

U.S. Climate Policy: Toward a Sensible Center

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Excerpt: Michael Morris, Chairman, President, and CEO, American Electric Power

MS. CLAUSSEN: It's now a pleasure for me to introduce Mike Morris, who is the Chairman, President, and CEO of American Electric Power. I think we're really lucky to have with us the head of the largest emitter of carbon dioxide in North America.

[Laughter.]

MS. CLAUSSEN: Well, I had to--as well as someone who represents real corporate leadership in trying to reduce emissions. I think most of you know that American Electric Power has publicly committed and contractually committed to reduce its greenhouse gas emissions. They are a charter member of the Chicago Climate Exchange, and I believe are a really good example of how business is showing leadership on this issue.

So, Mike.

[Applause.]

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MR. MORRIS: Thank you very much, Eileen, for that introduction. You didn't need to do that.

[Laughter.]

MR. MORRIS: You know, this title that we're talking about today is really quite important to people like me and others in our industry. I think Senator Lieberman made mention of that this morning, toward a sensible center. If we are going to make progress in dealing with the GHG issue and the carbon issue as we go forward as a nation, we're going to have to find a way to identify what that center is and how we get from here to there.

Last week one day I was fortunate enough to be in the offices of Governor Huckabee in Little Rock, Arkansas, and on the mantel of his fireplace he has a sign that says, "Let's get together and reason." And that really is one of the reasons that we came today, because for us to address this issue with an audience as dedicated as you all are to this issue, we need to try to find that middle ground. We need to try to find that bridge will get us from the reality of where I sit today and where my very optimistic Secretary of Energy just left us. He was in some future world that I hope we get to, but today we have to keep the lights on and we have a very different challenge in that regard as we go forward.

So I really do thank you for the opportunity to be here, and I think I'm sure someone will introduce later that she also has the CEO of the largest nuclear utility in the country here as well, my good friend, John Rowe from the Exelon Corporation.

Many of you know about our company, but I know there are some of you here from other walks of life and from other countries as well. We are in fact the largest producer of fossil fuels here in the United States with over 38,000 megawatts of generation. We serve over 5 million customers in the 11 states that stretch from the border on Canada with Michigan to the border of Mexico with

Texas, and in that regard we do consume a tremendous amount of coal, both eastern and western variety with a real focus on the eastern side as well.

Where we are on the issue of carbon and where we are on the issue of greenhouse gas is not unsimilar or not dissimilar from what Senator Lieberman said this morning. The scientific debate really does still go on, but we do know enough that it's time to move rather than not, and so we have tried in the most cost effective way that we can to in fact do just that, to take the debate forward and to join in processes both voluntary and ultimately in a very significant economic way to see what can be done to improve the overall performance of the production of electricity using fossil fuels as we go forward.

This really is an issue that has built up over a great deal of time and therefore it's an issue that will take a great deal of time for us to find an answer. I think you have heard some very interesting things, particularly from the Secretary of Energy on the many projects that he and others are working on to try to get us to that point. It is an issue that touches all of us, both in a national sense, because this isn't simply a power production issue. This is a chemical factory issue, a refinery issue, a pharmaceutical issue. It's in every manufacturing activities that we involve ourselves in in this country.

The words of Senator Lieberman this morning, and I know Senator McCain later today, encourage all of us to go toward a market-based answer. We have all learned over a number of years that the market answer for the SO₂ and NO_x performance and control has been beyond any of our dreams. I think again the Senator spoke this morning about people talking \$1,000 a ton, it ultimately cost \$100 a ton. We might see that same answer if we approach this issue in that same way, and we surely would be there to support that activity.

So where we stand in a domestic sense is that there is no simple answer. There is no quick silver bullet result to this activity that will take care of the issue in its entirety in the near term. And therefore, we have to strategically work together and plan together to try to find an answer that will continue to allow this economy to grow.

I think you heard the words of Secretary Abraham when he talked about the size of the national economy and how much growth is forecasted in that national economy over the next decade or so. And I think all of you know that no matter how you and I, how hard we try, both in our homes, in our commercial establishments, in our industrial establishments, to conserve the amount of electricity and energy we use, we simply continue to use more day in, day out, as the overall demand grows, not only in this country but on a worldwide basis.

