U.S. energy producers swallow the Aspen Institute's shutdown plan

by Paul Gallagher

A strange scenario is being circulated for the United States electric power industry, by a certain grouping of the anglophilic financial oligarchy particularly concerned with energy technology matters. These include Harlan Cleveland and Robert O. Anderson of the Aspen Institute, a post-industrial society control center, and circles backing the corporatist "Reconstruction Finance Bank" of Lazard Freres' Felix Rohatyn, which overlaps the notorious "Nuclear [Investors'] Club of Wall Street." Having organized and funded the environmentalist rampage against nuclear energy and then pronounced it economically dead through such investment counsellors as Merrill-Lynch, Lazard Freres, and Salomon Brothers, the Aspen post-industrial mafia is now forecasting a revival of nuclear construction and electric power demand at the end of the 1980s.

The signal for this new line—the carrot by which Wall Street is keeping the suckers, particularly institutional pension funds, invested in electric utility stocks—was the surprising decision in June, of the Edison Electric Institute (EEI), the utility companies' lobby, to circulate and promote nationally a report on the future of the industry by the Aspen Institute. The report advised utilities to take the following triple dose of hemlock.

- cut consumer demand (more conservation)
- postpone capital construction as long as possible, and
- fight for more rapid electric rate increases.

The Aspen report alleges that this strategy will promote a "long-term" revival of capital construction and nuclear power! But during such a five to six year "hiatus" for nuclear and other large electric capital construction, the current collapse in electric demand, until now caused by Federal Reserve usury against the economy, would become self-feeding.

The toleration of such a "strategy" itself indicates that the spectre of bankruptcy of even publicly regulated utility monopolies, still only whispered, is clearly already terrifying a lot of utility managements. These utilities, the largest single sector of capital spending in the U.S. economy, are being restructured, under organized investor pressure and Federal Reserve usury, to *avoid all further capital expenditure*. Because the chief victim to date has been *future* nuclear and coal construction plans, utility rate-payers and the general population have no idea of the long-term stakes. Consumers are being organized by Naderite groups to stop new plant construction to "keep rate increases down;" but the Wall Street bond houses are telling utilities that new plant cancellations must be *linked to large rate increases* to keep up the utilities' book values and their "creditworthiness."

Volcker's usury threatens energy supplies

The slowdown of capital investment in the utilities sector due to Fed high interest rates is already having catastrophic effects on the national energy supply.

Since 1980, the National Electric Reliability Council has forecast an "inevitable shortfall of electric-generating capacity" in the nation's electricity grid by the mid-1980s, due to the sudden tripling (during the 1970s) of construction times for new electric plants. At the time of the first NERC warning, 53 nuclear plant orders had been cancelled in five years, against 13 new orders placed. Since that warning, new coal-fired plant construction has also stopped dead. In the four year period since 1978, 80 coal-plant orders were cancelled, nearly matching the 84 nuclear cancellations. New nuclear plant "commitments" to the year 2000 have dropped from 250,000 MW electric to 93,000 MWe today; but new coal construction commitments since 1979 are also virtually nil. Oil-fired capacity additions are, of course, not contemplated by utilities because of fuel price factors.

The cost, earnings, and capital problems of the nation's utilities during the 1970s show the Nixon, Ford, and Carter administrations deliberately allowing the oil crisis to destroy the electric power industry, in contrast to the policy interventions of the other major nuclear-producing nations. U.S. utilities' fuel and fixed costs rose from 15 percent to 33 percent of operating revenues during the 1970s; earnings as a portion of revenues dropped from 15 percent to 6 percent. As this was occurring construction costs for an average new plant—coal or nuclear—increased from $120 to $160 per kilowatt in 1969, to $1,000-$1,100 per kilowatt in 1980, a rise of almost 1,000 percent.

Since 1976, as capital plant cancellations multiplied under the "energy conservation" regime, national-average electric rates for both industry and households have risen continuously, ending 40 years of steady declines. Yet utilities were granted only 52 percent of requested rate increases since 1976, compared to 72 percent prior to that.

This catastrophic regression in rates was *not* the result of oil price increases. France, which has aggressively accelerated nuclear plant construction from the 1974 oil shock on, has continued to realize reductions in national electric-rate averages, through the May, 1982 figures released by Electricité de France. Rather, the U.S. electric rate regression is the result of allowing professional "intervenors" stretch new plant construction times to 12-15 years, just as the cost of running older plants suddenly rose due to costlier fuels.

