



GE May Get U.S. Gas Turbine Boost Over Dirtier Coal (Update4)

By Rachel Layne and Jim Polson

Dec. 12 (Bloomberg) -- General Electric Co., the world's biggest maker of electricity generation equipment, may get as much as 10 percent of its orders for natural-gas turbines next year from the U.S. as debate about global warming prompts power producers to choose the cleaner-burning fuel over coal.

GE is about to break a yearlong dry spell in the U.S. by selling two gas turbines to Dominion Resources Inc., owner of Virginia's largest electric utility, said Dominion spokesman Dan Genest. Dominion didn't disclose the price. Closely held Panda Energy International may pick GE for a natural-gas power station in Texas, spokesman Bill Pentak said in a Nov. 7 interview.

While GE doesn't break out the value of potential U.S. orders, in October it sold six large gas and steam combination turbine units to French utility Electricite de France for about \$750 million, including service. Demand for coal power increased in China and other developing nations in the past year because coal is cheaper than gas and plants can be built faster than nuclear reactors.

"A lot of these coal plants are getting canceled right now because of uncertain emission regulations," said Mark Demos, who helps manage \$21.9 billion for Fifth Third Asset Management, including 9.7 million GE shares. "Nuclear permitting is a mess. That gap has to be filled, and it's going to have to be gas. That's huge right now for GE. To impact profit in 2008, it has to be gas."

GE will generate a gain of at least 15 percent in infrastructure profit next year, Chief Executive Officer Jeffrey Immelt forecast yesterday. Gas turbines will be an important part of the infrastructure unit's advance and will help drive GE shares higher, Demos said. The stock is unchanged this year as GE faces slowdowns in its consumer lending and health-care units.

U.S. Orders

At its peak, GE shipped 244 gas turbines in 2002, driven by U.S. demand. GE, the world's biggest maker of gas turbines, may see a few orders in the U.S. this year, after none to date, GE Vice Chairman John Rice said.

A 1,000-megawatt combined-cycle plant costs at least \$800 million including construction and financing, Houston-based power producer Dynegy Inc. said today at an investor conference. Because competition is so fierce, GE and Siemens AG and Mitsubishi Corp. don't disclose individual turbine prices.

In August, GE said in a statement it had shipped its 1,000th F-class gas turbine, generating more than \$30 billion in revenue over the past 20 years. That works out to an average of \$30 million per turbine.

Infrastructure Profit

Power-plant equipment is part of GE Energy, which accounted for about 40 percent of GE Infrastructure's \$47.4 billion in revenue last year. GE's profit will rise at least 10 percent next year, with about 7 percentage points coming from infrastructure, Immelt told analysts yesterday.

Orders for GE Energy rose 22 percent to \$26.4 billion this year, including about 170 large gas turbines, Rice said. So far this year, no orders in the U.S. have been officially announced.

Of orders expected next year, 5 percent to 10 percent may come from the U.S., he said in an interview

in New York. `` If the economy stays strong you could see maybe twice that," Rice said.

GE has declined 10 percent since Oct. 11, the day before it reported that third-quarter profit at its infrastructure segment missed analysts' estimates. Profit at the unit is expected to rise 20 percent this quarter, GE said. GE rose 22 cents to \$37.25 at 4:01 p.m. in New York Stock Exchange composite trading.

Demand has picked up for small gas turbines derived from aircraft engines, used by suppliers to meet peaks of power demand that last only a few hours, Steve Bolze, head of GE's power- equipment division, told investors in October at a Goldman Sachs conference in New York. So-called `` peaking" turbines are an indicator of impending orders for larger, more expensive units.

Strong Demand'

Orders should accelerate in the next two to five years as U.S. power reserves shrink, Bolze said.

Electricity use during the hottest hours of summer will rise by 18 percent, or 135,000 megawatts, in the next decade, twice the planned increase in supply, the North American Electric Reliability Corp., the official blackout watchdog for the U.S. and Canada, said in its most recent annual report.

GE expects `` strong demand" for gas turbines next year in North America, GE Energy spokesman George Krakat said in an e- mail. Rising material costs and competition for engineering resources are forcing buyers to `` take action now, as project lead times could likely grow," he said.

Concern that climate-change legislation could render coal- fueled plants obsolete prompted the cancellation of about 13 this year. Coal plants capable of generating 12,000 megawatts, enough power for 9.6 million average U.S. homes, were proposed for construction in 2005. Only 329 megawatts, enough for 263,200 homes, were built, according to U.S. Energy Department data.

Substitute Plant

OGE Energy Corp., an Oklahoma City-based utility owner, plans to expand wind generation with natural gas as a backup as it seeks a substitute for a coal-burning plant rejected by state regulators this year, said spokesman Brian Alford. Any new plant would probably be powered by gas, he said.

Southern Co., the largest U.S. power producer, in June canceled plans for a coal-fueled plant in Florida, citing concerns that state regulations on carbon dioxide, the gas blamed for global warming, may make it unprofitable. GE will supply the gas turbine for the plant to be built in its place, Southern spokesman Mike Tyndall said yesterday.

Costs for electricity customers in Indiana, the most coal- dependent state, would rise as much as 53 percent in 2012 under U.S. Senate legislation now being debated, Duke Energy Corp., the third-largest U.S. coal-burner, said in a Nov. 15 statement.

Duke objects to provisions that would accelerate emissions cuts and require coal-burning plants to buy most carbon-dioxide emissions allowances at auction starting in 2012. Presidential candidates including Hillary Rodham Clinton have proposed more ambitious reductions, including selling all allowances.

`` Coal is going to face a significant uphill battle over the next several years," Alex Klein, a senior analyst with Emerging Energy Research in Cambridge, Massachusetts, said in an interview. `` The pace at which concerns over climate change have evolved in the U.S. have been much faster than people expected."

To contact the reporters on this story: Rachel Layne in Boston at rlayne@bloomberg.net ; Jim Polson in New York at jpolson@bloomberg.net .

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