Ripping Off Con Ed

by Fred C. Shapiro

"Consolidated Edison is not in need of any exorcism of devils."

—Charles F. Luce,
chairman of the board and chief executive officer of Consolidated Edison Company of New York

The hell it's not. If not devils of one form or another, how else explain the fate of this 153-year-old bulwark of American capitalism with so much going for it—more than $6 billion in assets and a net income last year of slightly more than $2.4 billion for openers—that is going to hell in an urban handbasket?

Consolidated Edison is America's prototype utility and is still second in book assets only to American Telephone and Telegraph. Enfranchised to it are nine million consumers of electricity, gas, and steam in New York City and nearly all of Westchester County, who are obligated to return to it a profit of as much as 7.9 per cent (for electricity) on its fixed assets and expenses. For electricity alone, New York residential consumers pay about twice as much as residential consumers in most other American cities—four times what people pay in Seattle. And commercial rates are worse. A recent utility survey showed that an average industry consuming 400,000 kilowatt hours monthly would be charged $25,482 in New York, $14,614 in Newark, just across the Hudson River, and as little as $5,955 in Dallas.

On the face of it, certainly, Consolidated Edison ought to be the most lucrative American monopoly this side of the United States Mint. Instead, it finds that it has (literally) turned off its most profitable accounts and has become a major component of an urban crisis that may end up engulfing it. With the flight of light industry from the city, which used to provide a steady, 24-hour patronage, the utility has been left to meet a demand that

Fred C. Shapiro is a staff writer for The New Yorker.

peaks dangerously close to its capacity on hot summer days—when air conditioners snap on all over town—and then plunges to uneconomic levels at night. "We have to operate a whole damned system based on a need that exists only 10 to 14 days a year," Luce points out. And in order to meet even that need, Con Ed, once the industry leader in the promotion of "all-electric living," has had to beg its customers not to patronize it. Its "Save-a-Watt" campaign, which so startled its industry colleagues two years ago, may have preserved—for the time being—the utility's generation and transmission capacities, but it has played hell with its fiscal one.

What transformed mighty Consolidated Edison, "The Company You Love to Hate," as *Fortune* dubbed it in 1966, into "The Mickey Mouse Power Company" in the later monologues of Johnny Carson, is more than a simple management failure, which is the way that I, as a Con Ed rate payer (to state my bias early), saw it when I started researching this article, and which is certainly the view most people share. Like other parts of our economy that have begun falling apart, Con Ed has become a convenient scapegoat—and not an undeserving one. Why bother to look for other explanations, customers and politicians may feel, when the failures can so easily be written off to incompetence and greed? But after undertaking this article, what I found was contrary to my expectations. The company was often short-sighted and incompetent, to be sure. Its rates are stacked in favor of large and inefficient users of electricity, such as the World Trade Center, which pays as little as .65 cents per kilowatt hour, while less fortunate commercial users pay 4.27 cents, and residential consumers 5.53 (all plus fuel adjustment surcharges, of course). Luce admitted recently that Con Ed "made a mistake in estimating" the costs for servicing bulk power consumers who, in addition to the Port Authority, include the co-op city project in the Bronx, the Metropolitan Transportation Authority, and the city of New York itself. A number of consumer organizations, with names like GET (Gas, Electric, Telephone), FACE (Fight Against Consolidated Edison), AC-DC (Active Consumers Defy Consolidated Edison), and the Harlem Consumers Education Council, now devote much of their efforts to knocking down excessive Con Ed bills before the Public Service Commission.

But Con Ed's mistakes, however egregious, are not the sole cause of its difficulties. Rather it is the failure of a state and national regulatory system which dates back to 1907 and today is as outmoded as the gas light. Bluntly stated, what has happened is that the New York State Public Service Commission has stood by wringing its hands, while ripping off Consolidated Edison has developed into a major urban sport. The commission now finds itself in the position of a parent of a city kid continually and increasingly held up by his schoolmates. Rather than make the kid fight back—or otherwise protect him—the PSC/parent has genially supplied the utility/offspring with ever larger amounts of rip-off money.

