Energy Insider by William Engdahl

Congress debates wrong issue

A new bill to allow U.S. electrical utilities to diversify avoids the prime problem of the nation's energy needs.

The backbone of the industrial economy of the United States, the publicly owned electric utilities, are indisputably in the most severe financial crisis since the Great Depression of the 1930s. Congress plans to hold hearings on legislation recently introduced to address this crisis. The House bill of Republican Tom Corcoran of Illinois, H.R.5220, the Utility Financial Reform Act of 1982, seeks to amend the Public Utility Holding company Act of 1935.

Hearings on the bill, supported by parallel Senate legislation introduced by New York Sen. Al D'Amato, will begin on April 27. The intent of the Corcoran bill, according to Reid & Priest, the law firm representing a group of 35 electric utilities working with the Illinois Republican for passage of the change, would allow utilities to diversify out of the business of providing electric power for running the nation's industry, farms, and homes. This could permit them to become pure speculative holding companies which, in theory, would be able to buy anything from real estate and Atlantic City casinos to oil wells or coal mines.

The argument from the industry, headed by Duke Power Company, is that the severe drop in book value of utility stocks, lowered bond ratings, and resultant higher interest rates, have jeopardized major portions of the industry. This is certainly true. The problem is the proposed cure.

The move began about a year ago, when the so-called Duke Group, which also includes some of the most important U.S. utilities, LILCO in New York, Pacific Light and PG&E in California among them, began fishing for some avenue of relief from the collapsing economy. In October, the Duke Group had Representative Corcoran behind the proposal to amend the 1935 legislation. I explained the implications with several Wall Street investment houses which deal with utilities as well as the utility industry.

At this point, the Edison Electric Institute, the official lobbying group of private utilities, is fully behind the Corcoran bill, according to Douglas Bauer, a top official of their finance group. Bauer told me that the concerns about buying casinos and the like were "excessive." As early as last October, Bauer told a meeting in New York co-sponsored by EEI that even if the economic health of electric utilities improved, diversification would "remain an important strategic alternative."

It seems that John Shad, head of the Securities Exchange Commission, agrees. Or so he said in a December letter to New York Senator D'Amato urging repeal of the 1935 act as no longer being necessary. Shad, who came from the Anglo-American Wall Street firm E. F. Hutton, evidently leans to the so-called free-enterprise approach.

The whole enterprise is contemptible. At the time when Duke and the other members of Edison Electric Institute are cancelling nuclear projects under construction, destroying the future basis of the economy to sustain real economic growth, they are running behind a move to transform one of the few remaining industrial self-interest groups—kept so by regulation—into the mainstream of what is called monetarism. This is one reason we have not yet had a full-blown political movement in this country, led from the board rooms of the Fortune 500 corporations, to hang Paul Volcker. Now clever whiz-kids like Shad, Bauer, Duke Power, and others are rushing to follow U.S. Steel, Du Pont, Pan Am, International Harvester, and Chrysler over the monetarist cliff. Paper profits are of little value to an economy when its electric power infrastructure collapses.

Ironically, for a change, Wall Street analysts had a keener sense of reality in this issue than many of the utilities. The Eaton Vance Tax-Managed Trust in Boston noted the fact that this is "the worst time to do this . . . this is a hotly debated issue." Merrill Lynch noted that the move is "not a fundamental solution to anything."

And this gets to the heart of the matter. If those utilities would spend their dollars fighting for every nuclear plant, and for the political back-up from Congress and the Reagan administration, instead of hiring firms like Reid & Priest to pass legislation allowing them to phase out of electric power supply to the nation, we would have political muscle against the wrecking operations of Paul Adolph Volcker.