So when we look at this challenge we do see technological answers that are viable, and we will continue to pursue those answers while we continue to work day in, day out, of the challenges of today, which is to continue to keep what we believe are very cost effective fossil fuel generating facilities online, and improving their more historic environmental challenges in the SO₂, in the NO_x, and ultimately in the mercury issue, as we continue as an industry and as a company, and as a nation, to move forward to tackle these GHG and carbon issues.

To that end I'm happy to tell you that American Electric Power is deeply involved with the FutureGen Project. To believe that there may some day be a zero emission clean coal power plant is a real stretch of one's imagination, and I won't sit here and tell you about horses in New York. I will simply tell you that we are working on that very answer. We do believe that there is an answer that will come to use in the technological sense that over time will allow us to continue to produce the energy that you need to run this city, to run your businesses, to run your agencies, your association, to live your life.

When we look at that technological answer we feel very good about where we might go. It is in fact the IGCC, Integrated Gasification Combined Cycle. We think it's an answer that allows us to control the pollutants before we go into the power production facility. We think that it has a true breakthrough potential for us that will not be as cost effective as the historic technology that we know today.

So when we look at this timeline and we look at the bridge that we're trying to build between where we are and where we would like to go, and I know all of you would like to go, we see that challenge to find a way to blend in the older technology and to do everything that we can to ensure that the older technology continues to improve its environmental performance while we get to this next stage and this next cycle where we really do believe we have the potential to continue to burn that fossil fuel which is very important for this country as we go forward.

To that end, we also are involved at our Mountaineer Power Plant with the carbon sequestration effort that the Secretary talked about. It is very difficult for people who are used to building power production facilities that start at ground level and go up, to drill a hole in the ground two miles deep to sequester carbon dioxide as it's captured in a more traditional sense to test not only the logic of will it work, but also to test the economics of will it work.

Eventually we as a nation will have to debate the issue of are we prepared to sequester carbon as we go forward. And it will be a balancing issue, not unlike the issues that the Senator talked to us about this morning. As we take those steps to get to that future vision that we hope we share with you, we're doing a number of things as best we can in a voluntary sense today. I think you've heard people talk about the Chicago Climate Exchange. We probably should have called it the Columbus Climate Exchange, but at least it's a program that we have joined, and joined in a very proactive way. It is intended to create a trading opportunity for those of us who will ultimately deal in other pollutants beyond just the SOx and NOx trading that we're all so familiar with.

We think that it makes a tremendous amount of sense for us as an industry. We're seeing that in the international marketplace. We're seeing our friends in Europe take those things on. I had an opportunity during the lunch break to talk to one of our good friends from Massachusetts, and I think many of you know that the New England states are taking a look at expanding the opportunity to make pollution trading a reality in that small sector of our country. These are all very important things that we see as we go forward.

There is no question that we as an industry, we as a nation--and I'm happy to hear the Secretary to talk as he did, about how much more money we need to put back into the research and development of these technologies. I appreciate that there are competing technologies out there. In my world, in our world we focus on the clean coal aspect. We do need to work on the new nuclear. We do need to work on fusion. We do need to work on renewables. We need to continue all of those efforts, and we as a country are woefully behind in the R&D side of this game.

I think you heard Senator Lieberman say something that ought to be eye opening to my friends in Detroit, and that is that the Japanese auto manufacturers are moving forward in a much more aggressive sense to take their technology forward so that they may in fact have an engine of a different breed that will be provided in the marketplace so that you and I can make a choice between what it is that we would like to do and have as we go forward.

We are very individual with an international group known as the E-7. We are the only U.S. utility that's involved with it. It is a mirror of the G-7 countries, all of us dedicated in one way or another to global control of environmental issues in a voluntary sense, not major projects of the size that would have all of you take note and sit up, but in fact projects that are always driven toward doing something that is proactive in an intervention mode to try to be better about what it is that we do.

It's forest land in South America. It's actually energy saving lights in the school systems of Bulgaria. It's many projects that don't often by themselves add much, but when collectively put together they do demonstrate that we can all work in that collaborative environment and try to improve our lot as we go forward. We have planted trees everywhere we can. We've bought forest land and set aside forest land, again, in countries as far away as South America and as near as the states of Indiana. We continue to try and do all of those things so that we can build a knowledge base and create at least an effort that will continue to give us the opportunity to address the greenhouse gas issue and the carbon issue.

Internationally we need to make certain that this technology has a chance to spread across the globe. Our friends in India and China, as you know, have tremendous coal resource bases that they inordinate amount of money in the near term for very short-term benefits which would then put us at a further competitive disadvantage in the global manufacturing marketplace, something that I'm certain none of us in this audience would be in favor of.

