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Investor Groups Want Southern Co. to Report More GHG Data and Risks

Daniel Cusick | May 5, 2015

Southern Co., the Atlanta-based utility serving 4.4 million customers in the Deep South, produces one of the most attractive annual reports on carbon emissions available within the electric power sector.

Its 2014 Carbon Disclosure Report, featuring puffy cumulus clouds against a deep-blue sky on its cover, compiles 24 pages of text, tables and photos detailing Southern's carbon footprint, providing readers with "a single, comprehensive look at our challenges, opportunities and progress related to this issue."

Yet, for all its outreach efforts, Southern is still not hitting the benchmarks of key independent tracking organizations or investor groups that want the company to take more definitive action to rein in emissions and chart a course toward a low-carbon energy future.

For example, Southern no longer submits greenhouse gas emissions data or other information to CDP (formerly the Carbon Disclosure Project), the world's largest nongovernmental data-gathering operation for corporate carbon emissions, including those from dozens of major U.S. utilities.

CDP, headquartered in London, distinguishes itself by collecting highly granular information where results can be standardized and compared with other peer companies across a range of performance metrics.

Southern used to report its carbon emissions to CDP, as recently as 2012. But it opted out of the program in 2013 and 2014 for a variety of reasons, according to Ateli Iyalla, CDP's manager of disclosure services, who used Southern as a case study for a recent webinar on engagement with non-responding electric utilities.

Iyalla said it was unclear whether Southern was unhappy with its relatively low scores on CDP's indexes for greenhouse gases. The company did tell CDP in a letter that it "didn't believe that CDP's scoring methodology was an appropriate measure for [Southern's] facilities and operations," Iyalla said.

In a statement, a spokesman for Southern said the company simply opted to produce its own detailed report for investors on carbon emissions rather than participate in the CDP program. The in-house data comply with CDP standards for Scope 1 emissions and meet reporting standards from U.S. EPA, according to the utility.

Do-it-yourself environmental reporting

Southern is not alone in opting out of CDP's emissions reporting process. Six other Standard & Poor's 500 utilities -- CenterPoint Energy Inc., Dominion Resources Inc., Edison International, FirstEnergy Corp., PPL Corp. and TECO Energy Inc. -- also declined to respond to CDP's 2014 questionnaire on carbon emissions, while four other large utilities gave no response.

But Southern is the largest non-responding utility, according to CDP, and its decision not to participate has left significant data gaps for one of the nation's most carbon-intensive power utilities. In addition to the lack of a specific emissions reduction target, Southern also provides little detail on its greenhouse gas reduction programs and strategies, instead relying on general statements embracing alternative energy sources, according to the group.

Lance Pierce, CDP's North American president, said in a statement that "where disclosure does not exist, investors are left guessing, which of course is highly inefficient. The market can -- and will -- address the climate change challenge, but only when provided with high quality, comparable data, which is what CDP's platform facilitates."

Even if it fails CDP's apples-to-apples test, Southern does report that its Scope 1 greenhouse gas emissions have generally fallen since 2007 due to a variety of factors, including heavier reliance on natural gas in lieu of coal, as well as economic and weather conditions that resulted in reduced power demand across the Southeast.

Southern has also provided information to other nonprofits, including the green investor organization Ceres, about what impacts the company would expect to face from future regulation of carbon dioxide. In the Ceres response, Southern predicted that "any type of CO2 emission-reduction policy would likely result in significant additional compliance costs" and drive up electricity rates for the utility's customers.

With respect to voluntary emissions reductions, Southern said it was "uncertain" how the company's emissions profile would look in the future. "This is due to the fact that GHG emissions are based in part on factors such as electricity demand and fuel prices, as well as the availability of cost-effective, commercial-scale technology while maintaining low rates for customers," Southern officials wrote.

Southern also stresses the importance of advancing new technologies that allow for the more efficient use of existing resources like coal, and it has invested upward of $6 billion in a commercial-scale clean coal plant in Mississippi. That project, known as the Kemper County Energy Facility, has become a source of controversy due to massive cost overruns and a series of rate hikes imposed on Mississippi Power Co. customers to complete the 582-megawatt plant.

The company has also embarked on a major expansion of its Plant Vogtle nuclear generating station in Georgia, with two new reactors scheduled to come online before the end of the decade. Southern subsidiary Georgia Power Co. has invested $2.8 billion to date in the new nuclear project, which, like Kemper, has faced escalating costs and construction delays.

Nevertheless, executives have said that those two projects, along with the company's growing renewables portfolio and energy efficiency programs, have placed Southern on solid ground with respect to carbon emissions and risk.

"These projects stem from state-specific resource planning processes that value generation diversity, including hedges against future carbon dioxide regulation," Chairman and CEO Tom Fanning said last week on a first-quarter earnings conference call with investors and other stakeholders.

