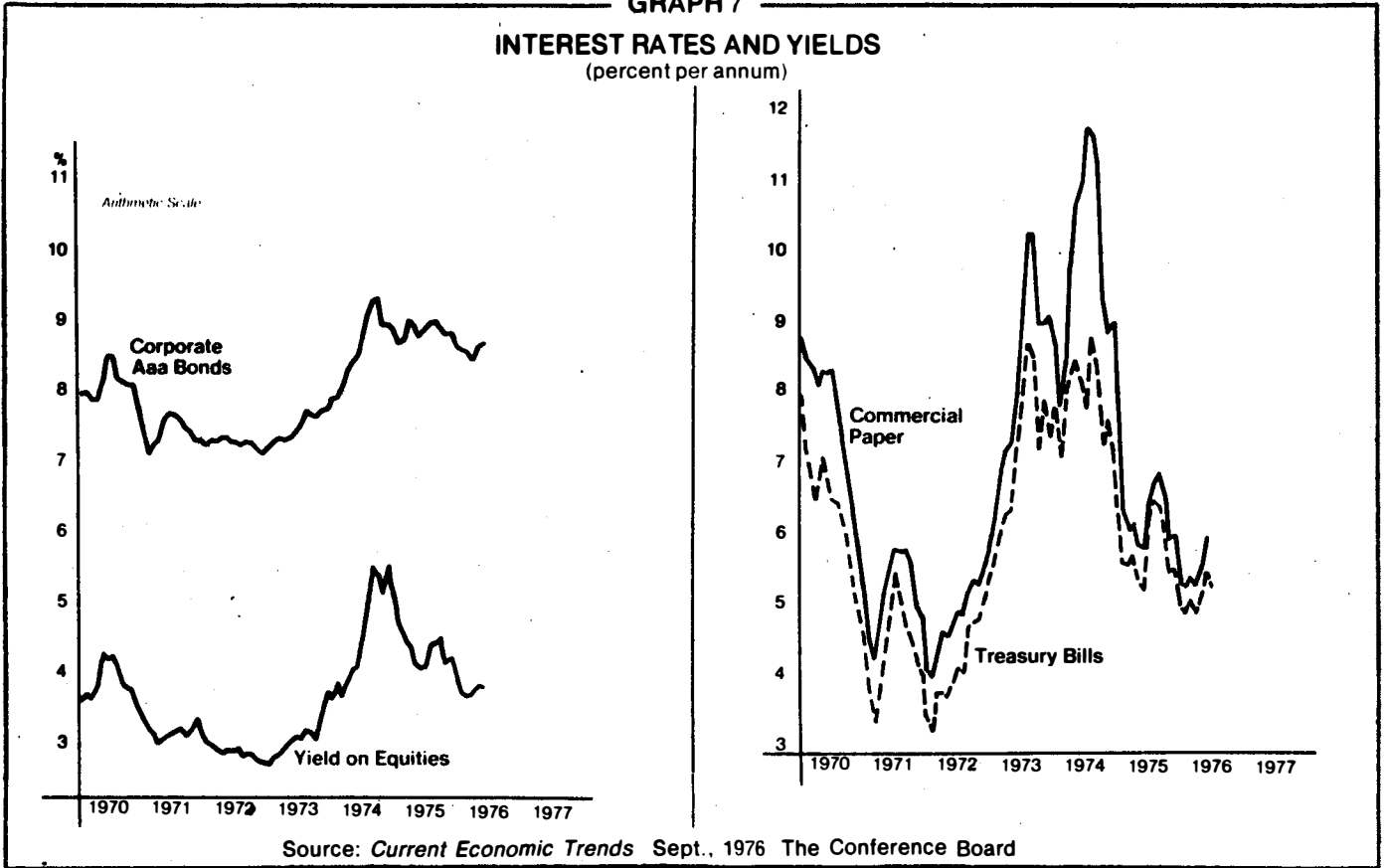


GRAPH 7

**INTEREST RATES AND YIELDS**  
(percent per annum)



Source: *Current Economic Trends* Sept., 1976 The Conference Board

**EXCLUSIVE**

## Carter Energy Program Would Bankrupt Public Utilities

### SPECIAL REPORT

The U.S. electrical utilities industry is headed for rapid bankruptcy if the Carter administration succeeds in its stated goal of energy use cutbacks and, particularly, elimination of nuclear power as a major energy source.

