

GEORGIA HISTORICAL SOCIETY

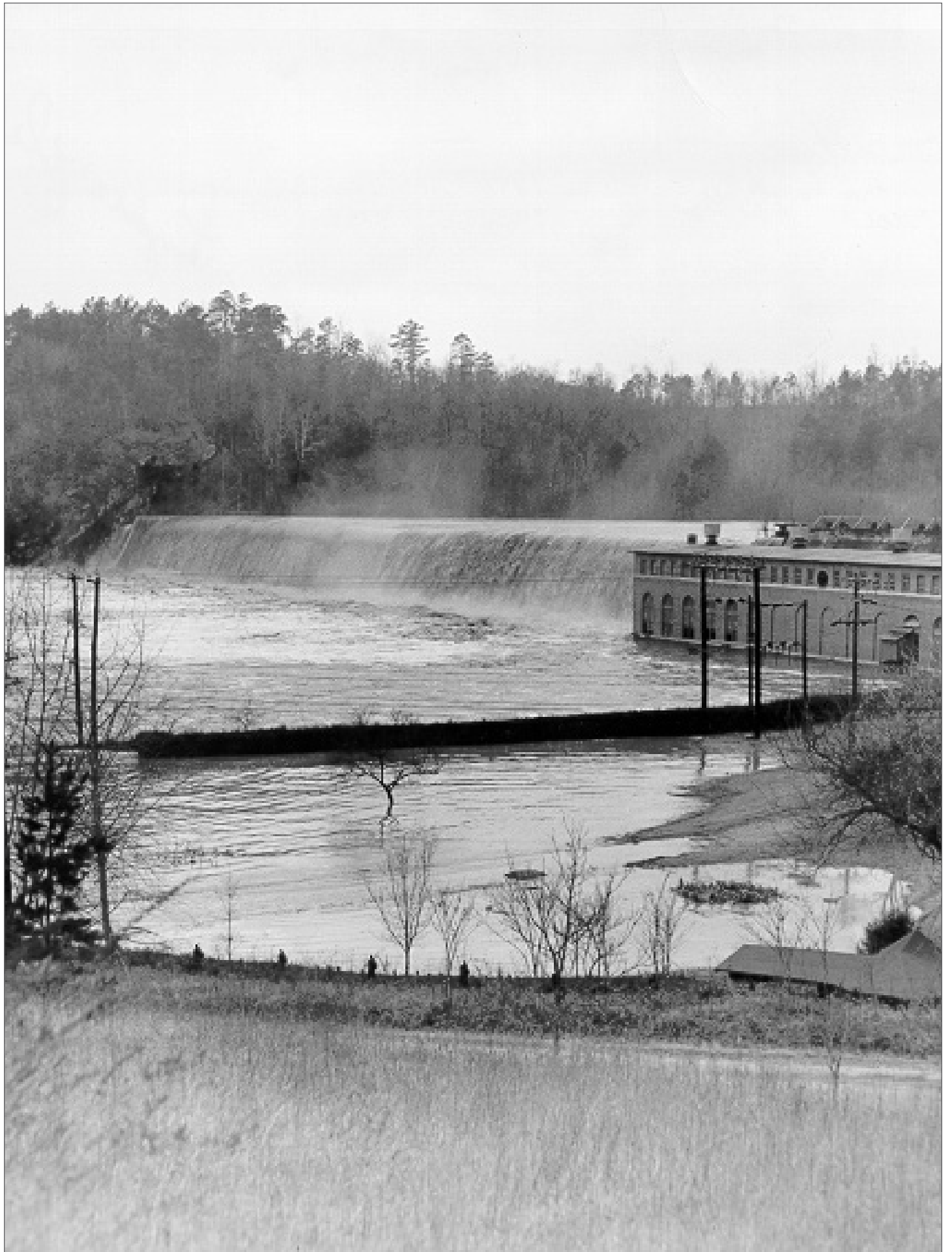


GEORGIA BUSINESS HISTORY INITIATIVE

Sharing the Stories of the Businesses that Built Georgia



Southern
Company





Southern Company

BUSINESS
HISTORY
PROFILE



Top: Martin Dam. Above: James Mitchell. Left: Morgan Falls hydroelectric plant.