But where Southern executives see progress in meeting climate change challenges without compromising its conservative business culture, climate activists see a utility deeply wedded to traditional fuels and taking half-steps on greenhouse gas emissions when full steps are needed.

Outside pressure to depict investment risks

Last month, the activist investor group As You Sow filed a shareholder resolution to be voted on at Southern's upcoming annual meeting asking executives "to adopt a different approach to climate management," including setting firm greenhouse gas emissions targets and "increasing transparency on carbon management."

Such actions would provide investors with a deeper understanding of Southern's posture on climate change and reduce the company's risk from climate disruptions, such as heat waves and megastorms, as well as from future carbon regulation such as EPA's proposed Clean Power Plan.

"Southern Company is one of the most significant power companies in the U.S., and would strongly benefit from adopting a greenhouse gas reduction goal," As You Sow states in its proxy resolution.

Moreover, "Climate related compliance is only expected to increase as climate change worsens, creating significant and foreseeable liability for Southern Company going forward unless it rapidly decarbonizes," the investor petition continued. "Thus, the company's focus on carbon reduction should be emphasized through a GHG reduction target, which would likely help reduce future coal-related regulatory costs."

Amelia Timbers, energy program manager at the Oakland, Calif.-based nonprofit, said Southern's posture on carbon and climate is complicated and even unique among large utilities, partly because the company continues to treat coal as a favored generation fuel -- as evidenced by the $6.2 billion Kemper plant -- even as competing cleaner fuels like gas, wind and solar become more affordable and better able to deliver baseload power.

"It seems like Southern is really at a crossroads, and it's hard to tell from the outside where their management is on these issues," Timbers said. "Because there's so little transparency from the company on its long-term low-carbon planning, it's difficult for investors to evaluate its business risk and forward-looking profitability."

Such warnings, however, have not shaken Southern's resolve to address climate change on its own terms. In response to As You Sow's proxy resolution calling for the utility to set firm greenhouse gas reduction targets, Southern executives advised shareholders to vote "no."

"Independently establishing these types of goals would not add value to the company's already robust research, development, and deployment efforts relating to new technology to reduce greenhouse gas emissions, would be premature given the Environmental Protection Agency's proposed regulations relating to greenhouse gas emissions from new and existing sources, and would not be an efficient use of additional Company resources given the ongoing reporting and significant policy engagement by the company in this area," Southern's proxy statement reads.

Gas up, solar and wind up, coal-fired generation down

But that doesn't mean Southern hasn't been cleaning up its portfolio.

In the earnings conference call last week, Fanning stressed the company's aggressive adoption of renewable energy since 2012, including multimillion-dollar investments in solar and wind energy assets. To date, Southern claims an ownership stake in 44 solar projects in six states, according to company figures.

Most of those assets, as well as the recently announced purchase of the 299-MW Kay Wind Project in Oklahoma, are managed by Southern's wholesale power subsidiary, Southern Power Co. As such, the power generated by those facilities will not necessarily be imported into Southern's four-state service territory extending across Georgia, Alabama, Mississippi and Florida.

Southern is, however, adding solar power sites in Georgia, Florida and Mississippi, with a number of projects being completed in collaboration with the Defense Department on expansive military bases such as the Army's Fort Benning in Georgia and Eglin Air Force Base in Florida. Southern's subsidiaries in Alabama, Georgia and Florida have also signed power purchase agreements to import more than 800 MW of wind power into those states.

Fanning said these and other investments are substantial steps toward shifting the company away from carbon-intensive fuels like coal. "Simply put, we are inventing the future of clean, safe, reliable and affordable energy," he said.

As further evidence of the shift, Fanning said that in the first quarter of 2015, natural-gas-fired generation rose to 48 percent of all power produced within the Southern Co. system, while coal-fired generation fell to 32 percent, its lowest level in several decades. Gas emits roughly half as much carbon dioxide as coal for each kilowatt of power produced.

Today, Southern produces roughly 13,000 MW of electricity from coal-fired units, compared with roughly 20,000 MW just a few years ago. That fuel switch has helped cut the company's greenhouse gas emissions from roughly 150 million metric tons of CO_2 equivalent in 2007 to 102 million metric tons in 2013.

Fanning indicated that natural gas consumption across Southern's system is expected to increase over the coming months based on expectations of continued low prices, but he warned that gas "is not a panacea" for achieving long-term emissions reductions because the fuel has a history of price volatility.

Fanning also said that Southern's recent success at adding cost-effective renewable energy projects to its portfolio has prompted it to revise its projected capital expenditures for alternative energy projects going forward. As a result, more cash will be freed up to invest in such projects, officials said.