

Remarks of Paul D. Koonce
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“Working Together: The South and America’s Energy Future”

Good morning.

On behalf of everyone at Dominion, I’d like to welcome the Southern States Energy Board to Richmond.

Our company has a long and productive relationship with the board. We applaud your history of innovation and interstate cooperation. Your work has gone a long way toward securing a reliable energy future for the South.

Over a span of more than a half-century, the SSEB has made great contributions to our region:

- By advocating sound energy policies...
- By supporting new technologies and research and development...
- By promoting the South’s abundant natural resources...
- And by providing one of our region’s leading forums for the exchange of ideas on energy.

And the SSEB is still taking on some pretty big challenges. They range from supporting development of cleaner technologies for the use of coal—a major source of jobs, revenue and energy in the South—to exploring the expanded use of renewable resources, particularly the rich biomass byproducts from agriculture and forestry.

Based on more than 50 years of leadership from the SSEB, it’s clear that the board will continue to play a vital role in bringing sound energy solutions to the South – and to our nation.

I believe the South, working in partnership, can help guide America out of some of its most pressing problems, including our energy and environmental challenges.

So let me offer a few thoughts on those “partnership” and “leadership” themes today.

First, we start from a very strong foundation.

We have abundant natural resources, from coal to natural gas to oil. They will remain key elements of our nation’s energy picture.

We have a proven record of leadership and innovation, all the way back to the days when the South was first “electrified” in the 1920s and 1930s.

And we share a belief that economic growth is a good thing. We know that government and business should work together. This spirit of collaboration has built the modern South. Of course, people flock to the “Sun Belt” for the nice weather. But more importantly, they come here because of the jobs, from the aerospace opportunities of the 1960s to the information technology of today.

But here’s what I think may be our strongest asset – our hidden secret, if you will.

In short, it’s our sense of partnership...our ability to work together...our commitment to cooperate. Back in the 1950s, the SSEB itself grew out of this spirit of cooperation, as southern governors decided they should work toward promoting our region’s energy future.

We see the results of that spirit of partnership in many ways, every day.

Southerners have learned that we must work together, across state lines, to recover from devastating natural disasters – including hurricanes. We help each other out. We look out for each other.

Back in August, Hurricane Irene slammed our service territory, knocking out power to more than 1.2 million customers. In many places, the damage from Irene was severe.

Working together, crews from all across the South – from Alabama, Georgia, Kentucky, North Carolina and South Carolina, among others – worked day and night alongside Dominion crews, with the full support of their states. Together we replaced over 8,000 spans of downed wire, almost 2,000 utility poles, 4,000 cross arms and 1,400 neighborhood overhead transformers.

I’ve heard countless stories of crews from other states receiving a hero’s welcome when they drove up to neighborhoods. And once the work was complete, I’m told that North Carolina state troopers escorted Georgia Power crews through Charlotte at rush hour, insuring their safe and quick return. Now that’s the spirit of partnership!

At Dominion, we are proud to be able to help our sister utilities in the South when the need arises. Just a few years ago, for instance, the cover of our annual report featured two Dominion linemen in bucket trucks completing line repairs. The picture was taken in Louisiana, in the aftermath of Katrina.

It’s an example to the rest of the nation about the power of cooperation.

More recently, we sent a team of our most experienced transmission line crews to assist Southern Company after a series of devastating tornadoes caused massive damage to the electrical system.

That kind of shared response offers an example to the rest of the nation about the power of cooperation.

Our states also share a commitment to economic growth.

I must admit that “cooperation” isn’t the first word that comes to mind when I think about the Southern states and economic development. When a plant or a data center decides to locate in South Carolina or Alabama or Kentucky, rather than here in the Old Dominion, we are not too happy about it.

But I think all the southern states hold a core belief that an expanding, prosperous economy is a good thing. I think of it as a partnership of positive attitudes.

This is an important message we can send to many other states, highlighting a way out of the current economic doldrums.

In the South, we know that a “pro-business climate” is essential for economic well being ... and that means that government and business view themselves as partners, not adversaries.

It means that we strive to create a climate of reasonable taxation and regulatory certainty. And it means there’s a bipartisan commitment to working together to promote growth, to create jobs, and to ensure that work is available for those who want it.

This bipartisan commitment shows up clearly in the “best states to do business” lists published annually. In all four major lists – compiled by CNBC, Forbes, Site Selection Magazine and Pollina Corporate Real Estate – the South plays a dominant role. And in three of the lists – by CNBC, Pollina, and Site Selection – a southern state ranks first.

The lesson here is simple: Bipartisan cooperation ... aimed at promoting economic development ... is the best path out of the economic slump.

Our states also share a commitment to energy.

The numbers should be familiar to all of us. Still, they are worth repeating.