Today, Atlanta-based Southern Company serves 9 million electric and gas **utility** customers through its subsidiaries. The company strives to provide clean, safe, reliable, and affordable energy through electric utilities in four states, natural gas distribution utilities in seven states, and a generation company serving wholesale customers across America. In addition, Southern Company's business includes customized energy solutions, as well as fiber optics and wireless communications. How did Southern Company become America's premier energy company? It all began with one man's dream to create a new type of electric system and uplift the South.

James Mitchell wanted to bring the electricity created from **hydroelectric** dams and coal plants in Alabama to customers through interconnected power lines. He even imagined the benefits of joining power lines with neighboring states to share electricity generated at power plants across the Southeast. Mitchell started to make his dream a reality in 1912, with the Alabama Traction, Light & Power Company, the first **holding company** in Southern Company's history. A holding company acts as a parent company to multiple smaller private businesses. Mitchell was able to organize Alabama Power, Muscle Shoals Hydro-Electric Power, Alabama Interstate Power, Alabama Electric Company, Wetumpka Power Company, Alabama Power Development Company, and many other small energy companies under Alabama Traction, Light & Power Company.

There were others interested in harnessing the power of Alabama's waterways to create electricity, but Mitchell had the connections and, most importantly, the grit and determination to secure money from **investors** and organize diverse partners towards a common goal. Mitchell believed that common goal was not just producing electricity at a profit, but changing the world for the better. He was fond of saying, "To make money is all right; to build industry is fine. But to build an industry that saves mankind from toil which it

DID YOU KNOW?

Southern Company has 44,000 megawatts of generating capacity and 1,500 billion cubic feet of combined natural gas consumption and throughput? Unsure what megawatts, generating capacity, or throughput means? Check out the vocabulary on page 4.

WENDELL WILLKIE AND THE FIGHT FOR PRIVATE UTILITIES



FDR Signing the 1933 Tennessee Valley Authority Act.

Wendell Willkie became CEO and President of Commonwealth and Southern during one of the worst economic downturns in American history. Willkie's battles were not just financial. He had to fight a growing battle between private utilities and the government. Willkie became a national spokesperson for private utilities in the fight against the Tennessee Valley Authority, one of the most famous and controversial acts passed as part of Franklin D. Roosevelt's New Deal. The debate boiled down to one question: who would be in charge of providing electricity, private utilities or government entities?

The private utilities argued that the Tennessee Valley Authority went far beyond its original purpose of conservation and flood control by selling electricity from hydroelectric dams at unreasonably low rates. The private utilities believed TVA was unfairly using government money to sell electricity to customers in territories where the private companies had worked hard and spent a lot of money to pioneer electric power. To support the argument for private utilities, Willkie often shared Thomas Edison's famous quote on the subject, "There is far more danger in a public monopoly than there is in a private monopoly, for when government goes into business it can always shift its losses to the taxpayer. The government never really goes into business, for it never makes ends meet, and that is the first requisite of business. It just mixes a little business with a lot of politics, and no one ever gets a chance to find out what is actually going on."

The TVA argued that private holding companies failed to bring electricity to rural customers and charged unfairly high rates. TVA leaders also argued that the creation of electricity was just a byproduct of flood management, and it did not create unfair competition for the private utilities. Even more federal dollars were spent on rural electrification with the 1936 Rural

Electrification Act (REA) and from financing provided through the Public Works Administration (PWA) to start municipal power co-ops.

Private utilities fought back against TVA and REA through the judicial system. The legal battle made it all the way to the Supreme Court in what is known as the TEPCO case (Tennessee Electric Power Co. et al. v. Tennessee Valley Authority). The Supreme Court never ruled on the constitutionality of TVA like Willkie had hoped. Instead the highest court in the land upheld the lower court's decision that the private utilities had no right to bring suit against TVA for damages. Willkie reacted to the decision by arguing that "...a privately owned corporation has no standing to challenge either the direct business competition of the federal government or indirect competition made possible by federal gifts to state agencies, however unconstitutional the competition may be."

Behind the scenes of the very public legal battle, Willkie used his political skills to continually negotiate with TVA. After several failed attempts, a final compromise was reached two days after the Supreme Court ruling on the TEPCO case. C&S agreed to sell Tennessee Electric Power facilities to TVA for \$78.6 million. Willkie also made TVA promise that it would not expand any further. The sale kept C&S stock from falling too low to recover.

Some historians argue that Willkie did not completely lose the battle against TVA. Many proponents of TVA wanted to see similar agencies created across the United States, and some even wanted all electric utilities under government control. Wendell Willkie's passionate arguments for free enterprise and private business are partially responsible for keeping the private utility businesses from disappearing altogether. Willkie took the fight against FDR one step further in 1940, by running against him in the presidential election.