Last year, when the "kid" came up busted again and was forced to suspend its quarterly dividend—an unheard of step for an urban utility in recent history—the action had national ramifications in an industry which recognizes, in the words of the president of a southern company far removed from New York, that "whatever happens to utilities, good or bad, happens to Con Ed first." Among utility investors, the ramifications were even more ominous. After all, if no profit were to be had in the nation's Number One urban monopoly, with all its obvious advantages, what would be the prospects for other corporate American utilities—and particularly the 192 other investor-owned power companies monitored by similar, and perhaps even less effective, regulatory commissions? The resulting sell-off in industry securities, it has been estimated, devalued the utilities by approximately $10 billion.

Typically, the Con Ed crunch was not foreseen by the New York State Public Service Commission, which bears the legal responsibility to the consumers, but instead by executives of the First National City Bank, which bore the responsibility for making the market for the holders of the utility's bonds and debentures, and whose customers would be among the first to suffer if investors lost confidence in Con Ed. The precis of the 1966 *Fortune* article on the company—"Much of its plant is old, its rates are high, its profits are low, its growth is meager; its customers are furious. But at Con Edison the aging management assumes the mantle of martyrdom, and trusts that everything will turn out all right"—provoked the bank into an unprecedented search outside the company for a new chief executive. The man they came up with in 1967 was Charles Franklin Luce, a 50-year-old former undersecretary of the Interior, and a former administrator of the Columbia Power Project at Bonneville Dam. "Don't tell me about cheap power," Luce likes to tell reporters. "At Bonneville, we sold it at two mills per kilowatt hour."

But Bonneville isn't New York City, where average residential consumers pay more than nine cents per kilowatt hour including fuel-cost passalongs and taxes, and not the least of the participants in the rip-off are an inordinate number of consumers. In 1973, Con Ed wound up with an unprecedented 9.6 per cent "unaccounted for" factor of electricity generated but not billed, while other state utilities were reporting five and six per cent. In addition, not all the service billed is necessarily paid for. In 1968 customers were $98.9 million behind in their Con Ed bills; last year, the figure soared to just about $350 million, even after a write-off of $28.8 million as uncollectible.

Equally—if not additionally—pro-

Diana H. Walker

ficient at ripping off Con Ed are its employees. The utility's payroll has risen 60 per cent since 1968, to $351.9 million, and current pension obligations are $207 million above the assets funded for them. Before Con Ed's officers took voluntary ten per cent pay cuts last year, Luce's own annual salary was $150,000, plus $50,000 deferred, and his two chief aides drew well over $100,000, with similarly advantageous pension arrangements, plus company cars and chauffeurs.

Nor is there need to feel sorry for the rest of the company's work force of approximately 23,500. Union salaries at Con Ed range up to $7.26 per hour—plus pensions and a good deal of overtime—for high tension linemen. The staff attorneys of the Public Service Commission blame "one expensive labor contract after another" for at least part of the company's fiscal plight. In 1972, after years of such dithering, the commission acted—ineffectually—on the labor problem. Con Ed was warned to stick to the 5.5 per cent federal wage-price-increase guidelines in negotiations with its two unions. Unfortunately, however, the commission failed to give any direction on how the company might continue service in the event of a strike that was threatened when this offer was made. Con Ed considered uninterrupted service more important than a few percentage points and settled without a strike for 7.1 per cent. The PSC thereupon retaliated by disallowing the extra 1.6 per cent from the company's base of assets on which its rates are computed, thus weakening Con Ed's financial structure still further.

