S T V FORUM OFFICIAL NEWSLETTER: SAVE-THE-VALLEY

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An open letter to the Officers and Board, Public Service Indiana (PSI); with special attention to the Media and members of S.T.V.



Public Service Indiana is faced with an historic opportunity. Your decisions and actions, whatever they may be, will be fateful to the future of your Country. Let us explain.

From just after the middle of the last century, when railroads had spread a life-giving network across the land, there developed an era of gross overbuilding.

Succombing to avarice, a sin condemned by all religions, but allowed to go to an extreme by various governmental decisions, enormous, unneeded expansion of rail lines occurred, with watering of stock, speculation and other excesses.

In the resulting collapse of the stock market in 1873 (fueled also by other factors, of course) the depression of the mid-1880s, and the panic of 1893, millions of small people suffered untold misery. The railroads have not recovered to this day.

History does not repeat itself except in large. Now we see an aspect of history repeating: gross overbuilding in the electric utility industry. Public Service Commissions are required, of course, to give utilities a fair return on their investment, and a galaxy of tax inducements make it profitable to build even unneeded plants.

In our opinion the utility industry is heading toward public reaction against excessive charges, against overbuilding, and against the flagrant misuse of subsidies of all kinds. We can foresee an era of class-action suits by stockholders and, or, consumer coalitions, against electric utilities alleging mismanagement by Officers and by Boards of Directors. Watering of utility stock has already been alleged. The Ford Foundation report A Time To Choose pointed to ill effects on the economy because highly capital-intensive enterprises (e.g. the 5+ billion projected Marble Hill bill) drain money away from much needed labor-intensive job-producing industry.

In the case of Marble Hill you have decreased your projected system needs for 1985 from some 7200 megawatts (MW) (1974 projection) to less than 5000 MW (1980 projection) in your Annual Reports. The difference is much more than the expected output of Marble Hill! You show, by your own figures, that Marble Hill is redundant.

If PSI were to "bite the bullet", admit to having made a forecasting mistake, and stop construction of Marble Hill, you would immediately become a leader in the ethics and marketplace of the industry. Your corporate image would more than regain the strength on both counts that you have lost in the shoddy-construction fiasco. The public would rally to you as leaders in fulfilling your part in the Federal Administration pleas for responsible fiscal behavior.

Offered with continuing concern.

Harold G. Cassidy Fred Hauck

Support for this Letter (partial listing)

*Daniel L. White, in Public Utilities Fortnightly, January 18, 1979:

"Because electric utilities are highly capital intensive, accurate predictions of the growth in energy demand are paramount to keeping consumer costs down." (p. 27)

". . . there is currently [1979] 38 per cent reserve margin in the utility industry. Twenty per cent should be sufficient for a reserve and, in fact, the extra reserve is probably costing utility consumers about $10 billion annually." (p. 28)

"For the past six years, utility common stocks have sold below book value on average. Large sales of common stock at less than book value reduce the value of shares already outstanding." (p. 29)

*Eliot Marshall, in Science, 211 (January 3, 1981), p. 461:

"America's electric utilities are in trouble, not as much trouble as the auto and steel industries, but enough to make Wall Street nervous about their future. Nineteen eighty-one may be an especially traumatic year for the investor-owned companies, which supply more than three-quarters of the nation's electric power, for some will have to change radically to survive. They are losing income because the demand for electricity has fallen, construction costs are rising rapidly, and the public is refusing to pay higher electric bills. . . ."

"Confronted with this situation, investment experts such as those at New York's bond rating company, Standard & Poor's are beginning to echo the advice given to utilities in years past by conservationists. They are telling hard-pressed companies to cut back construction programs and try to cut demand."

"Roger Taylor, vice president in charge of utility issues for Standard & Poor's, says 'We have cut more bond ratings than I would care to relate over the past several years, and we continue to cut. In 1980 we cut 28 or 29 out of a universe of 125 companies. . . .'" (p. 461)

"It just doesn't make sense to keep on building more and more plants ad nauseam," Taylor thinks.

*Griffith R. Morris and Richard J. Levin, "Addressing the 'Excess Capacity' Issue," Public Utilities Fortnightly, March 12, 1981, p. 23:

"In some cases, utilities are penalized upon the finding of 'excess capacity.' In one recent case, for example, the public service commission of Missouri found that Kansas City Power & Light Company's 455-megawatt share of the Iatan power project was 'excess capacity' and excluded it from the rate base. The commission's justification was that:

> . . . The company can provide safe and adequate service to its ratepayers without Iatan in its rate base and that therefore Iatan is not needed to meet the needs

> of the company's ratepayers during the period these rates will be in effect. . . . [Re Kansas City Power & Light Co. (June 19, 1980) Case No. ER-80-48.]

The commission also denied recovery of Iatan's costs in a subsequent rate application seeking interim relief. . . ."

*Lawrence Rout, "Job of Corporate Director Becomes More Susceptible to Legal Assault," Wall Street Journal, March 3, 1981, Section 2:

"'The requirement that directors sign the 10K [annual report] really says that they have to take a meaningful hand in the operation of the business, and that they will be held accountable if things go wrong,' says Marvin Pickholz, a Washington lawyer and former assistant director of the SEC's enforcement division."

*Michael Brody, in Barron's, August 24, 1981, p. 4, writes in a table "At Risk:Utility Involvement in Nuclear Plant Construction as of April 1981," that PS of Indiana, capitalized at $2,235 million has $743 million in nuclear construction. This is 33% of their capitalization.

In the last paragraph of his article (p. 21) Brody writes: "Lewis Perl, of National Economic Research Associates, who has done extensive consulting work on behalf of the nuclear utilities. . . comments candidly, 'If I were a utility executive today, either with a nuclear plant a short distance underway or with one I hadn't started building, I'd get out of it and I'd never build another. Because I think the risks to your stockholders are just intolerable."

STV thinks PSI is only a short distance underway with Marble Hill which would cost at least $5 billion to complete.

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