• "Non-implementation of the funding levels and engineering efforts of the 1980 Fusion Engineering Act will cause the rapidly advancing program to "go over the cliff." The Princeton Test Facility will come on line in 1982 and almost certainly demonstrate that the mainline tokamak approach can be developed into a breakeven reactor; but none of the other steps needed to realize this is currently being pursued. The Mirror Fusion Test Facility disappears entirely in the OMB's fiscal-1983 proposal. Britain has unilaterally abandoned the joint U.S.-British follow-up to the ZT-40 experiment, and the only other toroidal confinement system being designed has been cut out of OMB's 1983 budget."

If Reagan administration policy is being turned, at the orders of the British science establishment and the Heritage Foundation, away from government-sponsored fusion engineering development, and from government-led *export* of nuclear energy to waiting nations, then the domestic nuclear industry cannot remain a "private enterprise pet project" of an administration contemplating the British-dominated "free market."

In fact, the past w
against the nuclear industry was engineered by part of precisely the same Malthusian network—
larly, by NRC Commissioner Victor Gilinsky. On Nov. 30, when NRC Chairman Palladino, a Reagan appointee and a nuclear design engineer, suddenly attacked the system of international safeguards on nuclear exports in a letter to Congress, virtually implying the United States should stop all nuclear exports, Palladino was repeating the conclusions of a report prepared on Galinsky's specifications.

Gilinsky is a member of the London International Institute for Strategic Studies, and was Schlesinger's protégé at the RAND Corporation. Speaking to the Atomic Industrial Forum in San Francisco Dec. 1, Palladino attacked the quality control standards of the domestic nuclear industry. Recently, Galinsky had stated that 20 plants nearing licensing in the United States would be denied licenses due to "poor quality control."

Only three weeks earlier, Palladino had publicly committed the NRC, based on a report from its staff, to *expedite* the licensing of 33 nuclear plants by 1983. Within ten days, Palladino was announcing the revocation of the license of one of those plants, Pacific Gas & Electric's Diablo Canyon nuclear unit 1. In between, Galinsky and Peter Bradford, the other anti-nuclear NRC Commissioner, ran a high-profile series of media attacks on Palladino's expedited-licensing policy.

Meanwhile, the congressional hearings on the Reagan administration's plans for "public perceptions of nuclear energy," scheduled for Dec. 1, were postponed with no new date announced—a part of their own script which the Heritage Foundation now wants dropped altogether.

Energy Insider

Financial warfare against the utilities

by William Engdahl

The nation's electric power utilities are undergoing the most severe crisis since at least the period of the 1930s Great Depression.

This worsening situation is the result of more than 12 years of systematic local and national environmental and other "constituency" obstructionism, combined with almost two years of unprecedented interest rates which have all but killed the long term bond market as a viable capital source for financing construction of new capacity. Perhaps most alarming is the widespread conviction among industry and Wall Street analysts that the Reagan administration's widely-touted Tax Act of 1981 will make little or no contribution to ameliorating this crisis over the next several years, and could have a slightly negative overall impact.

Current industry utility construction commitments over the decade to the end of 1990 today total some 190,000 megawatts. To put this in perspective, this is an increment equivalent to some one third of total U.S. electric installed generating capacity at the first of this year, and 45 percent of 1980s record peak load of 438,000 megawatts. Even this construction commitment has shrunk dramatically, especially over the last years since Jimmy Carter's 1977 inauguration. In 1980 alone, various utilities postponed 60 planned generating plants totalling 59,000 megawatts for at least one year because of financial and regulatory problems.

This forward commitment for 190,000 additional megawatts of capacity is a drastic and already dangerous decline from the record high level of such forward committment of 312,000 MW. That peak was planned by the industry in the 1974 wake of the OPEC oil embargo and ensuing 400 percent oil price rise. Clearly, nuclear power generation of electricity was overwhelmingly the most rational and economical option for the future. In every respect it still is. The problem is we will not see it realized at the present pace.

A recent and little-publicized study by the U.S. Department of Energy predicts that if the trend of delays and cancellations of plants continues, the United States will undergo electricity shortages beginning in the last half of the 1980s, even assuming absurdly low GNP growth rates in the overall economy. This DOE study is being followed with one, as yet unpublished, titled, "Financial Deterioration of Electric Utilities." According to another study by the North American Electric Reliability Council, over 50 percent of planned electric power capacity has already been delayed on average almost two years.

Projections by the utility industry's research arm, Edison Electric Institute, show that this dramatic forced contraction of forward construction commitment will have devastating impact on the very parameters of "demand" or overall growth of the economy. The very financial requirements of even the cited inadequate growth and replacement commitments, according to the EEI's latest analysis, call for spending of between $455 and $485 billion over this next decade. The capital expenditures of the electric utility industry would account for between 10-15 percent of all non-residential fixed investments of the total U.S. economy during the decade.

There is a criminal fraud that has been promoted by Robert O. Anderson's zero growth think tank the Aspen Institute, the Club of Rome, and their ilk. The argument is that reduced "demand" is our top priority. They applaud the rapid collapse of the utility industry at the same time that they funnel millions of dollars into the so-called consumerist movement to insure an actual economic depression. They well understand the central relation of energy as the generator of economic growth. Robert Anderson wants to destroy the generator itself.