This is the conclusion that emerges from a detailed survey of the electrical utilities industry's capital structure conducted over the past several weeks by New Solidarity International Press Service.

The crux of the situation is that throughout its history, the electrical power industry has built up a growth-oriented capital structure based on rapid bringing on-line of new technologies that generate more electricity more cheaply. Using the expanded revenues generated by increased consumption of cheaper units of energy, the utilities have been able to easily retire old capital funding debts and at the same time generate new financing

for new, still-more economical technologies.

For the 1970s, the electrical power industry had projected a growing transition to nuclear power-generated electricity, cheaper by any standard than the use of fossil fuels. The revenues generated by an expanding, nuclear-energy based economy would have been more than enough to cover the industry's capital funding needs, according to industry figures.

But, under the Carter-Schlesinger scenario for zero energy growth and an end to the development of nuclear power, it is being proposed that the utilities industry instead triple or quadruple present rates to meet debt obligations. Such an increase would have a catastrophic effect on an economy where electricity costs are already severely distorted by the effects of the Rockefellers' 1973 oil hoax.

The criminal stupidity of the Carter zero-growth policy contrasts glaringly with the success of the U.S. electrical utilities as a result of growth policies.

Throughout the first 70 years of its existence, the U.S. electrical utilities industry increased its generating

capacity at twice the rate of growth of energy usage in the U.S. As a result of these policies, the U.S. electrical utilities industry is, in assets, the largest industrial group in the world, in 1975 its output was 2 trillion kilowatt hours, equivalent to 31.5 percent of the electricity generated in the world.

Seventy-eight percent of the U.S. industry's generating capacity is held by investor-owned electric utilities, tax-paying businesses financed by the sale of securities which plough investments back into the economy at the rate of \$3 million per day.

Historically, the industry's investments have been put to good use, generating technological advances that have steadily cheapened the unit cost of energy.

Advances in metallurgy — producing material that could withstand higher temperatures — coupled with rising economies of scale achieved through larger generators and increased usage have increased the thermal efficiency of electrical generation from 6 lbs of coal per kilowatt-hour in 1905 to .85 lbs. of coal per kilowatt-hour in 1965. Significantly, the heat rate has crept back up to .95 pounds of coal per kilowatt-hour under the impact of the inflation and austerity policies of the past decade. (see Fig. 1).

Despite inflation, the cost of electricity to the consumer was cut in half from 1925 to 1970, and halved in constant dollar terms from 1945 to 1970 with increased costs of fuel. Since 1970, prices have been rising sharply due to increased fuel costs and decreased generating efficiency. (see Fig. 2).

The recent price increases have not affected the market for electrical power in the short term. The market is elastic, with a 1 percent price rise causing a .001 percent decrease in usage.

However, the basis for growth in a regulated monopoly is not quantitative changes within existing consumption patterns, but the horizontal growth of usage throughout the economy. This is the pattern which sustained the electrical utilities industry through the mid-1960s. When Edison opened the first power plant on Pearl Street in New York City, the only consumer use of electricity was the light bulb. Electricity usage leapt ahead of industrial growth as street cars, industrial motors, household appliances, and heavy industry became major users. The trend continued through the early 1960s, as electrical heating and cooling of residences became commonplace.

Thus, increased revenues resulted from broader usage and cheaper prices. There is no other price-market structure that could finance both directly and by making securities salable, the rate of growth that the regulated monopoly needs to meet growing consumption demands.

The electric rate structure, moreover, encouraged this growth by charging less per kilowatt for bigger customers. The increased output was more than paid for by the economies of scale gained from plant expansion. A utilities executive estimates that an investment that doubles plant space, coupled with included modernization, quadruples generating capacity.

With electricity prices relatively low to encourage new forms of usage, new capacity was financed largely on the basis of the sale of securities in the private capital markets. The rate structure itself encouraged this, including operating costs as a factor in the rate formula, but not expansion of fixed capital. Utilities therefore sought to keep operating costs and rates down, while increasing their total assets for the purpose of borrowing against them.

