

The Powers That Be – A Brief History of the Alabama Power Company

Three weeks before Christmas in 1906, the Alabama Power Company was born in Gadsden, Alabama. William Patrick Lay, a third-generation riverboat captain and Alabama’s promoter of the Coosa River, had an almost religious zeal for electrifying the state. “I now commit to you the good name and destiny of Alabama Power. May it be developed for the service of Alabama,” he quoted.¹ What followed was more than a century of buyouts, scandals, and technological progress. The story of Alabama Power is inextricably linked to the story of 20th century America. While coal reigned king in the Northeast and Midwest, the early 20th Century saw a new form of energy that would come to dominate the South – and eventually the continent – hydroelectricity. The first major hydroelectric plant had been built in Alabama only four years earlier, and only provided power for a fraction of the city of Montgomery. Lay intended to construct a dam on the Coosa River, in the northeastern region of the state, and received a permit to build the Lock 12 Dam from President Roosevelt in 1907.² Lay lacked the funding necessary to build a dam, however, and exhausted many of his resources attempting to over the next five years. Around the country, even well financed companies were struggling to build

¹ . Leah Rawls Atkins, *Developed for the Service of Alabama: The Centennial History of The Alabama Power Company* (Alabama, 2006)

² . Dub Taft and Sam Heys, *Big Bets: Decisions & Leaders That Shaped Southern Company* (Alabama, 2011)

dams, as the debate over whether the government or the private sector should hold rights to produce hydroelectricity, which had sprung from the progressive movement, raged on. The Lock 12 Dam was the last dam authorized on navigable waters until 1920, when President Wilson created the Federal Power Commission.³ In the years preceding the FPC, William Patrick Lay was financially forced to sell Alabama Power to James Mitchell, a Massachusetts businessman with a plan to pull together Alabama's water resources to produce electricity for the Southeast. Mitchell purchased Alabama Power, along with more than a dozen other Alabama energy companies, in 1912, with the help of British investors he had worked with in the past. The Lock 12 Dam was completed in 1914; because of the moratorium on dam permits, however, Mitchell was forced to delay his other plans for water resources and began constructing coal-fired steam plants, the first of which opened in Gadsden in 1913.⁴ Alabama Power was faced with a much more difficult challenge than dam permits, however: the onset of World War I cut off nearly all British investment into the company, and it bordered bankruptcy for years, until a town in the northwestern corner of the state was selected for a government project.⁵

Muscle Shoals, Alabama, the music capital of the state located on the Tennessee River, provided Alabama Power's life support. In the years preceding the New Deal and thus the Tennessee Valley Authority (TVA), the question of who would industrialize the South, or if it would be industrialized at all, was leaning toward the private sector.

³ Dub Taft and Sam Heys, *Big Bets: Decisions & Leaders That Shaped Southern Company* (Alabama, 2011)

⁴ Leah Rawls Atkins, *Developed for the Service of Alabama: The Centennial History of The Alabama Power Company* (Alabama, 2006)

⁵ Dub Taft and Sam Heys, *Big Bets: Decisions & Leaders That Shaped Southern Company* (Alabama, 2011)

Muscle Shoals, however, became the exception to that rule.⁶ The U.S. government constructed the Wilson Dam in 1918 to produce nitrates used in explosives during World War I.⁷ Although Alabama Power donated the land, it received income from the electricity used to power the nitrate plant, and was spared the production cost of actually building the dam.⁸ When the war was over, the question of whether to continue to operate the dam at the government's expense or sell to a private industry emerged. In the same year of the dam's construction, a German chemist received the Nobel Prize for his role in inventing the Haber-Bosch process – which uses nitrates to create synthetic fertilizer.⁹ The potential profits of this process and use of the Wilson Dam piqued the interest of several major investors, most notably Henry Ford of the Ford Motor Company, who promised to “employ one million workers...and build a city 75 miles long at Muscle Shoals.”¹⁰ Most historical writings suggest that Ford's offer of \$5 million for the dam (that cost the government \$46.5 million) were responsible for the death of Ford's dream, but local newspapers from the decade mention another cause: lobbying efforts of the Alabama Power Company.¹¹

⁶ “Governor Kilby Opposes Power Co Bid but Demands Change in Ford's Offer to Protect State and People,” *Anniston Star*, February 21st, 1922, Pg. 1

⁷ “The History of the City of Muscle Shoals,” accessed 02/27/2015
<http://www.cityofmuscleshoals.com/?ID=11>.