Sale of Commonwealth and Southern (C&S) to the Tennessee Valley Authority (TVA) in 1939.

can well be spared, that reduces the labor and drudgery of women, that provides leisure for education and culture—truly is a much finer thing.”

Although Mitchell’s dream of an interconnected electric system did not come to completion during his lifetime, his vision and leadership laid a solid foundation for other visionary leaders to build the Southern Company. The first to build on Mitchell’s dream was Tom Martin. Martin began to link Alabama’s utility lines with Georgia’s in the 1920s. Martin also focused on bringing industry to the region and providing electricity to rural communities. He was bringing Mitchell’s dream to life—improving the South’s economy through electricity.

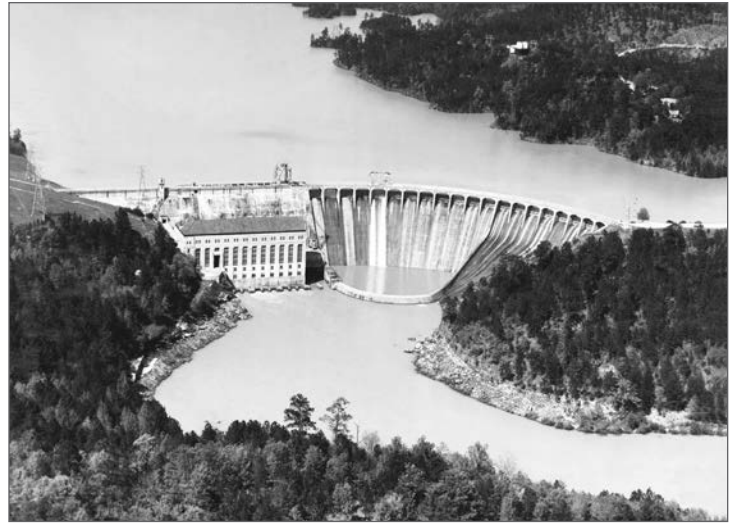
In 1924, Martin formed Southeastern Power & Light, a new holding company which replaced Alabama Traction, Light & Power Company. Under Martin’s leadership, the new holding company **acquired** utilities in Alabama, Georgia, South Carolina, Mississippi, and Florida. To Martin’s great surprise, Southeastern Power & Light was taken over by a much larger holding company called Commonwealth and Southern (C&S) in 1929. C&S acquired Southeastern by purchasing a majority share of the company’s **stock**.

Under this acquisition, the company was restructured and expanded technologically and territorially. C&S was divided into a Northern Group and a Southern Group, with each organization serving different regions of the United States. Martin and his new colleague B.C. Cobb simplified operations for the new utility giant by closing nonfunctioning **subsidiaries** and streamlining management. This type of structuring reduced costs and, during the Great Depression, helped the company survive.

What would become of Mitchell’s dream now that it was under control of a national utilities giant? The future became even more uncertain after the stock market crashed in October 1929 and the United States entered the dark financial period better known as the Great Depression. In the middle of this uncertainty Wendell Willkie, the next visionary leader in Southern Company’s history, entered the scene.

When Wendell Willkie became CEO and president of C&S in 1934, the company’s finances were **in the red**. Willkie believed increasing sales was the key to survival. He developed a strategy called the Objective Rate Plan. Under this initiative, Willkie rewarded customers for using more electricity by giving them lower rates for higher consumption. He was able to afford giving lower rates by selling lots of electric appliances. Within the first year, sales had increased 10 percent with 70 percent of customers increasing their use of electricity. Eventually, this plan was extended to all C&S subsidiaries. Although Willkie would ultimately have to reduce wages and cut employee positions to keep C&S from financial ruin, he is one of the most admired leaders in Southern Company history. He gave employees hope in the midst of a crumbling economy, and he worked hard to build and maintain a good rapport within his organization, its subsidiaries, and the communities they served.