Such a financial structure, in which a rapidly growing

FIGURE 1

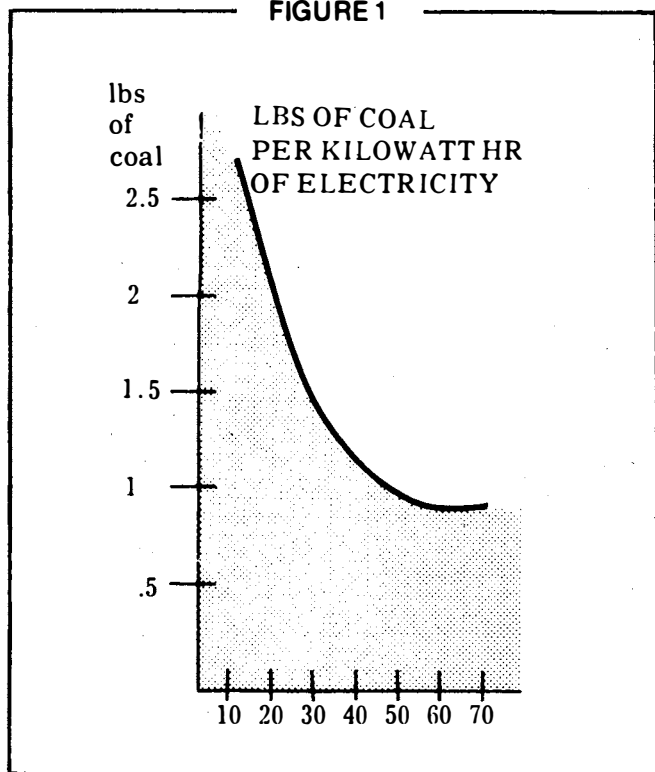
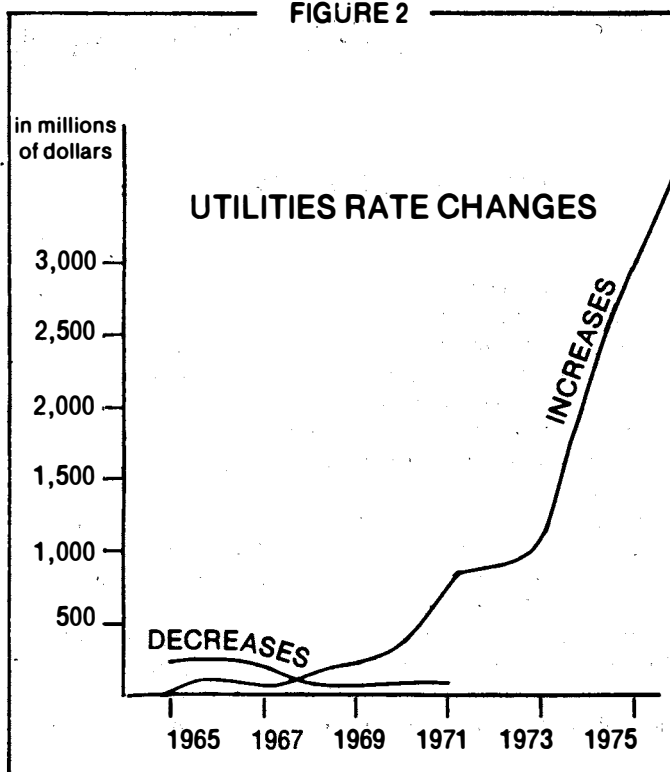


FIGURE 2



industry finances expansion by mortgaging expansion against anticipated revenues from a market which is being systematically expanded on the basis of technological advances and economies of scale, quickly generates a debt overhang that makes zero growth financially impossible.

Based on their awareness of growing U.S. electricity needs and of the relation between expanded output and their own financial stability, utilities continued their high rate of investment in new generating capacity in the early 1970s. They did this despite the fact that accelerating increases in the cost of fuel — the price per kilowatt hour has tripled since 1970 — caused rate increases which have reduced electrical usage for the first time since the 1930s Great Depression.

As a result, the total long-term debt for the industry increased from \$25.5 billion in 1965 to \$70.8 billion in 1975. More ominously, the percentage of total debt that is refunded has jumped ten-fold, from 1.8 percent in 1966 to 18 percent in 1975. Reflecting the downturn in usage, the debt-to-operating-revenues ratio leapt from 36 percent in 1969 to 51 percent in 1975. Contributing to the worsening situation, interest yields on utilities bonds, which had remained in the 2.5 to 5 percent range from 1945 to 1965, jumped to 8.8 percent by 1970 and reached around 9.5 percent in 1976. (see Fig. 3).

Thus, although increases in revenues resulting from rate increases have kept pace with increases in operating costs (see Fig. 4), the decrease in usage makes the financing of the industry's large debt overhang a dubious proposition (see Table 1).