Featherbedding is also a way of life in both the ranks and Con Ed's executive offices. Union-negotiated manning regulations, which specify crew sizes larger than those actually required for most work details, are matched by high percentages of supervisors and officers. "This is the easiest company I know of to advance in," said a cable splicer, lounging outside a Brooklyn manhole recently. "They have a chief for almost every Indian."

"That's not hard to explain," Frank Robinson, a commission staff counsel, recently conceded. "Con Ed is understandably scared of a strike. If its unions go out, it's in a worse position than, say, the telephone company, which can turn to its parent AT&T for people to keep things running. Con Ed has to have enough managers who are able to step in and operate the system and guard it against sabotage. Electric workers, in case you haven't noticed, tend to be a lot bigger—and tougher—than telephone operators."

Lemons

Next in line to rip off Con Ed are its suppliers. Historically, the company has been a patsy for industry salesmen, particularly those who seem to promise sweeping solutions to its problems. In the early 1930s, for example, the company allowed itself to be sold on rubber-and-braid insulation. True, rubber-and-braid did a better job against water, heat, and cold than the oil-impregnated paper used since Edison's day. It took company engineers several years, however, to learn that rubber-and-braid insulation couldn't stand up to the salt spread on ice-covered streets every winter. Today, company work crews are under standing directives to replace rubber-and-braid insulated cable "whenever they find it." Unfortunately, the way they find it is when it burns out, as it did in 1972, blacking out entire neighborhoods in Queens.

Atomic industry pitchmen really did a number on Con Ed. The utility solicited the Atomic Energy Commission's first reactor license and rushed into construction at Indian Point, about 30 miles north of Manhattan, on the Hudson. Indian Point No. 1, budgeted at $55 million, came in at $127 million, and worse, it produced only 265,000 kilowatts at a time when technology was turning out fossil-fuel generators of up to a million kilowatts. Indian Point No. 2, built by Westinghouse for $250 million, had an 837,000-kilowatt capacity, but didn't reach it until last summer, five years late. "A lot of grief for Westinghouse and a terrible thing for us," Luce says. Con Ed has sold Indian Point No. 3 to the State Power Authority and scratched further nuclear plans, writing off planning and design costs of $11.7 million.

Certainly, however, the most notorious lemon ever sold Con Ed is "Big Allis," a million kilowatt (then the world's largest) fossil-fueled turbine generator which Allis Chalmers managed to sell the company at a contract cost of $28.8 million after it had announced publicly that it was giving up the business of building turbine generators. Big Allis went into service at Con Ed's Ravenswood plant in September 1965, and ran for only two months before suffering the first of a 7-year series of embarrassing breakdowns. Not until last year did company engineers finally get the 17-story monster machine operating to their satisfaction, generating a record 4.6 billion kilowatt hours, about 15.1 per cent of the system's total production.

Swindles and Cons

Suppliers come and go, but apparently New York construction contractors are licensed to rip off Con Ed forever. A consultant's study of 4,000 building contracts let by the utility between 1959 and 1969 showed that rigged, inflated bids cost the corporation about ten per cent of all its construction expenses, something like $30 million over the ten-year period. Seven contractors and nine companies eventually pleaded guilty to rigging bids against Con Ed and were fined up to $25,000. Did the utility then stop dealing with those who had been swindling it? With two exceptions, it did not—because these were all the contractors it had, and according to a company spokesman, "there simply were not enough other qualified contractors staffed and equipped to do all of the work."

In the end, though, nobody, but nobody, rips off Consolidated Edison as much as New York City and New York State, and the political establishments thereof. There were things Luce could do to tighten up Con Ed's lax labor, purchasing and contracting policies (and by last year he had replaced all 30 of the top officers he found at the company in 1967), but what could he do in the face of what the company's most knowledgeable kibitzer calls "the most malignant political forces anywhere"? Donald Cook is chairman of American Electric Power, a complex of Midwestern utilities directed from New York offices. Although he and Luce quarreled several years ago after Con Ed violated an industry gentleman's agreement and hired away a top AEP engineer, Arthur Hauspurg, now a Con Ed senior vice president, Cook views his New York counterpart these days with a measure of barbed sympathy. Luce, Cook said recently, "came with high hopes and rosy predictions. He was going to cut rates and deliver nothing but clean energy and better service. It was going to be the most felicitous utility that anybody could have—to judge by its press releases. That's when we started worrying about Con Ed. Anybody who knows power and knows New York knows he couldn't accomplish these things."

