumed that was at that level for the remainder of the year. So to the extent that some things got a little worse, in a few cases they have, that was not in our forecast. So that's a little bit of the downside.

It's an interesting thing though. If you look in our press release, you see on the unit sales in industrials were down a little over 18%. But I would tell you – I would remind you that only about 12% of our electric margins come from industrials. And in the industrial contracts they all have minimum demand takes.

And so our revenues are only down about half of that unit cost reduction. So for the units that were down about 18.5%, our revenue is only down about 9%. The cost of minimum takes are in all those contracts that are there to justify the investment of the equipment to initially serve the industrial customer.

Steve Fleishman – Catapult

That's interesting.

Jimmy Addison

Yes. That helps moderate it, and fairly typical in the business.

Steve Fleishman – Catapult

Okay. I guess just get one other question on the O&M savings. To degree that – let's say the economy stays as it is, quite weak, is this the kind of runway of O&M that could be potentially for the year? Or is this just – could it – it really is very significant savings.

Jimmy Addison

Yes, it is. And again, the bad debt was a significant piece of it. If the economy stays like this for a real extended period of time, even given the lower commodity cost and the benefit there, just pure credit quality will move that back up at some point directionally now. I don't know that it would move it back up to the same level of a year ago. But I do believe that directionally, we'll be in good shape compared to last year. I don't know if it will be quite – be able to maintain it quite at this level as we move throughout the year.

Steve Fleishman – Catapult

Okay.

Jimmy Addison

And certainly, at some point I hope the economy starts to recover. I hope we're able to reconsider salary increases for the employee base. It's really, really working hard.

Steve Fleishman – Catapult

Okay. Thank you.

Jimmy Addison

You're welcome.

Operator

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

Paul Patterson – Glenrock Associates

Hi, guys.

Jimmy Addison

Hello, Paul.

Paul Patterson – Glenrock Associates

Not to focus too much on the O&M, but I noticed that unemployment rate in South Carolina was one of the biggest states – biggest increases for a state recently. I was wondering, was that in your conservative guidance in terms of what we might be seeing in terms of sales growth? And how does that impact commercial and residential?

Jimmy Addison

The unemployment rate is up above 10%. It is one of the highest in the nation. We made the assumption really at a high level based upon what we expected usage to be based on the recessionary signals we were seeing when we put the plan together and released guidance a couple of months ago. And it's been fairly close to that. We've not seen a significant increase in conservation other than what we based the plan on earlier.

In the markets that we serve principally – you're getting a state-wide unemployment right there in the markets that we serve from the electric business; principally Colombia, Charleston, Aiken, Augusta. I don't know the exact unemployment rates in those areas, but I think there's been more stability in those areas. Colombia itself is basically made up of State government, the army base – largest basic training army base in the country, and the university. And not a huge amount of corporate headquarters and things of that nature.

And of course, Charleston has continued to perform fairly well. Some of the counties that we have very little service in have a 20 plus percent unemployment rate and there's very little population saturation in those counties. So it's really – a lot get lost in the average there. The short of it is, we still feel pretty good about our assumptions on the residential and commercial plan that we put together.

Paul Patterson – Glenrock Associates

Okay. Then on the filing at the office of regulatory staff, the update, is it likely that they'll give you a substantial change? I'm just wondering, with everything that's happened in the market for commodity prices and everything else, I know you're blocking a lot of things but, might there be a change in that? Or can you give us any of the flavor for or do we just have to wait until it comes out?

Jimmy Addison

I'm not sure I understand your question.

Paul Patterson – Glenrock Associates

I guess what I'm asking is, the filing that you're going to be making, which I believe was an update of your CapEx, et cetera, correct?

Jimmy Addison

Yes. On May 15th

Paul Patterson – Glenrock Associates

Yes.

Jimmy Addison

Okay.

Paul Patterson – Glenrock Associates

That's supposed to be an update. I'm wondering has there been a substantial change that you've seen in terms of your outlook with respect to the project?

Jimmy Addison

Well, this is a routine filing that we're required to do every quarter. We make a filing.

Paul Patterson – Glenrock Associates

Sure.

Jimmy Addison

We're not making it because we have some expected change. We're just making it because it's the first filing under the requirement. And we'll do that every quarter. I don't know of anything at this point that's a material change.

Paul Patterson – Glenrock Associates

Okay. I was just wondering if there's was any – if there'd be a change in the outlook at all. And finally, with respect to the equity offering, it looks like you guys are set for 2009. When do you think will be the earliest time you'd come back for a regular equity offering?

