

Coal Technology '82

5th International Coal Utilization Exhibition
& Conference

VOLUME I
TRANSPORTATION/EXPORT
(Including Keynote Session)

December 7-9, 1982



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"INVESTOR OWNED UTILITY'S COMMITMENT TO
COAL USE & DEVELOPMENT"

BY:

W.B. Reed
President
SOUTHERN COMPANY SERVICES, INC.

Thank you, Mike.

I wonder if it has struck you -- as it has me -- that it's particularly appropriate for us to meet here in Houston. This city has been called "the energy capital of the world." As you know, Houston first received that title because of its marriage with oil. And yet, here we are -- meeting in Houston to discuss coal.

To my mind, this shows how the age of petroleum is blending into a renewed age of coal. We have entered a time when coal will be the major energy resource on which the free world can rely -- not just for today or the near term -- but for years to come.

But, in truth, anyone who thinks we're here just to talk about coal is focusing on too narrow a point. We're here to talk about the energy future -- because that's what coal is.

Coal is the foundation for the free world's energy future -- and especially for America's energy future. At least that's what coal could be. And should be. And will be -- unless we Americans put unnecessary obstacles in our own way.

The possibility that this nation might indeed limit its own ability to realize the potential of coal is very real. And this grave possibility should be a matter of concern to the whole country, as well as to those of us gathered here. It is certainly a serious concern to the electric utility industry and to the system of companies which I represent.

In the Southern electric system alone, we'll bring six new coal-fired units on line during the next 10 years. Our operating companies -- which serve nine million people in Alabama, Georgia, Florida, and

Mississippi -- burned more than 37 million tons of coal last year. That placed the Southern electric system among the top three users of coal in the United States. And by the end of the decade -- in 1990 -- we expect to be burning coal at the rate of 50 million tons a year.

In quoting these statistics, it is not my purpose to impress you. What I wish to do, rather, is convince you that we come before you as friends -- knowledgeable friends.

As knowledgeable friends and working partners -- we know that coal is vital -- not only to electric utilities but, more important, to the nation's energy future. Coal is the transition fuel -- the energy bridge between today and tomorrow -- between this century and the next.

But we must work for coal -- before coal can work for us. That is why we have an obligation to step forward -- to lead the way -- to speak out. We must ensure that coal does not become an endangered energy source. And if we are to make that commitment -- we must make it now.

Today's coal industry is one of the most highly regulated businesses in America. From the moment coal is scooped out of the earth -- through the time when it's dumped in the gondola -- until the day it's burned -- coal is smothered under a blanket of regulation.

However well-intended some of this regulation may be, large and troubling questions remain. Do the regulations do what they're supposed to do? And, does the regulation cost so much, and achieve so little, that we would be better off without it? Or with considerably less regulation, better drafted and implemented more wisely?

Whatever benefits coal regulations may bring, they also impose costs. Tremendous costs. A major study prepared for the Edison Electric Institute predicts that environmental regulations could increase capital expenditures among electric utilities during the 1980s by more than

\$55 billion. Unfortunately, many people think these burdens of regulation are absorbed along the way -- by industry. But you and I know that's not the case. Ultimately, it is the consumer -- and the consumer alone -- who must pay the regulatory bill.

And now there's a move afoot to heap even more regulation on the coal pile. And, once again, there's cause to question whether the regulations will actually do any good!

I'm referring specifically to the acid rain question and to what I view as a premature rush to regulate. In effect, a move to convene court and impose sentence without a case.

As with most complex scientific issues, we have far more questions than answers about acid rain. For example, we suspect that acid rain is not just a phenomenon of the industrial age. In fact, it may have existed for thousands of years. But we are not sure.

Some suspect that acid rain is becoming more prevalent. But we are not sure.

And we suspect that industrial emissions -- including those from coal-burning power plants -- might be a contributing factor. But again, we are not sure.