The current Southern Company was incorporated in 1945 in Delaware, but its headquarters were moved to Georgia in 1950. In the coming decades, Southern Company would experience a wave of success followed by a period of financial



Top: Hydroelectric project at Martin Dam. Bottom: Tom Martin

turbulence. In the 1970s, while wages and prices stagnated, interest rates and fuel prices increased. The United States was experiencing an unprecedented economic inflation, but Southern Company persevered. During the 1990s, the company began to implement plans for cleaner energy production and invested over \$4 billion for environmental protection. In July 2016, Southern Company became the second-largest utility in the country based on number of customers served through a merger with AGL Resources. Headquartered in Atlanta, AGL Resources, since renamed Southern Company Gas, is the largest natural gas-only distribution company in the United States and is now a wholly-owned subsidiary of Southern Company.

James Mitchell dreamed of providing electricity to the South through an interconnected system. Now, serving approximately 9 million electric and natural gas customers across the country, Southern Company is Mitchell's dream come true. The dream has grown as the Atlanta-based company continues to serve customers nationwide into the 21st century and build the future of energy. In addition to its electric and gas utilities, Southern Company is involved in wholesale energy sales, nuclear energy, fiber optics, and wireless communications through its subsidiaries—Southern Power, Southern Nuclear, Southern Telecom, and SouthernLINC Wireless. Southern Company's stated commitment to innovation, customer service, reliability, and affordability reflects the values laid out by past leaders like James Mitchell, Tom Martin, and Wendell Willkie. To read more about this iconic Georgia Business, visit southerncompany.com.

VOCABULARY

Acquired: To get or come to own something. Southern Company acquired many different utility corporations throughout its history.

Generating capacity: maximum electric output an electricity generator can produce

Holding company: A company that owns or controls one or more companies.

Hydroelectric: Refers to the production of electricity by water.

"In the red": a company is considered "in the red" when it does not make enough money to cover the cost of operating.

Investors: People who provide money or other resources to a corporation in return for sharing future profits.

Megawatt: a unit of power equal to one million watts, especially as a measure of the output of a power station.

Stock: A portion of ownership in a company. As an individual gains more stock, their ownership increases. Commonwealth and Southern gained control of Southeastern by purchasing a large amount of the company's stock.

Streamlining: To simplify and make something more efficient.

Subsidiaries: A subsidiary is a company that is owned or controlled by another company. For example, Georgia Power, Alabama Power, Gulf Power, and Mississippi Power are all subsidiaries of Southern Company.

Throughput: Volume of natural gas that may be carried on a pipeline over a period of time.

Utility: an organization that maintains the structures, systems, and facilities needed to generate a service. The organizations can be regulated private utilities or public utilities. For example, Georgia Power is an electric utility in the Southern Company family.



A CASE STUDY IN GEORGIA'S
BUSINESS HISTORY

SOUTHERN COMPANY & THE MANUFACTURE OF CUSTOMERS

How many times have you used electricity today? From charging our cell phones, to lighting our homes, to cooking our food, Americans use electricity every day. It may be hard to imagine, but there was a time when utilities had to convince Americans to use electricity.

Tom Martin, one of Southern Company's founding fathers liked to say,

"Next to the manufacture of power itself, our greatest manufacture must be of customers."

Martin worked hard to "manufacture customers" as an executive at Alabama Power. Martin also led the effort to create Southeastern Power & Light, a precursor to today's Southern Company. He brought together Alabama Power, Georgia Power, Gulf Power, and South Carolina Power under the same holding company. Martin's efforts to attract residential, rural, and industrial customers at Alabama Power were expanded to all the utilities under the control of Southeastern Power & Light.

How did Tom Martin attempt to increase the number of electricity customers in the Southeast? Was he successful? Did the emphasis on attracting new customers have a lasting impact on Southern Company? Keep reading to find out.

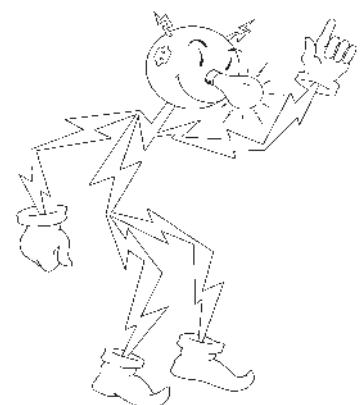
"THAT'S ELECTRICAL LIVING"

Gaining new residential customers required utilities to sell the idea of living electrically. Marketing campaigns focused on the convenience of electricity. Utilities were not simply selling electricity—they were selling a new way of life. One advertisement for electric ranges summed it up this way: "Clean, dependable, as modern as tomorrow...that's electrical living."