The "malignant political forces" which Cook cited as besetting Con Ed date all the way back to 1813 when Samuel Leggett, a banker, applied for—but didn't receive—a charter to light Manhattan with gas. It took Leggett ten years to overcome the power in the legislature of the oil and tallow sellers who fueled the primitive lamps of the time, and it was not until 1823 that he received a charter to "lay sufficient pipes and manufacture a sufficient quantity of gas for lighting the houses and public lamps in Broadway from the Battery to Grand Street."

The company's authorized history, published in 1934, does not disclose how much money Leggett had to spread around in Albany over the decade. Certainly his successors in the utility business, bankrolled by men like the Cornelius Vanderbilts, father and son, and Russell Sage, invested millions of dollars in the protection of their franchises—and profitable rates. By the 1880s, there were seven Manhattan gas companies, each with an exclusive territory. What brought them together in 1884 was the emergence of a common enemy: electricity. They couldn't beat Edison's new medium, so they consolidated and joined it, completing the purchase of New York Edison franchises by 1936.

Whipping Boy

Along the way, the companies that became Consolidated Edison had accommodated themselves, both openly and clandestinely, to Tammany Hall and the Albany establishment. The concept of the rate base, written into the law by the State Gas Commission, the 1904 predecessor of the Public Service Commission, enabled them to do so without cost to their backers—and, in fact, at a cost-plus profit for them.

The costliest consequence of this policy is that politicians have come to regard the utility as a dandy and painless (for them) tax collector. In 1974 Consolidated Edison paid $424.5 million, about 17 per cent of its total revenues, in local and state taxes, including a city real-estate levy that assesses generating equipment as real property. Con Ed pays fully one-eighth of all city real estate taxes, and after other levies are added in, 23 cents of every dollar the rate structure brings in goes out again to one tax collector or another. Since 1970 the company's taxes have been increasing at a fairly steady 14 per cent annually, while its basic rates have gone up only about 12 per cent annually. That way lies bankruptcy.

The company's accommodations to the political-power establishments are by no means limited to its payment of inordinate taxes. Until relatively recently, the company's work gangs were the dumping grounds for Tammany hacks and relatives of low-level city officials. The concept—if not the extent—of this payola survives today in the $113,000 that Con Ed pays each year to "hole inspectors," most of them Democratic Party functionaries or their relatives, whose ostensible duty is to inspect the streets after company crews finish repaving them. How much inspection is actually performed is anybody's guess since nobody inspects the inspectors.

The extent of accommodation, of course, corresponds to the clout of the person needing the favor. In 1959, when Mayor Wagner found himself in something of a budget jam, Con Ed obligingly bought the city's three decrepit subway power plants, paying more than $100 million up front, or about twice what the equipment was worth in terms of normal generation, and threw in for good measure an unprofitable transit power rate schedule which is estimated to have cost the company $22 million more over the next 15 years. And for the ubiquitous "power broker," Robert Moses, Con Ed was pleased to purchase $1.5 million in 1964 World's Fair bonds—and to write off a subsequent $900,000 loss as a recoverable business expense.

Finally, if it can't do anything else for a politician, Con Ed offers itself as a complaisant whipping boy, a role blocked out for it as long ago as 1899, when Mayor Hugh J. Grant campaigned for a second term by taking an axe to the the poles that held Edison electric wires over Sixth Avenue. The less colorful candidates of today, particularly those out of power, have made campaign tirades in front of Con Ed's Irving Place headquarters a routine part of New York's more recent elections, and these days, as James Wechsler observed several years ago in the *Post*, "it takes about as much courage for a political figure to attack Con Ed as it does for a columnist to defend motherhood."