The depth of the impending disaster becomes clearer if we extend our view another decade to the year 2000. To maintain a state of even *zero growth* in total primary energy use, which is EEI's so-called "low growth" scenario for the period until the end of the century, our electric utilities would need to order more than 400,000 megawatts of generating capacity over the next two decades. This is more than twice the figure of 190,000 MW now on order. The basic reason for the larger figure is the fact that at least 100,000 megawatts of capacity will need to be retired and replaced, as it will be 40 years of age. In addition, 50,000 MW of present oil burning capacity will have to be replaced. Not surprisingly, the Edison evaluation concludes that "without a marked improvement in its ability to raise capital it is questionable whether the industry can maintain its present forward commitment, let alone fund any new capacity additions."

The administration's Economic Recovery program projections for the beleagured U.S. economy are premised on an assumed real annual growth of gross national product (GNP) of 4-5 percent through 1980s. All revenue projections and investment projections are contingent on achieving this growth.

Historically, it is clear there is a vital "leading" relationship between growth in electricity demand and growth in GNP. From 1953 to 1973, electricity use grew roughly twice as fast as GNP. Even with the sustained industrial stagnation in the U.S. economy following the 1973 OPEC price escalation, electricity growth has led GNP by 150 percent. This would mean that to achieve real growth in GNP of 4-5 percent, we must attain electric capacity growth over the next decade of at least 6-7 percent. At present trend, we are adding less than 2 percent annually. The situation is getting worse, not better, every day that prime interest rates stand in the double digits.

"States' rights" and the PUC problem

Vastly complicating this dangerous situation is the fact that historically, regulation of the vast majority of public utility rates has been left to the states. This fact has not been overlooked by the top-level strategists of the cited zero growth think tanks. Traditionally, in times of low interest and inflation rates, utility financing and rate rises were a relatively routine function of providing for future industrial expansion in a region. With the onset of sustained chronic structural inflation over the past years, a systematic targeting took place. Because many were popularly elected, this opened the door for many Naderite "crusaders" to get elected or placed on such regulatory bodies on the basis of their stated commitment to "stop big greedy utilities" from robbing the "poor little homeowner." Perhaps the most aggravated example of such an operation is the California PUC. Since 1973, it has deliberately shifted the burden of rate rises away from residential onto industry consumers. As a result, industrial rates have risen 343 percent in eight years. This has in turn forced industry to leave the state to seek cheaper rates.

One authority on the crisis of the utility industry, Mr. Perry Seiffert, helped organize a seminar on the subject recently to focus the attention of the utility industry, bond houses, government and large industrial users. The most worrisome conclusion, according to Seiffert, a member of the Washington law firm of Doub and Muntzing, is the fact that there is as yet so little awareness of the gravity of the problem. "Nobody on Capitol Hill is on top of the seriousness of this problem yet," he emphasized in an interview with *EIR*. The problem, Seiffert feels, is further complicated by a susceptibility in the present administration to cater to forms of "states' rights" for ideological reasons, making decisive federal action to reverse the degeneration on the state regulatory level highly unlikely.

As a group, in recent years, state regulatory bodies have dealt with inflation and interest rates by simply denying adequate rate increases or forbidding utilities from including an offsetting of new construction work in progress for new nuclear or coal capacity (termed CWIP) into the current rate base. This CWIP figure at year-end 1980 totalled almost $65 billion, ⅔ of it nuclear. Because of the deliberate effort to prohibit CWIP inclusion, no cash can be earned on CWIP funds. With delays due to environmentalist intervention dragging licensing on for up to 14 years, this has resulted in escalating capacity cancellation by utilities as a short-term survival mechanism.

One estimate of the add-on cost of delaying a nuclear plant begun today for a 12 year period, according to Baltimore Gas and Electric, an experienced utility, compared with a more normal 8 year construction schedule, is a cost addition of fully $1 billion. That is the difference between a $2.7 and a $3.7 billion bill to ratepayers, due solely to current interest and inflation charges!

Instead of allowing a construction cost return on investment to be derived from CWIP addition to current rates as the new plants are being built, utilities are generally forced to compensate for cost outlays for construction until the new facility generates electricity by capitalizing the interest and carrying costs and adding this to the *final* cost of the operational plant 14 years from today. This ballooning is termed "allowance for funds used during construction" or AFUDC. Since this is the only remedy generally allowed by state utility commissions, with the exponential increase of interest and inflation rates in the last several years, it is a simple calculation to discover the source of the astronomical "cost overruns" of nuclear projects. Washington State's WPPSS, the largest single bond borrower, is now estimated at a figure of $23.9 billion for 5 plant units because of AFUDC. At 12-15 percent add-on per annum, this figure is easily reached. While a proposed rule allowing construction work in progress to be included in the rate base is before the Federal Energy Regulatory Commission in Washington, FERC jurisdiction covers only the 10-12 percent of utilities in wholesale or interstate. The rest, almost 90 percent, are state regulated.

The situation is severe enough to lead some to predict necessary "nationalization" bailout to preserve the nation's electric power grid. Whether argued on national defense or other grounds, this is hardly a welcome prospect. But, so long as Paul A. Volcker's policies are tolerated it will soon become academic. The utilities will have closed their doors long since. The prospects for effective change are not bright if Energy Secretary Edwards' assessment is indicative. He recently told the utilities bluntly: "Bailing out the electric utility industry is not on our schedule."

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