⁸ Dub Taft and Sam Heys, *Big Bets: Decisions & Leaders That Shaped Southern Company* (Alabama, 2011)

⁹ “The Nobel Prize in Chemistry 1918 – Fritz Haber,” accessed 02/25/2015,
http://www.nobelprize.org/nobel_prizes/chemistry/laureates/1918/haber-bio.html.

¹⁰ “The History of the City of Muscle Shoals,” accessed 02/27/2015
<http://www.cityofmuscleshoals.com/?ID=11>.

¹¹ “Hope to Save Shoals for Public Benefit despite Power Trust,” *Anniston Star*, March 17th, 1929, Pg. 7

Alabama Power placed an offer much higher than Ford's for the Wilson Dam and surrounding Muscle Shoals property, with the intent of creating electricity for the Tennessee Valley. In 1922, Governor Kilby vehemently opposed sale of the land to Alabama Power, calling the offer an "unspeakable calamity." The federal government agreed, but for different reasons than Governor Kilby had. Alabama Power expressed little interest in continuing nitrate production for fertilizer, while Ford would have dedicated little if any of the dam's power to electricity for other uses. Many federal government officials in the 1920s had no interest in electrifying the South, and thus agreed not to sell the Shoals property to Alabama Power. Kilby supported the idea of mass access to electricity, but not if a single company would have domain over the resource. "It would mean the creation of an Alabama monopoly so gigantic and powerful that the very life blood of the state and of its people would be squeezed out at its will," he argued in a 1922 statement.¹² However, Alabama Power was allowed to purchase and distribute the power output from Wilson Dam, and did so in 1925.¹³ The fight continued throughout the decade until 1929, when the *Anniston Star* declared that Ford had withdrawn his bid for the property. Alabama Power had won— kind of. Public opinion had turned massively against the power company by 1929, so much so that a government official lamented: "It had no concern for the development of Alabama if such development interfered with its program to get possession of the shoals power or buy it at a ridiculously low figure and resell it at a tremendous profit." Governor Brandon echoed Governor Kilby's previous statement with this: "I warn, in the name of the people of

¹² "Governor Kilby Opposes Power Co Bid but Demands Change in Ford's Offer to Protect State and People," *Anniston Star*, February 21st, 1922, Pg. 1

¹³ Leah Rawls Atkins, *Developed for the Service of Alabama: The Centennial History of The Alabama Power Company* (Alabama, 2006)

Alabama, the Alabama Power Company to fling your arms not around the pillars of our state.” In 1933, the Tennessee Valley Authority officially overtook over the Wilson Dam, which it operates for the benefit of the Shoals’ residents to this day. While Alabama Power may have lost the battle, however, it won the war. The Muscle Shoals controversy prevented an impending bankruptcy, and the Alabama Power Company survived.

Alabama Power weathered the Great Depression better than many Southern power companies did, primarily due to a lawsuit. In what would become known as the Ashwander case, Alabama Power sued the federal government to prevent the forced sale of property to the TVA.¹⁴ The lawsuit was initially successful in federal court, before being overturned by the Supreme Court in 1936. Alabama Power was eventually forced to sell its assets in 11 northern Alabama counties, but only in 1940, when the Great Depression was nearing its end on the eve of America’s involvement in World War II.¹⁵ In that same year, the CEO of a holding company, Wendell Willkie, won the Republican nomination to prevent Franklin Delano Roosevelt from winning a third term as President of the United States. Willkie failed, but his holding company received massive boosts in revenue due to the power consumption of Southern factories during the War, and in 1945 reincorporated as The Southern Company, which would purchase Alabama Power and many of the largest energy companies in the Southeast.¹⁶ The Long Economic Boom of 1946-1970 brought nearly ceaseless success to the Alabama Power Company. The company purchased Birmingham Electric in 1952, established a new heating system to

¹⁴ Dub Taft and Sam Heys, *Big Bets: Decisions & Leaders That Shaped Southern Company* (Alabama, 2011)

¹⁵ Leah Rawls Atkins, *Developed for the Service of Alabama: The Centennial History of The Alabama Power Company* (Alabama, 2006)

¹⁶ Dub Taft and Sam Heys, *Big Bets: Decisions & Leaders That Shaped Southern Company* (Alabama, 2011)

replace gas furnaces in 1953, and builds a slew of new dams throughout the state for the remainder of the decade, including the dam that now provides water for the city of Birmingham.¹⁷ Alabama Power was so successful, and thus so powerful, that the Alabama legislature in 1961 declared August 13th “Thomas W. Martin (Alabama Power CEO) Day.”¹⁸ The trend continued past Martin’s death in 1964, with Alabama Power winning nearly every legal challenge from the Public Service Commission and expanding nearly statewide.