However, of one thing I am sure. The acid rain question is not going to dry up and blow away. And we don't want it to just blow away.

If there really is a growing acid rain problem -- and if power plant emissions are a significant contributor -- and if there are workable solutions to be found -- then we'll be among the first to roll up our sleeves and go to work. Now those are big "ifs" -- but we're just as eager as anyone to see these "ifs" resolved.

That's why -- in a recent speech before one of the South's foremost environmental groups -- the president of The Southern Company -- Alvin Vogtle -- put forth what I believe is a realistic and workable proposal. And I'd say that even if he wasn't my boss!

In this talk before The Georgia Conservancy, Alvin Vogtle emphasized a three-step approach to the acid rain question. The positive, constructive program he set forth is based on the need to -- investigate -- educate -- and then regulate.

Bear with me, if you will, while I explore each of the elements in the program we propose. First, let me say that I do not hold the credentials to lecture on the scientific findings about acid rain. However, I have talked with knowledgeable scientists and -- like many of you -- I have read reports on acid rain from federal commissions, blue-ribbon committees, and industry task forces. Among the reports I've read, there's one I'd like to call to your attention. It concerns the testimony given this summer before the Environment and Public Works Committee of the United States Senate.

At this hearing, Dr. Volker Mohnen, director of the Atmospheric Sciences Research Center, said that a reduction in sulfur dioxide emissions would not yield an equal reduction -- and might not yield any reduction -- in acid rain in the eastern United States. Then a spokesman for the Environmental Defense Fund said that reductions in sulfur emissions will lead to a nearly comparable reduction of acid rain in the Northeast.

Now, we all know enough to realize that this disagreement does not reflect to the discredit of science, nor to the discredit of these capable men. But even to a non-scientist like myself, the differing views expressed by these two authorities make one thing clear -- we do not know

enough about the relationship between sulfur emissions and acid rain.

When Ph.D.s disagree, what's a poor layman to do? There's a commonsense answer that every layman will understand. Be patient -- but be persistent. Wait for clear answers -- but keep watch to ensure that the search is diligently pursued.

But how long should we wait? That's the question raised by some who believe that grave harm may be continuing while researchers pursue their investigations. And it's a valid question. We cannot wait forever. Our natural inclination to avoid choice amid such a cloud of uncertainty must not become an excuse for indefinite delay. Would it seem unreasonable, then, to limit the delay to five years?

I didn't pick that five-year figure at random. The Congress established a 10-year acid rain study program in 1980. And there are proposals in Washington right now to speed up that study program, to cut it to five years, and to focus on the issues most crucial to formulating policy. We in the Southern electric system fully support this move to accelerate both the funding and the work of that study program. And I believe this support is widespread throughout the electric utility industry.

The agenda we propose for approaching the acid rain question has three elements -- investigate, educate, and regulate. And as I've just said, we in the electric utility industry give our full support to speeding up the "investigate" phase. Now, why do we propose education as a second phase?

Let me begin by repeating a simple fact of economic life -- a fact that we in business are well aware of. The public pays for everything it gets. Not only is there no such thing as a free lunch -- there's no such

thing as free environmental quality, either. Clean air and clean water have a price.

By saying this, I do not mean that price alone should be our guide. If clean air and clean water have a price, it is true also that they have a value. One of the triumphs of the environmental movement, is that, in the short span of about 20 years, virtually every American has come to accept the value of environmental quality as a goal.

But, there's another simple principle of economic life that every American understands and accepts. The price paid should bear some reasonable relation to the value received. Let us assume that after this period of investigation -- and let's put that at five years -- the scientists will have some clear-cut proposals to bring before the public and their elected representatives. We'll need wholehearted support to get those proposals accepted enthusiastically by all segments of the public -- by young voters, by retired folks, by industry, by everyone who will have to pay part of the price. To get that broad support, we must be able to explain exactly what the nature of the problem is and exactly what people can expect in return for paying the price.