Then New York State rips off Con Ed, too. The taxes which the company, and its customers, send to Albany pay the interest on the bonds of the New York State Power Authority, which built hydro plants on the Niagara and St. Lawrence Rivers and a pumped storage facility at Gilboa on Schoharie Creek in the Albany region. By designation of the legislature, these are "regional resources," and as such their output can be sold cheaply and directly to upstate utilities, out-of-state utilities, even a few major industrial plants—but never, never, directly to Con Ed.

If Albany has been reluctant to do right by metropolitan area ratepayers, the city's suburban neighbors have become downright obstinate about helping out. As recently as 1970, Sullivan, Rockland, and Orange Counties teamed up to block a 375,000-volt transmission line which might have brought less expensive Canadian power into the city and enabled Con Ed to retire some of its less efficient generators. And as for new generation upstate, forget it. Since Indian Point, Con Ed has been unable to build any generation independently outside its own territory. "That took us by surprise," concedes Lester M. Stuzin, the PSC's chief of power rates and valuation. "In the 1960s, there was no problem siting generation facilities. In those days, smokestacks were good things. The first inkling that there would be any problem on sites was Cornwall."

For Con Ed, Cornwall turned out to be a $25.7 million inkling. Since 1963, the company has spent that much seeking to build a two-million kilowatt pumped storage facility at Cornwall, on and behind Storm King Mountain, one of the Hudson River's most scenic points. While environmentalists and area residents fought the project all the way to the Supreme Court and back again (the current impediment is a claim by environmentalist groups, using AEC data, that the project threatens 75 per cent of the Hudson's striped bass resources), the estimated cost of the facility rose from $165 million to an official $457 million, and an unofficial $720 million.

Tip-toeing the Market

Perhaps the most brutal of all the rip-offs of Con Ed (or at least of its stock and bond holders) took place on Wall Street. The bankers and brokers who had made the utility a commanding institution in the money markets for well nigh a century began tiptoeing out of their own large holdings after the common stock peaked at 49½ in 1965. Many, however, continued to peddle and recommend Con Ed securities until 1973, when the analysts of Standard and Poor's blew the whistle on a $300-million bond issue. This, the financial service reported, would bring the utility's debt to more than $2.8 billion, and Con Ed would no longer meet Standard and Poor's requirement for an A rating—income two and a half times obligations. Con Ed was duly demoted one notch, to BBB, costing it an extra $33.2 million in annual interest on the new bonds and, perhaps more detrimentally, a major part of its capital market, since many trusts and pension funds are legally forbidden to purchase bonds rated lower than A.

If the Public Service Commission extended a hand to Con Ed during this capital crisis, it was only to push the utility further into it. Essentially, the commission staff gauged the trend of the equity markets less accurately than the company managers who in 1970 revised fiscal procedures, going into something they called "pre-financing." Instead of borrowing short-term money between bond issues, the company would sell more bonds than it needed immediately for cash, and lend the surplus out at short-term interest rates. The company would call in these short-term notes when it needed to finance a Con Ed project, but it kept collecting interest on them in the meantime.

After two years, the PSC concluded that this was actually costing Con Ed money—the difference between the 7.75 per cent it was paying in bond interest and the 5.75 per cent it collected in short-term interest—and the company was ordered to return to "arrearage financing," or borrowing money at short-term rates. "We warned them what would happen," says Walter Grant, Con Ed's vice president in charge of finance. "By the time we filed our brief on it, the prime rate had climbed to 9 per cent. We had just floated a 7.9 per cent bond, so that meant we'd have been ahead 1.1 per cent. If we'd kept pre-financing, I think we'd have weathered the enormous working capital demands of the last two years."