In 1968, however, things began to change. Alabama Power asked the legislature for permission to increase rates, a step rarely taken in previous decades, in anticipation of future costs from the burgeoning environmentalist movement. The company’s fears were realized in 1970, when President Nixon signed the Clean Air Act into law. This legislation, the first of its kind and scale from the federal government, marked the beginning of major regulation of how much companies could pollute – and created enormous additional costs for Alabama Power.¹⁹ In that same year, the Environmental Protection Agency was born as millions of Americans marched in protests that dwarfed the March on Washington for civil rights less than a decade earlier. The Water Pollution Control Act of 1972 increased costs further, but even in the midst of the revolution in environmental legislation at the national level, Alabama Power maintained its political hold over the state legislature. In fact, not only did the legislature grant the company a \$26.9 million retail rate increase, the Alabama legislature *loosened* its regulations on

¹⁷ Leah Rawls Atkins, *Developed for the Service of Alabama: The Centennial History of The Alabama Power Company* (Alabama, 2006)

¹⁸ Dub Taft and Sam Heys, *Big Bets: Decisions & Leaders That Shaped Southern Company* (Alabama, 2011)

¹⁹ “Air Pollution and the Clean Air Act” Accessed 03/01/2015
<http://www.epa.gov/air/caa/>

atmospheric sulfur in 1973, which led some to speculate that it had become the monopoly Governor Kilby warned about.²⁰ The company fought a brutal public opinion war against the legislation, one that contributed to the political demonization of unions in Alabama. On August 21st, 1974, more than 400 coal miners marched on Birmingham to protest the Barry Steam Plant receiving a shipment of Australian coal.²¹ The march kept several employees of the Alabama Power Company, which owns the plant, from parking, which was more than a minor inconvenience with gas at the staggering price of 52 cents per gallon.²² The same energy crisis that propelled gasoline to that price had sent global demand for coal soaring, and workers claimed that Southern Company executives were trying to ship their jobs overseas. Representatives of Alabama Power, however, insisted that it was not market forces that caused the import, but the environmental regulations the EPA had put in place. The regulations were so stringent, according to Alabama Power, that the only mines on earth that could meet Florida's new sulfur requirements were located in South Africa.²³ Yet somehow, even after the Clean Air Act was amended in 1990 to strengthen regulations on sulfur (during the acid rain scare), underground coal production in the United States did not decrease, and Southern Company subsidiaries still use it, along with less sulfuric coal gathered through mountaintop removal.²⁴

The story of Alabama Power continues with more regulation and more rate increases throughout the 1970's. In 1977, Governor George Wallace issued a complaint

²⁰ Don Holmes, "The Southern Company: The Big Polluter" *Business and Society Review*, July 15th, 1975

²¹ "Job Elimination Claim is Denied" *Anniston Star*, August 22nd, 1974, Pg. 58

²² "Prices in the 70's" <http://www.inthe70s.com/prices.shtml>

²³ "Job Elimination Claim is Denied" *Anniston Star*, August 22nd, 1974, Pg. 58

²⁴ "How Coal Works" *Union of Concerned Scientists*

[http://www.ucsusa.org/clean_energy/coalvswind/brief_coal.html#bf-toc-2;](http://www.ucsusa.org/clean_energy/coalvswind/brief_coal.html#bf-toc-2)

against the company, but to no avail. The landscape of American politics forever changed in 1981, however, when Ronald Reagan was sworn in as President. An era of deregulation began that continued into the 1990's, and the EPA slowly lost the power it had when it was established. As Republicans crept into power throughout the Southern states, Alabama Power hedged its political bets on the probability of a wave, and they won. In 1994, Alabama Power backed Fob James, CEO of a landfill and waste incineration company, for the governorship; he would become only the second Republican Governor of Alabama since reconstruction. Although James appointed anti-regulation commissioners to lead the state's environmental agencies, his small-government stances were so strong that Alabama Power, which relies heavily on government subsidies, partially backed Democrat Don Siegelman in the next gubernatorial race, but not solely: Alabama Power donated money to both candidates - \$68,483 to Siegelman and \$550,150 to James.²⁵ Other Southern Company subsidiaries have similar donation records – primarily supporting Republican candidates with the occasional conservative Democrat – but Alabama Power outspent Georgia Power, Mississippi Power, and Gulf Power *combined* over a 16-year period. Georgia had the second-most expensive U.S. Senate race in the country in 2014, so it is unlikely that the reason for Alabama Power's donation record is expense.²⁶ One must consider the market distinctions between the Southern Company subsidiaries in assessing the political contribution gap. Georgia Power, based in Atlanta, covers almost the entire state of Georgia. Both Gulf Power and Mississippi Power only cover small portions (less than