- According to the U.S. Energy Information Administration – the keeper of all energy data – four of the top 10 natural gas producing states are SSEB members. These states account for almost half of total U.S. natural gas production.
- Also according to the EIA, seven of the nation’s top 20 crude oil producers are SSEB members. These states account for almost one-third of the total U.S. oil production.
- And nine of the top 20 coal producers are SSEB members.

But our story goes well beyond raw materials. The South has a spirit of commitment to energy innovation that improves the lives of its citizens ... innovation that promotes continued economic growth... and also protects the environment.

For example, the South learned early on the importance of nuclear power as a clean, reliable and economical energy source. The SSEB itself was formed from a partnership of southern states designed to promote and explore nuclear energy. Through the years, the board has been a consistent, firm supporter of this valuable resource.

In fact, in 2008, according to the EIA, nearly 44 percent – almost half – of the electricity generated by nuclear power in the U.S. was produced in SSEB states.

Utilities throughout these states are planning for a new generation of nuclear projects. For example, in Georgia, site work is well underway for Southern Company's two new reactors at Plant Vogtle.

In South Carolina, SCE&G is moving forward through the rulemaking process with two new reactors at the V.C. Summer Station.

And here in Virginia, Dominion has applied for and is considering a third reactor at our North Anna Power Station.

Besides the nuclear commitment, the South knows the importance of other forms of low-cost, base-load generation.

And yes, that includes coal.

While some rejoice at the prospective death of coal-fired generation, the South sees it differently. Our region is adding new coal capacity. According to the National Energy Technology Laboratory – yet another federal agency that keeps tabs on the energy picture – seven new large coal units entered service last year in SSEB states.

Next year, Dominion Virginia Power will begin operation of our Virginia City Hybrid Energy Center in Wise County. The station will be powered primarily by coal, but also by as much as 20 percent renewable biomass.

The Virginia City station will provide more than 580 megawatts of much needed generation, while also being equipped with some of the most advanced environmental controls in the country. We deeply appreciate the strong support that the SSEB gave this project during the regulatory approval process.

To our south, other projects are under development or nearing completion.

- In North Carolina, Duke Energy anticipates the commercial operation of a new unit at its Cliffside facility using clean-coal technology to generate more than 800 megawatts.
- In Arkansas, SWEPCO's John W. Turk Jr. Power Plant is moving toward completion in 2012 – using an advanced “ultra-supercritical” system to conserve fuel and reduce emissions.
- And in Mississippi, work is underway on a new coal plant in Kemper County. The Mississippi Power facility, part of the Southern Company, will produce more than 580 megawatts of power through an advanced gasification system – using locally mined lignite coal.

And research is underway throughout our region on methods and ways that further improve coal's environmental performance, ensuring its future as a prime energy resource.

I salute these efforts. For many years, Dominion has supported carbon storage research coordinated by SSEB and conducted by Dr. Michael Karmis, a distinguished faculty member at Virginia Tech and head of the Virginia Center for Coal and Energy Research.

Dominion provided a needed match for federal funds secured by SSEB for this project.

The southern states also share a commitment to fuel diversity – and realize that over-reliance on any single fuel type could produce dangerous consequences for our consumers – and for the entire economy.

In addition to new coal generation, units using advanced natural gas technology are under construction in many states. For instance, our neighbor to the south, Progress Energy Carolinas, has announced ambitious plans for a new fleet of gas-fired units. In many cases they will replace older, less efficient coal-fired units.

Finally, the South is making great progress in its use of renewable resources. We are often criticized – unjustly I think – for not emphasizing renewable energy. This criticism ignores the thousands of megawatts of hydroelectric power that have supplied the South for decades, not to mention some of the largest wind farms in North America on the plains of Texas and Oklahoma.

The key difference here, I believe, is that the South insists that renewable resources be cost-effective – and not penalize consumers or add an unnecessary burden to our states' economies.

You see examples of these cost-effective projects throughout the South. In Davidson County, North Carolina, a 17-megawatt solar farm will produce electricity for Duke Energy. The South's forestry and agricultural operations are certain to become an important fuel source, and several utilities – including Dominion and Progress – have plans for greater use of biomass in the future.

Again, the key word here is “cost effective.” Some resources – including offshore wind – hold great potential – but cost-wise, they are just not competitive – yet. But with advancing technology, that picture could change. And when they become cost effective, Dominion and our peer utilities in the Southeast will be leading the parade!

And perhaps most important of all: One of the underlying strengths of energy policy in the South is a constructive regulatory climate. This provides a strong foundation for our energy future ... and rightly notes that one of the best ways to protect consumers is to ensure that they have adequate and reliable sources of power – and that utilities have certainty of cost recovery.

