

Dominion's Multifaceted Empire

FARRELL ACTIVE ON MANY FRONTS

BY MARTIN ROSENBERG

IN DOMINION ENERGY'S CURRENT

annual report, Thomas F. Farrell II lauds a famous Virginian, Thomas Jefferson, for transforming America through decisive action in times of challenge. Farrell, 53, Dominion chairman, president and chief executive officer, thinks America is once again ready for a president of Jefferson's stature. That president's primary challenge will be developing a national energy policy, Farrell said in a recent interview in which he also discussed energy issues and the future of Dominion, which serves retail customers in 11 states. His comments, edited for style and length, follow.

ENERGYBIZ You have publicly stated that we cannot solve the carbon emissions problem by switching from coal generation to natural gas generation.

FARRELL You can shut down all the coal plants in the United States, and if you only replace them with gas-fired power plants it puts you where we are today by 2050, given economic and population growth. We have to use everything we can think of to solve the problem – conservation, renewables, efficiency, gas-fired power plants. We must figure out a way to use coal and we have to use atomic energy.

ENERGYBIZ Are you confident that if we rely on all those technologies and push the frontier on our knowledge of all those technologies, we'll get the problem solved?

FARRELL Not unless other nations do the same thing.

ENERGYBIZ Dominion has 27,000 megawatts of generation. What are your plans for the next five years out?

FARRELL We are seeking permits to build a 585-megawatt hybrid energy center, which is a fluidized-bed coal-burning facility that will also burn renewables up to 20 percent. We have filed for a 580-megawatt combined cycle plant in Virginia that's been scheduled for a hearing in the fall. We have plans to build at least one other combined-cycle plant and a 1,500-megawatt nuclear plant, adding a third unit to our North Anna facility. The schedule that the Nuclear Regulatory Commission has given us puts that plant first in line for approval.



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ENERGYBIZ When do you think the new nuclear unit will be in operation?

FARRELL 2016 or 2017.

ENERGYBIZ And are you going to be the sole owner of it?

FARRELL Cooperatives in Virginia will own about 12 percent of it.

ENERGYBIZ What do you think about the pace of nuclear development?

FARRELL The government effort has made great strides. All of us would like everything to go quicker, but I think what the NRC did with its new procedures make it a much better permitting process for the applicant, for the NRC, and for anyone who wants to come to the NRC and intervene. It's working pretty well.

ENERGYBIZ How serious are you finding cost escalation for components at your nuclear project?

FARRELL We have not yet signed the contract with our vendors, but the numbers keep going up. But the numbers are going up for every kind of energy and construction project.

ENERGYBIZ Are there any innovative approaches to deal with this?

FARRELL Well, we were able to negotiate a contract for our hybrid energy center by cooperating with the contractor. We were able to come to an agreement on a set of terms that will protect our customers from large cost escalation. But on very large projects it's difficult. The real nub of the problem is balancing the risk among the contractors, the designer, the utility, and the utility's customers.

ENERGYBIZ What about the reactor container vessel? I understand there's only one fabricator in the world and it is in Japan.

FARRELL That's true. Ours has already been fabricated. Now I've just got to get the permits to build the plant, then we will be prepared to move forward.

ENERGYBIZ Are you concerned about the availability of craft workers to build the plant and run it once it's built?

FARRELL The availability of craft workers is an issue in the industry and will continue to be one. That's one of the reasons why we have pushed ahead to try to get close to first in line, to make sure we have the workforce available to build the plant.

ENERGYBIZ You're the leading natural gas storage company with 975 billion cubic feet of storage.

FARRELL Right. It's the largest in the world outside Russia. Our customers are largely local gas distribution companies. We sell products in 11 states. The gas storage assets are in New York, Pennsylvania, Ohio and West Virginia.

ENERGYBIZ Are we putting too much reliance on gas? Coal plants are getting cancelled left and right. Do we have the gas to make up for that?