Destruction of power grid

The ongoing destruction of the nation's utility-centered "central station power grid," which provides not only electricity but also steam and process heat to industry, transportation, and residences, can be seen by looking more closely at the current capital construction pattern.

Utilities currently have three groups of nuclear plants in construction and planning to the year 2000, with additional figures for coal-fired plants very similar both in numbers and proportion among the categories.

First, there are about 50 to 55 nuclear plants now due for completion and startup during the next four years. These were planned before or during the 1973-74 oil shocks. Completion of all of these plants was considered certain until May 1982 when outgoing "environmentalist" Nuclear Regulatory Commissioner Peter Bradford made a prediction of abandonment of partly-built plants, which targeted several in the 40 to 70 percent complete category, including Philadelphia Electric's Limerick 2, and WPPSS' Unit 3. Nonetheless, utilities are pushing desperately to get these 50 to 55 plants on line. Interference with operating licenses for these plants is the current first trench of battle for reviving nuclear energy in the United States; these late-stage delays are forcing utilities to keep obsolete oil-fired plants on line well past their planned retirement dates. *Fusion* magazine in September 1981 estimated that delays to this group of plants alone would cost $35 billion nationally by 1986.

The second category consists of 15 to 20 nuclear plants ordered after the oil crisis and now targeted for completion near the end of this decade. Three-quarters of this "generation" of nuclear plant orders has already been cancelled, as have nearly as many coal-plant orders. Since the Volcker depression hit in full force in late 1981, these cancellations have, for the first time, included plants already 10 to 25 percent complete. Another 15 to 20 plants are planned for completion during the 1990s. These plants, and a similar number of "1990s" coal-fired plants, were all stretched out from original completion dates no later than 1985. They exist "on hold," waiting to be cancelled under "investor pressure."

Utility plans would mean zero growth

The utilities' current plans, squeezed by usury and "electric rate farming" organized by certain investment houses, would force the entire U.S. economy into a long-term zero-growth strait jacket during the 1980s. At current rates, utilities' capital construction will replace only about 15 percent (120,000 MWe) of U.S. electric-power capacity between now and 1990, during which time 20 to 25 percent of that capacity will pass obsolescence. This is a formula for collapse of the electricity grid. Because the power-plant fabrication industry is producing at less than one-quarter of capacity, and has virtually no orders from abroad, this production collapse would become irreversible by the time of the mythical late-1980s "demand revival."

The effect upon utilities themselves is already close to disaster. They fell $7 billion short of their capital-raising plans for 1981. Average return on utilities' common equity had fallen from 11 percent to 5 percent over a decade of sabotage of construction times and costs.

During that period most state Public Utility Commissions, under Naderite pressure, have disallowed utilities from charging construction work in progress to their rate base. They are constrained to wait 12 to 15 years for return on investments made with bonds whose interest charges rose astronomically during that decade. The utilities have responded by a bookkeeping device, adding a yearly Allowance for Funds Used in Construction (AFC) to their return on equity.

This purely paper addition to book value, in anticipation of long-delayed cash flow increase to come at a plant's start-up and addition to the rate base, is, in effect, borrowing by the utilities of their future rate revenues—not just their capital costs—from their investors. This is usury right out of the pages of 14th century history, "rate farming" by investment banks representing panicky pension funds and other investors.

Emergency credit needed

To revive the utilities financially, the entire 90,000 MWe of nuclear (and equal amount of coal capacity) currently "committed by 2000" can be treated as a single, urgently needed power package to be added as rapidly as possible—that is, by 1987-88, with additional new starts for completion by 1990. If federal government "participation credits" for this package, at 3 to 4 percent interest rates, were made available to utilities in the needed amounts, those utilities could carry temporary net excesses in capacity as standby reserve, while waiting for demand to catch up, as they have done in the past. If the same approach were taken to the far larger real demand overseas (the Third World energy deficit), the power-plant fabrication industry could be revived as well, toward its actual *short-term* capacity of 20-25 units of nuclear per year.

The cost of the total nuclear component of this construction, some 150,000 MWe by 1990, would not exceed $200 billion. The savings in rates from reduced fuel cost would *exceed* $200 billion. The savings to the U.S. Treasury from the creation of 1 million new skilled jobs directly in plant construction would approximate another $200 billion.

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