Utilities in the Southeastern Power & Light family shared marketing strategies and campaigns to help reduce costs. The most popular marketing campaign in Southern Company history was the cartoon mascot Reddy Kilowatt. Ashton B. Collins, Alabama Power's commercial manager, created Reddy Kilowatt in 1926 to help promote electrical living. Reddy was used by all of Southeastern's subsidiaries and, eventually, private utilities across the United States and throughout the world.

One of Reddy's main jobs was to sell electric appliances. The more electric appliances a residential customer owned, the more electricity they used. Appliances like refrigerators, electric ranges, water heaters, and lamps transformed daily life for many Americans and created more customers for electric utilities.

The sale of electric appliances became very important during the Great Depression.



Reddy Kilowatt created by Ashton B. Collins

The utilities making up Southeastern Power & Light came under the control of Commonwealth & Southern (C&S) from 1930 until the creation of the Southern Company in 1945. Wendell Willkie led C&S through the worst of the Great Depression. Willkie reduced rates and focused on adding new customers by selling electric appliances. His Objective Rate Plan rewarded customers for using more electricity by offering a lower rate for higher consumption. This meant that customers could use more electric appliances without paying a lot more for electricity. Customers were also allowed to buy appliances, even small ones like irons, with a payment plan. Willkie's ideas worked. Customers bought electric appliances and increased their energy use in the middle of an economic depression.

The Objective Rate Plan really took off in Georgia where sales of electric appliances doubled in the first year. One single day in 1935, Georgia Power employees sold over \$200,000 worth of appliances. Georgia Power also hosted "Home Town Electrical" contests that gave prizes to towns with the highest increase in average electricity use. These contests resulted in new customers for Georgia Power and created community excitement and pride about entering the modern age of electricity.

INDUSTRIAL CUSTOMERS

Tom Martin understood that private utilities would not be profitable without industrial customers. Martin wanted to add cotton mills, mines, railroads, chemical plants, and factories of all kinds to his list of clients. In the 1910s and early 1920s, the Southeast did not have a thriving industrial economy. Martin dedicated resources to improving economic development for the entire region and recruiting industries to move south to take advantage of low-cost electricity.

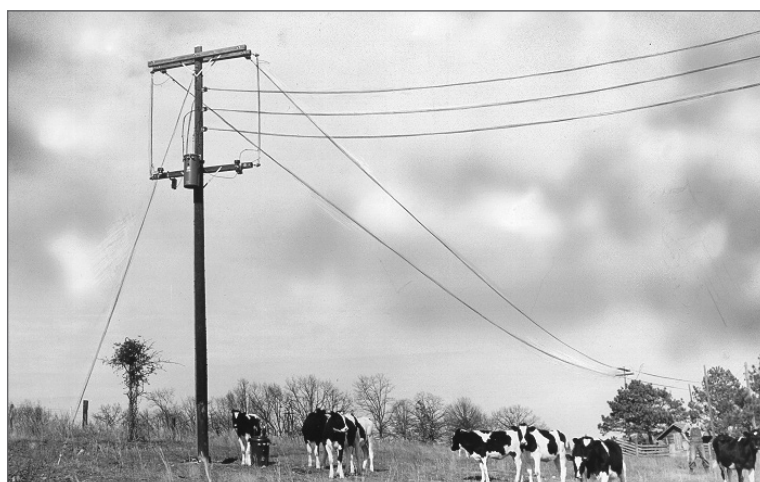
In 1920, when Martin became president of Alabama Power, he started a new industries division. Alabama Power placed ads in national journals promoting the natural resources and low-cost energy available in the region. The division published booklets, created exhibits, and attended trade shows to promote Alabama to industrial customers. Doing research and creating special reports also played a very important role in recruiting new industries.

Martin's success in recruiting industrial customers in Alabama served as a model for all the subsidiaries of Southeastern Power & Light. The corporate office in New York created national advertising campaigns and promotions that brought new manufacturing plants and industries to all the states served by the subsidiaries. In 1927, a US Department of Commerce report showed manufacturing in the Southeast growing faster than the national average. In 1928 alone, Southeastern added nearly seventy new factories to its list of clients.

Georgia Power's Preston Arkwright was a great champion of bringing new industries to Georgia. Arkwright coined Georgia Power's slogan, "A Citizen Wherever we Serve." Arkwright believed bringing new industries to Georgia would provide a better life for its citizens by providing new jobs, a broader tax base, and an overall higher standard of living. To Arkwright, recruiting industrial customers was not just about increasing profits for utilities, it was about lifting the South out of poverty and into the modern age.

