



SNL

Q&A

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Southern Co. Executive Vice President and COO Thomas Fanning

By Jay Hodgkins

Of all the investor-owned utilities in the U.S. power sector, [Southern Co.](#) perhaps more so than any other exudes a quiet confidence. The company can play things close to the vest, but its investors are happy to go along that path as they are there for the no-thrills "regular, predictable, sustainable" growth, which Southern has invariably delivered over time. The company has a knack for getting what it wants — reference U.S. Department of Energy awards for carbon capture, smart grid deployment and new nuclear loan guarantees as well as some of the most constructive regulatory environments in the country.

Executive Vice President and COO Thomas Fanning, who has also served as the company's CFO and as CEO of subsidiary [Gulf Power Co.](#) during his 28-year career at Southern, has had an indelible impact on the message the company has presented so successfully to investors and regulators over the years. Fanning on Feb. 25 took time out to discuss with SNL Energy the future of Southern's generation strategy considering the progress developing [Vogtle 3 & 4](#), the pending nature of several new federal air regulations and the development of new clean energy technology.

The following is an edited transcript of the interview.

SNL Energy: What is Southern's core philosophy behind all of the decisions the company makes regarding its generation strategy?



Thomas A. Fanning,
Executive vice president
and COO, Southern Co.
Source: Southern Co.

Fanning: The simple answer is, in order to meet the growing needs of the economic Southeast, we need all the arrows in the quiver. And what we mean by that is we need all the major sources of generation to bring to bear in the market — nuclear, clean coal, gas, renewables and energy efficiency. Remember, energy efficiency is an important part of our generation strategy because if we're successful at energy efficiency, that avoids the need to build new generating capacity. And if that's good economic sense, good reliability for our customers, it's a good thing for us to do.

Can you talk about how Southern managed to [secure the first](#) of the U.S. Department of Energy's loan guarantees for new nuclear generation?

All credit is due to the environment we work in here in Georgia, which is a supportive governor, a supportive legislature, supportive regulation and support from the local communities. We believe there are three criteria that companies should have to pursue new nuclear, and that is scale, which we have; credibility in nuclear operations, which we have; and credit quality. We think financial integrity is really important. That is why we believe Southern was selected first for these loan guarantees.

Southern still must receive U.S. Nuclear Regulatory Commission approval of its construction and operating license for the [Vogtle](#) expansion, and the NRC has [expressed concerns](#) with certain aspects of [Westinghouse Electric Co. LLC's AP1000](#) reactor design. Can you address the risks that remain for Southern to bring this project to fruition and how confident are you now that these units will be built?

We're confident. As with any big project, there are always bumps in the road, but we feel like with the technology we've chosen, Westinghouse-[Toshiba Corp.](#), with one of the major contractors, [Shaw Group Inc.](#); with the ongoing process we have in Georgia to review the progress of this project, we feel very confident we can execute successfully.

We think [the NRC's review of the Westinghouse reactor design has] been a constructive process. We think it will get resolved in due course and we don't see an impact right now on the schedule.

Editor's note: The conversation shifted to the risks of having project partners. We've had a terrific relationship with our three partners there — [Oglethorpe Power Corp.](#), [Municipal Electric Authority of Georgia](#) and the [City of Dalton](#). We work with them very closely on a number of fronts. For example, we have a jointly owned transmission system here in Georgia. We have a great history with those folks, and they have a great track record of performing well, and I think everything's going to be fine.

Southern's Transport Integrated Gasification technology is being implemented for the first time in China right now and the company hopes to deploy it in Mississippi if the [Kemper County](#) integrated gasification combined-cycle project is approved. What is the potential for TRIG to be adopted by the market, domestically and internationally, and how big might that market become?

We're actually very excited about [the potential for TRIG]. Southern has a terrific history and track record of investing far more than anybody in our industry in research and development. In fact, we have developed lots of technologies at Southern that have ultimately benefitted our customers both in terms of cost and performance, notably scrubbers and [selective catalytic reduction systems]. Over a decade ago, we started looking at the problem of gasifying coal and we, along with [KBR Inc.](#) and along with some funding from DOE, developed a technology that we think hits a sweet spot not only for the United States, but also frankly for the world in the clean coal arena.

You may know that 50% of the world's coal and 50% of the United States' coal is what they call low rank, or low grade coal. Our technology is a gasification technology using a fluidized bed process and, frankly, the characteristics of low rank coal actually aids in the efficiency of our process. If you want to deal with carbon, if we think about different ways to deal with and capturing and sequestering carbon, this application is particularly efficient because as we gasify the coal we produce a concentrated syngas stream. Because the stream is concentrated, we have a reasonably efficient process of stripping out the CO₂ and then ultimately sequestering it. What we're proposing in Kemper is to remove 65% of the CO₂ and sequestering it via enhanced oil recovery. So it will have the equivalent carbon footprint of a natural gas plant with a much lower cost and stable, less volatile fuel source, in this case Mississippi lignite.