In the Red

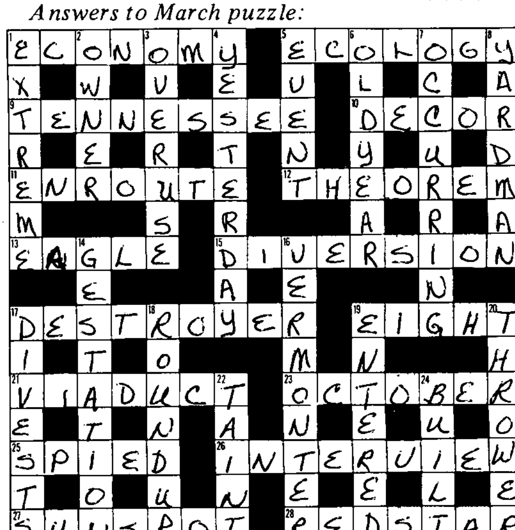
So, after everybody else, why not the Arabs and the oil companies? Con Ed's fuel requirements are tremendous—114,000 barrels of residual oil and 11,000 barrels of distillates each day. By agreement with the city, this must all be "sweet" oil of less than .37 per cent sulphur content, the most expensive form of the fuel, and obtainable only from the Mideast. Sweet oil cost an average of $4.50 per barrel until the oil embargo began in September 1973. By the following February, the company was paying as much as $19.50 for spot quantities, and even its regular post-embargo cost of between $13 and $14 per barrel left the company with a total fuel expenditure of about $700 million for 1974—compared to the $110 million it would have paid for the same quantity of oil in 1969.

Fortunately for Con Ed—if not its customers—the Public Service Commission had decided way back in 1914 (when the electric fuel was coal) to allow New York utilities to pass along unbudgeted fuel-cost increases directly to consumers. The fuel pass-along, more than two cents per kilowatt hour at the height of the oil crisis, eventually paid the company back for its out-of-pocket oil payments, but it couldn't save it from a crippling cash crunch. Most of the oil the company had to buy during the embargo came under a five-day payment requirement. Effectively, this meant that Con Ed had to pay $40 million per month, immediately, and then wait two or three months until the extra fuel costs were returned—if not longer, since the higher bills induced customers to hold back on their payments. By December 1973, the utility was facing the prospect of a $12-million monthly operating loss and was so strapped for cash that it had to ask some of its more affluent accounts to help it out with immediate payments. "We'd send a man out to read the meter one day, send the bill the next, and send a messenger over to pick up the check the day afterward," company President William Lapsley recalls.

To its credit, the Public Service Commission did find a way to keep Con Ed out of the red in the last month of 1973. It simply ordered the company to juggle its books and carry as an asset fuel already burned but not yet billed to consumers in passalongs. "If we'd suggested anything like that," a Con Ed official grumbled, "they'd have screamed fraud and embezzlement—and been right." In any case, this solution, such as it was, merely staved off the day of reckoning until the following April 23, when the utility's board voted to suspend payment of the 45-cent quarterly dividend. Many of the small stockholders, including those who had oversubscribed a 6½-million share issue of the common stock at $23.375 a year before, thereupon dumped it, sending the stock down to a low of $6. At the same time, despite Con Ed's explanation that the dividend had been omitted to protect the equities of the bond and debenture holders, the corporation's bond credit was chopped down another notch to BB. Standard and Poor's president, Brenton W. Harries, explained that by passing the dividend, "Consolidated Edison has foreclosed itself for an unknown length of time from . . . the equity market." Con Ed, according to an article in *Barron's*, the financial publication, had been left "twisting slowly, slowly in the wind."