I was actually heartened when I heard Senator Lieberman say that we need to have a new clean coal power plant because that's where we think our side of the world has to go. I think we have played the natural gas supply base in this country to its extreme. I believe that we have not only capacity but a need for added nuclear capacity as we go and I wish others in my industry all the success that I can in that regard because even though we are a nuclear plant operator at the DC Cook Plant, I don't see us stepping into that world. I think we need to do that, however.

Ultimately we will need to build that integrated gas combined cycle facility. It will cost about as much money as a new nuclear power plant. Therefore, it

will yield to you and I a much cleaner environment. It will yield to you and I an opportunity to continue to use a domestic fuel, not in the sense of replacing imported oil. I don't believe that that will happen clearly in my lifetime, but it is a fuel source that we have available to us and if used appropriately should in fact be used.

But it will also cost you and I a bit more money to buy that energy, and I think that it's the sense of this audience, and I would hope it's the sense of this nation that for three or four or five dollars more a month in your cost of your energy bill, that we're willing to invest that kind of capital to see these kinds of results in the overall improvement, and that takes us, I guess, to one of the questions that was asked of the Senator about the moral issue. I think ours is an industry that attracts over a number of years people who have not only a for-profit motivation, because as you know, we are investor owned utilities for the most part, but a group of people who also bring to the marketplace a public interest dedication that simply goes beyond making money for the shareholder.

So it's that balance that I think we see as an obligation on companies like ours and others in the Edison Electric Institute to continue to do what we can to cost effectively keep the lights on, to constantly improve the environmental performance of the existing fleet and continue to crack on that new technological development that will allow us to take full advantage of the fossil-fuel resource base in this country. I do not mean for a moment to say that we do not believe in renewables. We do. American Electric Power is among the largest wind producers in the United States. Unfortunately, those of you inside the Beltway understand the dichotomy that we face with wind. On the hottest, steamiest most uncomfortable days what's not there in Washington, D.C.? That's when we need the windmills to turn, and they just won't if the wind isn't blowing. So we face that reality, and we have to address those kinds of issues. We all continue to work on solar power. We continue to work on biomass. We continue to push the envelope as far as we can in that regard.

But we Americans have a want to have the lights on, to be comfortable. We just don't want any of the facilities that cause those things to happen to be anywhere near where we intend to be ever in our lives, and that's an issue that has to be bridges if we're going to go forward and be as successful as I know you want us to be, and be as successful as we in fact do want to be.

So we see this as an opportunity to continue the dialogue. We came here today to learn, and in fact we have. We came here today to listen. We came here today to share with you some ideas, and most importantly, we came here today to hopefully engage in a meaningful dialogue that will move us all forward in the direction that we want to go.

Thank you very much for your time and your attention. I hope we have some questions.

[Applause.]

MR. MORRIS: Not too bad for the biggest carbon generator in the country I guess.

[Laughter.]

MR. MORRIS: Any questions, please? Right down here in front. Thank you.

QUESTIONER: Charles Braun [ph]. Thank you for that presentation. I do have a concern about the mining of coal, since it does seem to have a considerable environmental impact, production of acid and leveling of mountaintops and things like that. And I know that the amount of coal, there's an enormous reserve but it seems like mining it will also create an enormous cost to the environment. Can you speak to that issue?

MR. MORRIS: Well, I can, only in that I started out in this world as doing environmental impact statements on coal mining facilities. I will tell you this, that that isn't part of the world that we occupy, but those who do do that understand the rules of reclamation, understand the state laws that are directed toward those activities, and there has been huge progress in that regard. Mountaintop mining is almost a thing of our historic past rather than of our future. As you surely know, the far west mining is a very, very different approach with 80-foot seams of coal with four feet of overburden, versus the eastern mines, 5 or 6 of coal with 80 feet of overburden. But that is a concern. It's a responsibility that I think the coal miners understand and embrace very forcefully. The states have passed as much protective legislation as they can. I can assure you this, that as I talk to the eastern coal producers, they believe that it's going to take between five and ten years to get the appropriate permits to open up a new mine in either Central Appalachia or Northern Appalachia. I think that's a good thing. I think that's a healthy thing for the environment. I only encourage them to hurry up because the eastern side of the production of our national coal resource base is truly slowing down and may well be depleting beyond what is environmentally recoverable.

There was a question in the back?