*Nuclear Energy Key to Expansion*  
As Floyd W. Lewis, chairman of the Edison Electrical

Institute, emphasized in a recent speech, the heart of the threat lies in the cancellations and deferrals of new generating capacity.

From 1965 onward, nuclear energy has been the key to the industry's expansion plans. While "environmental protection" legislation has increased the equipment costs for a fossil fuel-powered plant to the same level as that of a nuclear-powered plant, nuclear power costs 60 percent less to operate over a 10 year period. In 1972, industry analysts projected that 15 percent of the nation's electrical generating capacity would be nuclear-

Table 1  
Utilities Industry Bonds

(BILLIONS \$\$)

AMOUNT	YEAR
1,672	1977
1,566	1978
2,818	1979
2,171	1980
2,548	1981
4,519	1982
3,521	1983
2,745	1984
2,782	1985

FIGURE 3

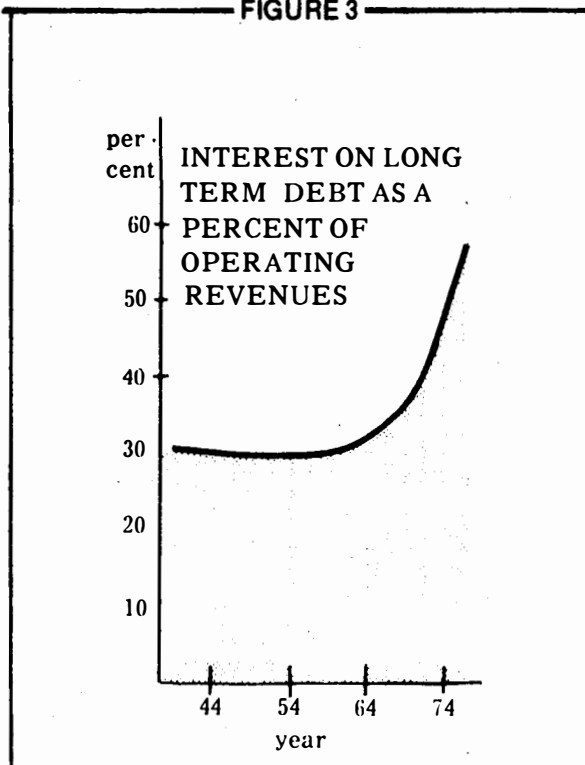
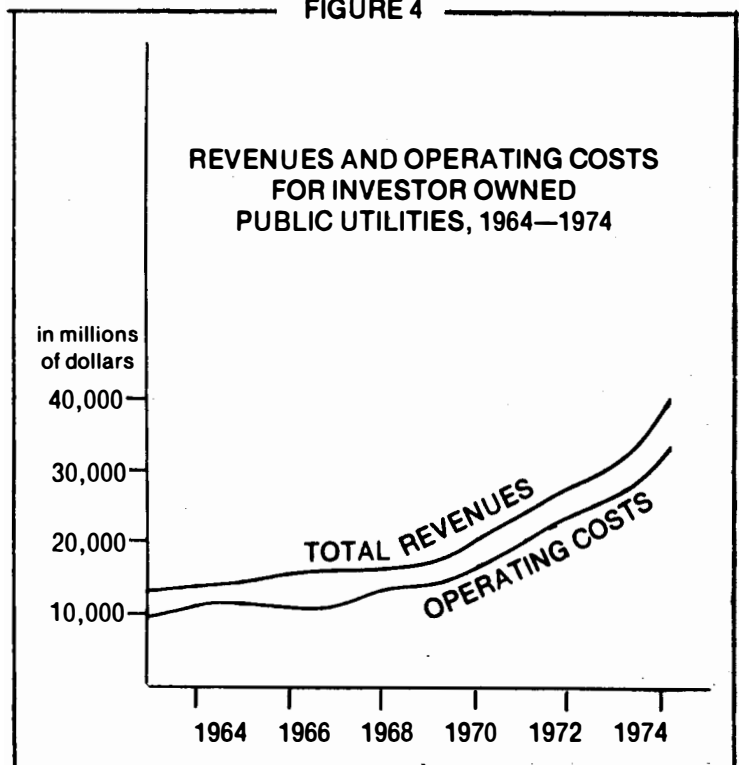


FIGURE 4



powered by 1975, and that the trend toward greater use of cheap nuclear energy would provide the utilities an ample profit margin to meet their capital obligations.