FARRELL I don't believe we do. And I don't think we have the gas infrastructure to deliver it even if we had it. That's going to make us increasingly reliant on foreign sources of natural gas, which is going to tend to drive up the price of gas. It will become more of an international commodity with its price set on the world markets rather than being set domestically.

ENERGYBIZ Are you building liquefied natural gas terminals?

FARRELL We have a very large one that's being doubled in size that we expect to come online in the fourth quarter.

FACT BOX

2.4 million electric utility customer accounts
27,000 megawatts of generation
6,000 miles of electric transmission

1.7 million gas utility customer accounts
14,000 miles of gas transmission, gathering and storage pipeline
975 billion cubic feet of gas storage

1.6 million nonregulated retail energy customer accounts

2007 operating revenue: \$15.7 billion
2007 net income: \$ 2.5 billion

Employees: 17,400

ENERGYBIZ Where is it located?

FARRELL It's in the Chesapeake Bay in the state of Maryland. It's called Cove Point.

ENERGYBIZ How can we limit the volatility of natural gas prices?

FARRELL It's important that we open up drilling off the Atlantic and Pacific coasts and in areas of the Rocky Mountains where we know that there are gas reserves. It can be done economically and it can be done in an environmentally friendly manner that will have little or no impact. That's just a fact.

ENERGYBIZ What must the next president and the next Congress do to build up our energy resources?

FARRELL Well, the first thing they need to do is get serious about having a real energy policy. The United

States has never had a comprehensive energy policy. Our economy depends on efficient, reliable energy.

The energy business, as you know, is very capital intensive. It takes years to effectuate any real change because it just takes lots of time to permit things, to finance them, to build them. Long-term horizons are difficult for political leaders to get their hands around. Energy policy should be the number one issue for the next president.

ENERGYBIZ What is the best information you're hearing on where natural gas prices are headed?

FARRELL A lot of it depends on hurricane activity this summer in the Gulf of Mexico. One of the important things that affects the price of natural gas is how much has been stored in facilities like ours. That's a good thing for folks to keep an eye on.

ENERGYBIZ Dominion aspires to be a major energy provider in the Midwest, the Mid-Atlantic, and the Northeast. That is a huge market of 50 million homes that use about 40 percent of our nation's energy. Do you see the need or the likelihood of increased consolidation in the industry through mergers and acquisitions? Does the industry need fewer, larger players to make required investments in new infrastructure?

FARRELL An economics professor would tell you that there should be more consolidation and fewer larger companies. It's a difficult thing to accomplish in the utility industry because local utilities are part of the infrastructure of each individual state. Consolidation would be a useful thing. But I don't think there's going to be a whole lot of it, and there hasn't been a whole lot of it for years.

ENERGYBIZ What challenges lie ahead?

FARRELL There's a lot of infrastructure that needs to be built on both the electric side and the pipeline side. I think our company is the only company left that's really in all the food groups of energy. We produce natural gas in the Appalachian Mountains. We have a little over a trillion cubic feet of gas reserves there. We gather it into our gathering systems. We treat it, take the liquids out and put it into our gas pipeline system. We store gas. We have a local gas company in Ohio. We produce electricity in the Midwest, Northeast, Virginia, West Virginia and North Carolina. We have a large importation facility for natural gas. We take our job very seriously around here.

ENERGYBIZ What is it like to be a CEO of a major power company when energy is front and center the most important issue facing this country?



So while energy is important right now in the consumers' minds, our goal is to not be on anybody's mind.

FARRELL The fact that energy is in the front of the public mind right now doesn't really make that much difference to us because that has always been in the front of our minds here at Dominion. And I'm confident it is in the front of the minds of all of our colleagues in the industry. Our employees are very proud of what we do for a living. What we do every day really matters to our neighbors and our fellow citizens, and the economic vitality of our states. We strive for high reliability and to keep our costs as low as we can. So while energy is important right now in the consumers' minds, our goal is to not be on anybody's mind. We'd rather be in the background and let people flip the switch and have the lights come on and not think about us very much. ☺