We think this technology has great application around the world. We have [already entered](#) into a license with Dongguan Power and Chemical Co. in China to retrofit a 120-MW gas plant. What's interesting about that is China has plentiful resources of low rank coal, so rather than relying on more volatile natural gas, they can take advantage of a natural, native resource and use it in their process. We have entered into that license. Their plant will be complete in 2011. So not only is it an attractive commercial arrangement for us, it gives us an advanced look at all the issues around implementing this new technology, certainly well before we'll need to have the Mississippi plant in service, which is targeted for 2014. Beyond the Dongguan effort, we are involved in a process and were selected on the short list to begin some initial engineering work in Australia in the Latrobe Valley in Victoria. And also the idea of using this technology has really started to take off and we have been approached by a lot of third parties to represent Southern Company in licensing the technology. I'm aware of over 30 different potential [international] projects right now. We have not committed right now to any of those projects and we have not committed to any of the potential partners, but we are evaluating our posture at this point. So we are very bullish on this. When you think about preserving coal as an important part of this nation's energy future, we think our technology, which is in our view the most viable commercial technology dedicated to low rank coal, we think it has great promise.

What will the impact of new U.S. Environmental Protection Agency regulations be on Southern, both in terms of the need to retire old coal units and add environmental retrofits to additional units, as well as opportunities to replace retiring coal units?

Our evaluation of what we call unit retirement studies has been ongoing for decades. It's part of our normal evaluation the generation portfolio — nuclear, clean coal, gas, renewables, energy efficiency — and identifying for the benefit of our customers which resources are the most reliable, have the best economic consequence and the least amount of environmental impact. So this is an evaluation that has been going on for decades. There's nothing new here in terms of any thought process. We constantly look at the cost, for example on coal, of adding SCRs, scrubbers, baghouses and a variety of different technologies to meet the best portfolio we can give to our customers for those three criteria going forward.

We're really not ready to say anything publicly in terms of our thinking on the ultimate composition of our coal fleet. Certainly, anybody would agree that the landscape for changing regulation continues to evolve and we're following that very closely. Obviously, how that evolves, how those changes resolve themselves, will have a great bearing on our thinking. But right now, we're sort of following it carefully as we always have.

The environmental expansion plan that includes things like scrubbers, SCRs, baghouses and everything else has been a plan that we've had for a long time, and we're just executing the plan. We will have completed by 2011 somewhere around \$7.5 billion in environmental controls, primarily scrubbers and SCRs, and we've had a great track record there. We reduced NOx and SOx both by about 70% and at the same time faced increased demand at about 30%, so we've had a terrific track record. My view is that we probably controlled over 12,000 MW of coal generation by this plan through 2011. And beyond that, we'll see.

Southern owns more than 51,000 MW of generating capacity, counting the regulated and Southern Power Co. fleet together. Does Southern have a specific goal for fleet growth by number of megawatts owned?

I certainly wouldn't phrase it in terms of trying to reach a megawatt target. Essentially, it's this: We have a long-term objective of growing our earnings per share by 6% a year. We use the words regular, predictable and sustainable around that. So we're very conscious of a model which has a risk characteristic similar to a retail regulated model in the competitive generation business where we have long-term contracts, credit-worthy counterparties, we don't believe in taking fuel risk. And that's the way we move ahead on our business. In terms of Southern Power, we really have two approaches to that business. One is to do greenfield development, that is to secure long-term contracts with credit-worthy customers and build a long-term relationship with them. The other is to acquire assets. When we acquire assets, we really don't think our investors particularly like the merchant model. So even in an acquisition, we would have a clear-eyed way to associate with those assets a long-term capacity sale somewhere. So when you think about Southern, we wouldn't put out a megawatt target. We would rather follow a long-term earnings objective and as we evaluate how our retail business grows, evaluate certain targets for Southern Power, and make all that work. And do it in a low-risk business profile.

In a normal economy, at least until this latest challenge, we had been growing generation on the system at about 900 MW per year. But that's just following demand. That would be regulated, the demand of our retail customers.

Do you have any closing thoughts about Southern's generation strategy?

I think a re-emphasis on how we started. There are so many challenges facing the economy. And when I think about how important electricity is to meeting the needs of a growing economy, and hopeful we will be growing again, we view our business very seriously in terms of providing the best reliability at the lowest cost with the minimal environmental impact. To do that, we are going to need all these different choices — nuclear, clean coal, gas, renewable, energy efficiency — brought to bear in a successful manner. And I would add we think it is of continued importance for Southern to play a paramount role in research and development and assure the technologies that are necessary to meet the future are invested in years in advance.