In truth, we cannot give such an explanation today. That's why any present proposal to rush into regulation is unacceptable. Research people in our company studied carefully one of the proposals that recently came under consideration in Congress. It's called the "Mitchell bill." If it had passed in its proposed form, we estimate that the Mitchell bill would have added at least 20 to 25 percent to the average residential customer's electric bill.

Our company has had some experience with this sort of thing. So,

I'll tell you what we've learned about going to the public and telling them to expect higher electric bills.

They don't like it.

And I don't blame them one bit. Nobody enjoys paying higher bills -- even when the reasons can be clearly explained.

So imagine how much greater the public outcry would be under the impact of premature legislation -- especially when we couldn't say clearly what people would receive in return for paying more.

There's no question that we're dealing with a complex issue. And we're dealing with a political issue -- political in the sense that it involves large-scale public policy. The success enjoyed thus far by the environmental movement has been made possible by its efforts to educate people. Public support has rested directly on our ability to explain the issues, the hazards, the remedies, and the costs.

Do we hope to get similar public support for an effective program to deal with acid rain? Then we'll have to offer similar education on the issues, the hazards, the remedies, and the costs that will be involved. But, until we gather the facts through investigation, we cannot succeed with the work of education.

Investigation.

Education.

And then we'll be ready to develop the necessary regulation. That's the third phase of our proposed agenda.

Believe me, this subject of regulation is one I can discuss with confidence. I wouldn't recognize a hydrogen ion if it came up and bit me.

But I've been working in and with America's most-regulated industry ever since I made the transformation from student to engineer more than 30 years ago.

Some people are quick to assume that we in the utility industry have one and only one attitude about regulation -- that we are just plain against it. That's not quite true. We deliberately chose -- perhaps for reasons only a psychiatrist would understand -- to make our careers in a highly regulated business. We're quite used to living with regulation -- as are most of you. In fact, we're the first to acknowledge a need for well-conceived controls.

However, we've also become very sensitive to poorly conceived regulation. Living with regulation as intimately as we do, we can spot a bad regulation before it leaves the banks of the Potomac.

There are two sure hallmarks of bad regulation. You can't tell in advance whether it will achieve its proposed objective. And you can't predict with reasonable accuracy its ultimate cost. Both of those characteristics apply to the Mitchell bill -- even in its revised form -- and to several other legislative proposals under discussion.

I've already noted that reputable authorities disagree as to whether reducing sulfur emissions will bring comparable reductions in acid rain. Every person who has read, seen, or heard anything about acid rain probably has an opinion on one side or the other of that disagreement. Speaking for myself, my industry, and our shareholders -- we have a great interest in the outcome of this debate. And we feel a great obligation to work for legislation that is based on fact -- and regulation that is cost-effective. Meanwhile, the very fact that there is such debate argues

persuasively that we are not yet ready to regulate.

The other mark of poor regulation -- the inability to predict ultimate cost -- adds further reason to avoid hasty regulation. As I've said, we estimate that the Mitchell bill would cost the Southern electric system at least \$845 million per year. This would add at least 20 percent to the average residential customer's electric bill. I assure you, that estimate was not cooked up casually. It was calculated carefully -- because, like most of you who rely on advanced planning -- we need estimates that cover every contingency as accurately as possible.

Even so, our research people found it necessary to qualify their estimate by saying that "...many factors which could cause these costs to increase by a factor of two or more have not been included in these considerations."

If we rush to regulate now -- before we investigate and educate -- it would be the same as asking the public to sign a blank check, with no assurance of what they'll get in return. And speaking for myself and our companies, we will not ask our customers to sign a blank check in return for a question mark.

What we are asking for -- and what I hope you will join us in working for -- is a positive approach to the acid rain question. A positive approach that says let's investigate -- to make certain that we have a problem and to measure the dimensions of the problem. Once we have the answers, let's educate. And finally, if there is a problem -- and if coal emissions are contributing to that problem -- then let's regulate.