RURAL ELECTRIFICATION

The story of bringing electricity to the South's rural communities is usually told through the story of the Tennessee Valley Authority (TVA) and Rural Electrification Act (REA). But utilities in the Southern Company family focused on growing the customer base in rural communities years before TVA and REA. Tom Martin made Alabama Power a leader in rural electrification despite the high cost of bringing electricity to remote communities.



Georgia Power rural electrification lines, 1935.

In 1920, Alabama Power installed its first rural transmission line in Madison County. The line provided power to ten farms and one cotton gin. It was not enough to bring electricity to rural areas. Power companies also had to promote new uses for electricity on the farm. For example, Alabama Power funded research at the Alabama Polytechnic Institute on how electricity could improve farming and increase profits. Experiments in dairy farming, fish hatcheries, and new processes for making insecticides helped increase the number of rural customers.

Henry Atkinson and Preston Arkwright of Georgia Power created a Rural Lines Division in 1927. The division added more rural transmission lines and sent engineers to help farmers with new electric technologies like irrigation systems and milking machines.

The combined resources of Alabama Power, Mississippi Power, Georgia Power, South Carolina Power, and Gulf Power served thousands of rural customers. To serve these rural customers the companies installed 1,155 miles of transmission lines by 1929.

CONCLUSION

Tom Martin's emphasis on the "manufacture of customers" provided a solid foundation for the South's energy industry. Martin knew that to succeed it was not enough to build the infrastructure that made electrical living possible—you also had to create a demand for it. Martin created that demand by attracting new residential, industrial, and rural customers first at Alabama Power and then throughout the entire Southeastern Power & Light system.

In the process of recruiting industrial customers, the utility companies brought economic growth to the Southeast and helped the company survive the Great Depression. The hard work of enlarging the customer base also created a lasting culture of research and innovation at the Southern Company.

The Southern Company system has invested approximately \$2.1 billion dollars in research and development since 1970. The Southern Company Energy Innovation Center, located in Atlanta, is a great example of this culture of research and innovation. The Energy Innovation Center's goals reflect many of the values Tom Martin brought to Southeastern Power & Light. Teams of employees and outside experts test ideas designed to make life easier for customers.

Many of the ideas tested at the center come directly from Southern Company employees. Southern Company CEO Tom Fanning described the center this way: "Our employees understand what our customers want; they serve them every day. Their ideas will help deliver an energy future that is clean, safe, reliable and affordable." That sentiment is not very far from the electrical living Reddy Kilowatt promoted to customers in the early days: "Clean, dependable, as modern as tomorrow."



Georgia Standards of Excellence: SS8E2, L6-8RHSS1, L6-8WHST1

Can you think of other industries that have to “manufacture customers?” You can’t be successful in business without customers! Can you think of other types of industries that have to create a need for their product? For example, internet providers might “manufacture customers” by supporting technology that requires internet access.

How did the Reddy Kilowatt advertising campaign help “manufacture customers?” Explain your answer with details from the case study.

Georgia Standards of Excellence: SS8H9; SS8E2; L6-8RHSS1; L6-8RHSS2; L6-8WHST7; L6-8WHST8; L6-8WHST9

Now that you have learned a little bit about the Southern Company, it is time to dig deeper. There is so much more to discover about “manufacturing customers” for electricity. Use the research prompt below to learn more and report back to your class.

Research Question: How did the New Deal impact the ability of private utilities to attract new customers? In particular, research the legal battle between the Tennessee Valley Authority and private utilities.

Get started on your research with these online resources

Free e-book from the Southern Company. Big Bets: Decisions & Leaders That Shaped Southern Company by Dub Taft & Sam Heys (<http://www.southerncompany.com/history-book/home.cshtml>)

Southern Company Timeline (<http://www.southerncompany.com/about-us/history/home.cshtml>)

“Emergence of Electrical Utilities in America,” Powering a Generation of Change from the Smithsonian Institution (<http://americanhistory.si.edu/powering/>)

The Tennessee Valley Authority: Electricity for All exhibit from the New Deal Network (<http://newdeal.feri.org/tva/index.htm#2>)

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Wendell Willkie, Presidential Contender. Performed by Amity Shales, James Madison, and David Willkie. Rushville, Indiana, 2011. Television. October 21, 2011. <http://www.c-span.org/video/?301274-1/wendell-willkie-presidential-contender>.



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Special thanks to Sarah Napier.

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