QUESTIONER: Yes. Does your company have a position on the McCain-Lieberman bill?

MR. MORRIS: Our position on McCain-Lieberman is that it probably some day will be the model that would be followed, but that because of the manufacturing penalty that I spoke of earlier, I just don't think now is the time to put the American manufacturing base, particularly in those states where we serve huge manufacturing companies in the chemical world, the pharmaceutical world, the steel world, almost everything you can think of from the automobile to the bicycle, that we should put that manufacturing base behind that cost 8-ball today, not to say that we shouldn't go forward, and that's why I shared with you some of the things that we're trying to do in a proactive sense, but I think it's a bill whose time is not yet right.

Yes, ma'am?

QUESTIONER: Marilyn Brown from Oakridge National Laboratory.

Back in the '80s and early '90s, the electric utility industry invested quite aggressively in demand side management programs to assist their customers, industrial, residential, commercial, and becoming more efficient in their use of electricity. of course the nature of the market today doesn't incentivize much of

that in the utility industry any more. Do you see a future in which that might become--regain some activity in the electric industry?

MR. MORRIS: I surely do. You couldn't be more accurate, that there was a time when the national regulatory scene at the state level was directed toward the integrated resource plant approach, which built in a tremendous opportunity for demand side management, and all of us are seeing that coming back into the marketplace today. I know that this is probably more about our industry than you care to understand, but we really are facing a dilemma on that next generation of power production facilities, because we have on a national basis in probably 20 odd of the 48 contiguous states gone to an open market generation approach.

I can assure you that I don't know of anyone, particularly our company, that's going to build a 2 or 3 billion dollar IGCC facility without some assuredness from a state regulator that there will be some means to recover that. I think that brings us right back to demand side management and is this the best answer for us as we go forward?

Yes, sir?

QUESTIONER: David Hawkins [ph]. You mentioned what you see are the costs of adopting something like the McCain-Lieberman bill at this point in time. Do you think there is a cost to not moving forward with a program like the McCain-Lieberman bill at this time?

MR. MORRIS: Well, I don't think it's a quantifiable economic cost of the kind that we think happens if we go forward. And remember, this is not simply a utility cost. This is a national manufacturing cost. Our advocacy is for a revisit of the Kyoto Protocol debate in an international sense, and I hate to borrow a phrase from our now most recently deceased President, but we need to get other countries not only dedicated to doing it and joining in that endeavor, but present themselves in a measurable and enforceable sense to complying with those kinds of requirement. Once that day comes--and I'm not certain if or when it ever comes--I would think all of us would gladly join in the kind of activities that are called for by McCain-Lieberman. Again, I don't want to leave anyone with the notion that from the utility vantage point alone, it's cost prohibitive to the point that the lights are going to go out. That's an unfair statement.

However, the impact on the totality of the U.S. manufacturing facilities, which just three months ago was probably the largest issue in this town, would simply be aggravated again by not only competing against countries that have very different labor statistics or labor costs and safety requirements, but now environmental requirements as well, and I think that's what drives us, particularly when you look at the part of the country that we continue to serve in the most cost effective way that we can.

QUESTIONER: But do you think that we have time to wait for that international consensus to emerge?

MR. MORRIS: No, and that's why we're doing as many of the things that we're doing even while we go forward with this debate in an international sense.

QUESTIONER: Thank you.

MR. MORRIS: Yes, sir?

QUESTIONER: [Off microphone]. The Secretary spoke rather passionately about the need for transformational technology. As I heard you, I think I heard more than an emphasis on technologies that make more efficient use of what we've got, that is, I [inaudible] technology, coal. We have a lot of coal. Do you want to elaborate on that position and how you see your own [inaudible]?

MR. MORRIS: I will be as respectful as I can because Spencer used to be my Senator when I lived in Michigan for a lot of years.

He's living in a world that we need to live in from a Department of Energy, which is let's do transformational things as we go forward. I'm unfortunately living in a world that has to have the lights on August 4th, August 5th, August 16th. So mine is a much more practical view of let's take what we now know. Let's try to improve it as we go forward.

When he talked about FutureGen, it is an IGCC project. The notion of a zero emissions is something beyond what we think today's IGCC technology will do for us, but he is spot-on on where he sees the world, and I hope I am equally so in the practical reality of trying to make certain we have adequate supply both here and near longer term for our customers as we go forward.

Thank you very much. Thank you, Eileen.

[Applause.]