Jimmy Addison

Well, Paul, as we discussed at our analyst day at V.C. Summer a few weeks ago, we do think we're set for 2009. The plan would say that we need somewhere slightly under $150 million in each of 2010 and 2011. Our philosophy is, you can look back and see, has been to not have to raise the capital. Not be backed in a corner and have to raise it at the 11th hour, either debt or equity. And we'll continue to monitor those markets. I'm not trying to signal anything to you here. I'm not trying to tell you to expect us to do that sooner than 2010. But we're going to keep our eye on the markets.

I will tell you that we've got – I believe we've got more interest in our story than we've have had in years. 150 people interested in our story a few weeks ago at the analyst day is over triple our normal quarterly call. They're more focused on the call today than they are normally. So I think there's more interest in our company.

We've got kind of reverse inquiries coming in for folks that have interest from both sides. And that's a good thing. I think our story's starting to get out. And people starting to really understand the details and all the legislative and regulatory support.

Paul Patterson – Glenrock Associates

Okay. Great. Thanks.

Jimmy Addison

You're welcome.

Operator

Your next question comes from the line of Dan Jenkins of State of Wisconsin Investments. Please proceed.

Dan Jenkins – State of Wisconsin Investments

Hi. Good afternoon.

Jimmy Addison

Good afternoon.

Dan Jenkins – State of Wisconsin Investments

I was curious on the – you've mentioned the filing with the PUC related to the – or the order from the PUC related to the FAC adjustment that you're going to recover over a three-year period.

Jimmy Addison

Yes.

Dan Jenkins – State of Wisconsin Investments

But what was the amount of that? And what's kind of the annual impact that you expect to that from the recovery?

Jimmy Addison

Yes. It's a little an excess of $100 million. I think around one-tenth and it would be spread over a three-year period. And of course, the way we do that is we project the forecasted sales over that period and divide it over the expected units. So that it's recovered over the three-year period. And the commission has allowed us a carrying cost since we'll be collecting years two and three outside of the statutory one year period.

So I guess about – this really answers your question – about two-thirds of the $110 million being collected later than statutorily provided for so $70 million, or so.

Dan Jenkins – State of Wisconsin Investments

Okay. And what's the bottom line? Would that be pretty much a bottom line impact or some mark into it?

Jimmy Addison

There's no bottom line impact. There's just a timing on when it's collected. It's a full past through. It was all ruled as prudent so all the cost will be recovered. It's just a matter of timing.

Dan Jenkins – State of Wisconsin Investments

Okay. So it's more of a cash flow impact than earnings.

Jimmy Addison

That's exactly right. And that's why we've been allowed the interest periodic to recognize that it is in cash flow. It's our way of really reaching out to the customer's in this tough economic time.

Dan Jenkins – State of Wisconsin Investments

Okay. And then, I think on the clip filing, you mentioned that, I think, the end of October is when the first rated or bill impact would be seen.

Jimmy Addison

That's correct.

Dan Jenkins – State of Wisconsin Investments

And will the bill impacts would then be quarterly with each filing or is that an annual impact? Or how often do the bills get adjusted as the clip is incurred?

Jimmy Addison

Right. It will be annual. The law provides that we can file every 12 months, but no earlier than that. So what will occur is we stay on this schedule, at the end of each May, we would make the filing. And by law, five months later we'll have new rates into effect. And between the period that the new rates were affected by the next filing, the following year we will accrue AFC on that balances, not including cash rates.

Dan Jenkins – State of Wisconsin Investments

What's the current balance of clip related to the nuclear?

Jimmy Addison

Let me see if I have that. I was discussing that with our board earlier today. I believe that number would be $400 million for the upcoming filing. It's not very significant from the public information we filed with Base Load Review Act. And I believe it's about $450 million.

Dan Jenkins – State of Wisconsin Investments

Okay. Yes. Go ahead.

Jimmy Addison

Which would yield somewhere around a 2.15% and 3.15% rate increase or about $50 million on an annual basis.

Dan Jenkins – State of Wisconsin Investments

Okay.

Jimmy Addison

So that was our projected amounts from the original filing. So the actual expenses will of course determine that'll be in the filing at May 30th.

Dan Jenkins – State of Wisconsin Investments

Right. I was wondering if I could get a little more color on your electric margin. You talked about the weather benefits, but I was trying to know what was – if you could break out what this negative margin impact was from the lower industrials and the lower system margins?

Jimmy Addison

Yes. The industrials – the industrials were down about $0.02 per share and the residential and commercial were down about $0.04 per share so about $0.06 per share in total.

Dan Jenkins – State of Wisconsin Investments

How about the off-system?