To date, only 9.0 percent has become operational. Much capacity has been delayed or cancelled because of opposition from Rockefeller-linked environmentalist groups.

Moreover, new facilities coming on-line this year have not kept up with the 1974 growth projection, with capacity growing only 2 percent from 1973 to 1975 instead of the 12 percent planned. And in 1975, overall industry construction expenditures decreased, reversing a long trend of accelerating increases in plant expansion, and in 1976, although construction expenditures did increase, again they were 6 percent below the target set by the industry.

But growth for the industry at at least the historic rate of 6 to 7 percent a year in new generating capacity is the only context in which the large debt overhang from the 1965 to 1975 period can possibly be handled. Industry executives are planning, as they must, to continue this historical growth rate, forecasting an 85 percent increase in capacity by 1985 — by which time they hope 32 percent of the nation's capacity will be in nuclear energy — requiring \$122 billion in financing. Even with that rate of growth it is not at all clear that rate reduction and other new market incentives could produce the necessary revenues.

The severity of even these relatively small construction cutbacks was highlighted in a report issued by

the Federal Power Commission last week. The report predicted that the next "great shortage" would be a shortage of electricity.

But the Carter proposals are much worse. Although specific projections based on Carter's proposed 30 percent energy use reduction have not been made, a 1974 Ford Foundation study proposing a 12 percent energy consumption cutback by 1985 called for slashing growth in nuclear generating capacity by 60 percent and in coal generating capacity by 40 percent.

The implications of the Carter proposals have caused shudders throughout utilities industry analysts. In an effort to stem growing panic, a recent Moody's publication babbled that "...with due respect to debt ratios and interest coverage multiples, Moody's has repeatedly stated that many factors other than merely statistical ones have a bearing on the determination and judgement of utilities' debt quality. But as much as we emphasize this point, there are those outside the rating profession who persist in attempts to categorize and evaluate debt quality simply on the basis of comparison and interpretation of essentially short-term statistical ratios....In Moody's opinion, barring corporate mismanagement or a national financial calamity, the bonds of virtually all electric utilities companies are assured payout obligations.

Unfortunately for Moody's, the Carter energy use cutback program will mean just such a national financial calamity.

## Preparations For New Monetary System Spark Gold Price Rise

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### GOLD

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The price of gold hit \$141.25 an ounce on Thursday, Feb. 24, in London — up \$5 from a week ago and the highest level in over 13 months. The sudden gold price jump is predicated largely on widely circulating reports that European financial interests, the Soviet Union and Arab oil-producing countries are in the process of negotiating an alternative gold-backed monetary system, in which the gold-backed Comecon transfer ruble will play a central role.

An article in the February issue of the Gaullist journal *L'Appel*, entitled "The Gold War," makes the connection between the transfer ruble discussions and the gold price rise most explicit: The article blames the U.S. government's unpegging of the dollar from gold in 1971 for creating "the greatest wave of international inflation the world has ever known" and unleashing a huge pile-up of world debt. *L'Appel* then lays out a scenario for a run on the dollar, which could occur in either of two ways: 1) Foreign holders of \$120 billion in short-term U.S. government debt could decide to flee from the dollar, or 2) A sufficient number of other debtor countries could become insolvent at the same time. "There will then only remain the gold solution," *L'Appel* concludes.

Significantly, the *London Economist* leaked word last week that the European Economic Community's Commission is considering an official proposal to establish a gold clearing system among member nations. At the same time, the Swiss bank Lombard Odier issued its predictions that European central banks will buy heavily into gold this year as part of an effort to make the metal their primary reserve asset.

Adding fuel to the speculations concerning gold, French Prime Minister Barre and Italian Treasury Minister Stamatii, meeting in Paris last week, announced that European monetary union and the creation of a gold-backed common Euro-currency was their "first objective."

Subsequently, the release of the London-based Moscow Narodny Bank's quarterly report on Feb. 23 characterizing the demand for gold as "quite encouraging" sent the market up to still greater peaks.

The new gold fever is extending to less sophisticated investors as well who are not yet apprised of the political "coup" being planned against the dollar. This category of investor is simply diving for cover before a new round of international inflation and currency instability begins. European banks point to the inflationary danger in the U.S., in particular, citing the 0.8 percent jump in U.S. consumer prices in January and Carter's upping of the Ford budget deficit for 1978 by over \$10 billion.