²⁵ www.followthemoney.org Accessed 03/01/2015

²⁶ "Most Expensive Races" <https://www.opensecrets.org/overview/topraces.php> Accessed 03/01/2015

half) of their respective states. Alabama Power, however, powers most of the state of Alabama with significant sections of northern Alabama powered by the Tennessee Valley Authority. Alabama Power and Georgia Power both require the permission of their Public Service Commissions to raise rates, but Alabama has rates in the same geographical region for comparison. Therefore, Alabama Power must have a more vested interest in the political process if it is to be allowed the profits Georgia Power is. Alabama Power's net profits, before dividends, were 12.63% in 2014, while Georgia Power's were roughly 14%.²⁷ Recently, Alabama Power has come under fire from activist bloggers who claim that it had a role in dismantling the political career (and even social life) of former Alabama Public Service Commissioner Terry Dunn, a former delegate to the Republican National Convention who has recently been painted as a liberal environmentalist.²⁸ These claims have not been substantiated, however, and it is more likely that the political consultants who attacked Commissioner Dunn did so because they thought it would help their candidate win.

Although Alabama Power continues to fight tooth and nail against regulations on coal, the company has invested significantly in certain kinds of renewable energy, as it will have to continue going forward. "We don't think Alabama has enough sustained wind to make wind energy viable," an Alabama Power executive said in 2013.²⁹ With

²⁷ "Fact Card 2014" Accessed 02/28/2015 <http://www.alabamapower.com/about-us/pdf/factcard.pdf>; "Facts and Figures" Accessed 02/28/2015 <http://www.georgiapower.com/about-us/facts-and-financials/facts-and-figures.cshtml>

²⁸ "Is Alabama Power Behind the Mask?" Accessed 02/28/2015 <http://mrdunngoestomontgomery.com/about-the-project/>

²⁹ "Alabama Power VP Says Company Not Looking at Purchasing TVA" *The Fort Payne Times-Journal*,

current technology, this is economically true for most of the state. The exception would be the Tennessee Valley region of Northern Alabama, much of which is under TVA jurisdiction. In addition to issues of viability, state regulations on wind turbines, for issues of noise and safety, are too strict for production, according to Charlie Stewart, an attorney for Texas-based Pioneer Green Energy, which planned to build wind turbines in Northeast Alabama before lawsuits were filed by residents of the intended project's counties.³⁰ Alabama Power does, however, import wind energy produced in Oklahoma and Kansas, which allows it to either retire or sell the Renewable Energy Credits provided by the federal government.³¹ Solar energy is a very different story. Alabama Power was the first utility company to participate in the Department of Energy's commercial solar program in 1978. Despite solar's growth nationwide since then, however, the company has not made strides to achieve the solar potential that some other states have.³² In February of 2010, Governor Bob Riley praised solar energy's potential, as "in the future, sunlight won't be subject to rate increases."³³ While it is true that sunlight is free, Alabama Power estimates that it will cost the average Alabamian \$100,000 to power his or her home with solar, and the federal government will only

<http://infoweb.newsbank.com/resources/doc/nb/news/146E29A1DE6BFE90?p=NewsBank>

³⁰ "Alabama Regs Too Strict For Turbines, Says Lawyer For Wind Energy Developer" Accessed March 2nd, 2015 http://www.al.com/news/anniston-gadsden/index.ssf/2014/08/alabama_regs_too_strict_for_tu.html

³¹ "Wind Energy Environmental Commitment" Accessed 03/03/2015 <http://www.alabamapower.com/environment/renewable-energy/wind-energy.asp>

³² Dub Taft and Sam Heys, *Big Bets: Decisions & Leaders That Shaped Southern Company* (Alabama, 2011)