Jimmy Addison

Yes. Off-system was off about $0.03. And of course that's just recognition of the economy around us as well as outside of our territory. So it appears that what we're purchasing a year ago are not purchasing today. They just don't have the need.

Dan Jenkins – State of Wisconsin Investments

Right. Could you give a little color on just what are you seeing from your economy, in your service territory? Is it better, worst, the same? Let's say let's take the fourth quarter or first quarter and kind of progressing through the year, you seeing any signs of life or any changes one way or another?

Jimmy Addison

Well, certainly as we were – as I was discussing a few minutes ago, the unemployment rate is higher statewide. We have seen a mixture of some industrials – some additional industrial kind of idling of facilities or cutting back of facilities. We've seen some – recently some announcements of a few industrial focus of expansions so things of that nature. So there's really a mixture right now. I really would not characterize it much different than what I read nationally.

Dan Jenkins – State of Wisconsin Investments

Okay. Thank you.

Operator

(Operator instructions) And your next question comes from the line of Chris Shelton of Millennium. Please proceed.

Chris Shelton – Millennium

Hey, guys. I was wondering – following up on a couple of questions. If you could break out – It sounds like you're fairly confident around the residential usage that you saw this quarter. But whether there was an impact – I was wondering is their a weather normalized residential usage that you could share? I mea, was it flat? Maybe directionally, maybe that's easier?

Jimmy Addison

Well, overall, you need to add – you need to take away $0.03 per share to get to the weather normalized earnings for the quarter. So the 94 would have been 91 and of course, that's on a diluted basis. So there's a $0.04 bad back If you assume same number of shares. That would take you back to 95, but that's kind of an overall basis. That considers all of those categories.

Chris Shelton – Millennium

Okay. And I guess, I was thinking more on just usage trend versus last year are residentials using about the same, or less, or more or – on weather normalized basis.

Jimmy Addison

The residentials are definitely using less. We estimated when we put our plan together, we assumed that the trend would be fairly consistent with the fourth quarter, which is where we were seeing a 1% to 2% reduction in usage. So we have definitely seen that continue in to 2009. The thing is offsetting that is very important for us and different than some of our fears. As we continue to see growth in each of the businesses.

Chris Shelton – Millennium

Yes.

Jimmy Addison

And in the first quarter alone, SCE&G electric we added 2,400 customers. That's not as many as 2008, but it's about two-thirds as many as we added in the first quarter or '08. In the gas business, we added 1,700 customers, almost three-quarters of what we did a year ago. In the North Carolina gas business, we added 1,200. That's down less than half of what it was a year ago, but the nice thing is we've got growth in each of this regulated businesses.

Again, Energy, I've talked about a couple of months ago about fairly aggressive campaign there. We've added 6,400 customers in the first quarter over in our Georgia marketing business. So that's really helping mitigate and that was part of our plan was to use this existing temporary growth to offset some of the usage decline on a per customer basis.

Chris Shelton – Millennium

Got it. Helpful. And just one clarification, the one that you present – usage reduction you guys have predicted, is that overall retail or is it just residential?

Jimmy Addison

Well, that's really related to residential and commercial.

Chris Shelton – Millennium

Okay.

Jimmy Addison

Yes. We really took an approach on the industrial so at least all the large ones are the customer-by-customer basis. We have so much interaction on that.

Chris Shelton – Millennium

Got it. Thank you very much, guys.

Jimmy Addison

You're welcome.

Operator

(Operator instructions) Your next question comes from the line of Jim Ferguson of AIG. Please proceed.

Jim Ferguson – AIG

Hello. Question on your funding requirements in 2010 and 2011. Could you comment on the issuance or potential issuance of debt at the holding company to meet some of those needs?

Jimmy Addison

Yes. We don't have any needs outside of SCE&G for debt until at least two years from now. We don't have any in the balance of 2009 or 2010. And the only need we have in 2011 would be a refinancing of expected maturity in that timeframe. So there's no new data at all there. Any debt is related to SCE&G to the CapEx program and would be (inaudible) through first mortgage bond on the debt side.

Jim Ferguson – AIG

Great. Thank you.

Jimmy Addison

You're welcome.

Operator

And that concludes the question-and-answer session. I'll now turn it back to Mr. Jimmy Addison for closing remarks.

Jimmy Addison

Well, thank you. And I want to thank all of you for your interest today. On summary, we're off to a solid start in 2009 even in these uncertain times. I'm very pleased with the actions of our management team who's taken to respond in these economic challenges and I'm confident about our prospects for a solid year. Thanks for your attention today.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes the presentation. You may now disconnect.

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