In the current financial climate, raising large amounts of capital for major energy projects – on favorable terms – is a very tough task. The southern states have squarely confronted this problem. Several have adopted policies allowing the recovery of construction costs while work on a plant is underway... instead of deferring recovery, in some cases for many years.

Right now, companies in Georgia, South Carolina and Florida are already recovering the ongoing costs of developing additional nuclear units through what we call rate “riders.”

Here in Virginia, legislation passed in 2007 authorizes “riders” for most of our major projects. For example, we were able to recover ongoing costs during construction of both our Virginia City and Bear Garden stations.

I believe these riders are a “win” for all parties involved.

First and foremost, they are a win for customers.

Gradual, ongoing recovery eliminates the phenomenon known as “rate shock” – where massive new costs enter the rate base all at once. In those cases, rates can skyrocket, catching customers off guard and straining their budgets.

The “riders” benefit customers by lowering the financing costs that are ultimately passed on through rates. A guaranteed revenue stream from the project makes it easier to obtain capital on favorable terms. And that, in turn, lowers the cost of capital for the utility, and ultimately, the project’s cost for customers.

The riders are also beneficial for utilities – and prime incentives for pushing forward with major projects.

Bottom line: the South is well equipped to show the entire nation the path to fuel diversity and greater energy security.

Working in partnership, as we do through the SSEB, our voice will be even stronger in the national forum.

And that note about partnership brings me to my final and perhaps most important point. It centers on environmental policy.

The South should be proud of its environmental commitment. I am very proud of my own company’s commitment. Over the period from 1998 to 2015, Dominion Virginia Power’s environmental improvements will drastically reduce emissions of mercury, sulfur dioxide and nitrogen oxide from our fleet – by more than 80 percent.

The South has always believed that energy production and environmental protection are not mutually exclusive. But the current flurry of proposed environmental rules – and their unrealistic compliance timeframes – seems to be counter-productive. They undermine confidence in environmental regulation ... raise the possibility of drastic cost increases for consumers ... threaten our jobs-creating economies ... and our energy security. And they do it all at the same time.

There’s a role for the South in confronting this dilemma. Working in partnership, the Southern states and utilities can be a powerful, effective voice to help make sure regulations are realistic ... rational ... achievable ... and cost-effective.

Let me offer a few suggestions.

- First, I'd like to note that states are routinely given multiple opportunities to comment or challenge proposed federal rules. If we find rules unworkable ... the timetables and technology requirements impossible to meet ... costs to customers damaging and unreasonable... we should speak up and file comments.
- Second, be sure it's constructive criticism. Railing against federal over-reach is not enough. The comments should be concise and based on sound science and economics.
- Finally, the states have an important role to play in environmental policy, even after the final federal rules are issued. In most cases, states retain broad permitting authority. States can make sure these rules are interpreted in reasonable ways that are technologically feasible.

Will the federal government listen? It's tempting to say no. But I believe the evidence suggests otherwise.

Case in point: the federal ozone standard revision. The proposal was pulled back by President Obama just last month, after significant input from state governments, industry, electric utilities, members of Congress, and many others. Critics warned the rule would seriously damage the economy.

That is an encouraging sign. But the need for state involvement is far from over.

A prime example is the proposed Rule 316-B. This rule will impose drastic new water conditions on water intake for a very large number of power plants. It is designed to protect marine life, but the "marine life" we're talking about is fish larvae. The price tag would run into the billions of dollars, and ultimately would be paid by consumers.

Virtually every plant that uses once-through cooling systems would be forced to convert to a closed loop system. That means massive capital projects to construct cooling towers – costing hundreds of millions of dollars each and standing as tall as a 50-story building.

For many utilities, retrofitting would not be an option. The plants simply could not continue to operate. Electricity supplies would be sharply diminished, energy security and reliability significantly threatened.

Fortunately, there's still time for input. The rule isn't expected to be finalized until mid-2012. Groups such as the Edison Electric Institute, our industry's advocacy organization, have mobilized to insist on a more rational rule.

I would also like to note Governor McDonnell's leadership on this issue ... including his letter to the U.S. EPA Administrator Lisa Jackson expressing strong concerns about the proposed rule.

That leads me back to my shared commitment theme. The Southern states have a new opportunity to build on their partnership by standing together to promote rational, cost-effective, and workable regulation – in the case of Rule 316-B and in so many other cases. After all, a chorus is harder to ignore than a single voice.

With the South leading the way, I'm convinced the nation's energy future – and its economic future – will be bright.

Let's celebrate our past successes as SSEB members and use this forum to identify our challenges so we can get to work.

I am even more optimistic because I know that the SSEB will be there assisting us, offering counsel, and acting as a pioneer in technological development along the way.

Thank you, and best wishes for a successful conference.