³³ "Alabama Focus On Solar Energy" Accessed 03/03/2015

<http://solarenergy.net/News/2171002-alabama-focus-on-solar-energy/>

reimburse a third of that in tax credits.³⁴ Southern Company does own solar plants in states in which it does not operate a subsidiary (and with much more sunlight), but has no announced plans to build solar panels for Alabama Power; Georgia Power will have solar panels operated in Georgia within the decade. Solar energy's story is very similar to that of nuclear energy, in that it has long been hailed as the future of energy consumption but has thus far fallen short of its promise, primarily due to viability. While nuclear energy is incredibly expensive, it yields a much higher energy return than solar power does with available technology, and is only limited in location by those who do not want a nuclear reactor in their backyard, rather than natural amounts of sunlight exposure. Solyndra, a company that received subsidies from the Obama administration and later went bankrupt, is often cited as an example of why solar is infeasible.³⁵ However, executives at most companies, including Southern Company and Alabama Power specifically, have spoken in favor of solar as an idea that is almost ready to be put into action.³⁶ Efficient solar energy could, however, present a problem for a power company that wishes to expand revenues for the reason Governor Riley stated: there can be no claim that sunlight is getting more expensive, which may be part of why companies that are not exclusively green prefer to donate to deregulation candidates than candidates who favor green energy subsidies. Alabama Power has invested in a third kind of renewable energy – biomass – that could yield promising results. The company is working with Auburn University and

³⁴ "Solar Costs" Accessed 03/03/2015

<http://www.alabamapower.com/environment/renewable-energy/solar-costs.asp>

³⁵ "Battery Firm Backed By Federal Stimulus Money Files For Bankruptcy" *The Washington Post* October 16th, 2012

³⁶ "Alabama Power VP Says Company Not Looking at Purchasing TVA" *The Fort Payne Times-Journal*,

<http://infoweb.newsbank.com/resources/doc/nb/news/146E29A1DE6BFE90?p=NewsBank>

the city of Fultondale to establish a biomass gasification program for the city's green waste, but this technique is only possible for former living things such as trees and other waste plants.³⁷ Expansion of hydroelectricity is becoming more and more difficult, as most of the state's waterways that can be dammed already are. Rumors once circulated that Alabama Power intended to expand into TVA territory, but Alabama Power executives crushed speculation that the company was attempting to purchase TVA property in 2013, and have made no efforts to do so.³⁸

The EPA announced new requirements in 2014, forcing Alabama Power to cut back on the amount of power it produces at three of its plants. Alabama Speaker of the House Mike Hubbard denounced the new regulations as "tree-hugging and job-killing," echoing the sentiments of a generation of Alabama Power executives, if with harsher terms.³⁹ In 2013, Alabama Power Vice President for External Affairs Zeke Smith stated: "We're cutting coal because of global warming even though there is no solid evidence," also estimating that cutting coal "would lead to a 400% cost increase" for the company.⁴⁰ This criticism of anthropogenic climate change theory, which 97 percent of scientists support, is not uncommon in the United States. Although the 114th U.S. Senate voted 98-1 (with Senator Reid abstaining due to absence) that climate change exists, only 59

³⁷ "Auburn University, Alabama Power Demo Biomass Gasification System." *Gasification News* 13 May 2009. *Global Reference on the Environment, Energy, and Natural Resources*. Accessed 02/25/2015

³⁸ "Alabama Power VP Says Company Not Looking at Purchasing TVA," *The Fort Payne Times-Journal*, Date, page #.

³⁹ "Reaction split over Alabama Power move on coal," *Energy Monitor Worldwide, Global Reference on the Environment, Energy, and Natural Resources*, accessed 02/25/2015

⁴⁰ "Alabama Power VP Says Company Not Looking at Purchasing TVA" *The Fort Payne Times-Journal*, accessed 02/27/2015, Pg. 1

Senators – including 15 Republicans – agreed that it was manmade in 2015.⁴¹ However, despite protests from Southern Company, the mainstream business community, and the Right, it is likely that coal regulations will only increase in the coming decades – a reality that has led Alabama Power to diversify its energy resources, which it will continue to do for the foreseeable future. Although regulations may diminish profits, there are no existential threats to Alabama Power’s existence, and it is likely that the company will continue to power the state for years to come.

⁴¹ “Senate Votes 98-1 That Climate Change ‘Is Not a Hoax’” *NBC News*, January 21st, 2015, <http://www.nbcnews.com/politics/congress/senate-votes-98-1-climate-change-not-hoax-n290831>, Accessed 02/28/2015, Pg. 1