Few of the New York utility's electrical colleagues could afford to gloat over its fate, however, and, in fact, quite a number found themselves "twisting slowly, slowly in the wind" right along with Con Ed. Whatever the companies and their trade association, the Edison Electrical Institute, said about the New York utility's "purely local problem," industry investors demonstrated their belief in the national implication of Con Ed's crisis by selling down the stocks of all other American electric utilities, sending the Dow Jones industrial average back to its 1968 level. "The sanctity of utility dividends has been undermined," wailed an article in *Public Utilities Fortnightly*. "We thought it could not happen, but it did, and now we must do something about it." What most utilities did was to cut back, or eliminate altogether, their plans to raise capital, and to postpone many planned construction and expansion projects. This naturally had its effect on the Dow Jones industrial average, which was on its way down to a low of 577, with electrical industry sup-

Answers to March puzzle:



pliers leading the way. General Electric fell off from 65 to 30, and Westinghouse lost two-thirds of its equity, plunging from 26½ to 8.

Enter the Army

Con Ed's crisis may have caused a national problem; the question was whether the company's problems were susceptible to local solutions. On a short-term basis, at least, it appeared that several might be.

The management problem first. Since the industry's no-raiding gentlemen's agreement made the hiring of qualified executives difficult, Luce called in the Army. Lapsley, the company president, is a retired Corps of Engineers major general, and nine of his top subordinates were former military colleagues. "I wouldn't be surprised to see them start requiring saluting in the corridors any day now," one of the utility's disgruntled middle managers complained recently.

Acting on a management consultant's recommendation, Luce decentralized the company to borough levels and computerized much of its paperwork. The purchasing and construction departments were overhauled and efforts were made to recruit contractors—particularly minority-group contractors—outside the normal combinations of companies that always bid on Con Ed jobs. The chairman also put teeth into Con Ed's equal-employment policy, lifting the company's minority ratio to 20 per cent and the executive minority to 8 per cent, winning a citation from *Business and Society Review*: "It's doubtful that any other large utility in the nation has made the progress Consolidated Edison has made on a number of fronts—minority employment, community support programs, purchases from minority suppliers, energy conservation, and disclosure of information."

And finally, after years of inertia, the Public Service Commission has at last begun to stir itself on behalf of Consolidated Edison consumers. It has ordered into effect a schedule of preventive maintenance on the company's generation equipment and cables. It has commissioned a consultant to survey the utility's management procedures (at a cost of $1.3 million, which Con Ed will pay) and its customer service procedures. It has also begun equalizing the rate of schedules under which large bulk users like the World Trade Center paid as little as .65 cents per kilowatt hour (exclusive of fuel passalongs) while residential consumers were charged nearly ten times as much. Possibly of greater future significance, the Public Service Commission has also agreed to hold hearings requested by all seven of the state's major electric utilities on a new approach to rate design that "may provide a fruitful basis" for achieving "energy conservation, the efficient allocation of resources and, by preventing waste, holding down the costs of service."

Sword of Damocles

Quite obviously, however, the solutions that Con Ed needs now—and the other six utilities will almost certainly need later—are of a magnitude beyond the political and mandated capabilities of the Public Service Commission. Significant, long-range help for the state's utility consumers can only come from the capital and generating resources of the Power Authority of the State of New York—which means a state takeover and public power in one form or another.

This takeover has already started with the purchase (by direction of the legislature, after a good deal of New York City lobbying) of Con Ed's still incomplete 800,000-kilowatt Astoria fossil-fueled plant for approximately $230 million (the utility took a $19.5-million book loss on the transaction). Still pending is the Authority's commitment to pay another $270 million (depending on audit) for the company's investment in Indian Point Nuclear No. 3.

The Authority's action may have

taken the immediate pressure off Con Ed, enabling it to show a $194.5 million profit for 1974 and to restore a 30-cent quarterly dividend. The basic, long-range problems continue however—beginning with energy supplies. Already suppliers have reduced its pipeline shipments of natural gas by about 25 per cent and Con Ed, like every other gas utility in the region, has had to cut off interruptible commercial accounts. Ahead of most other regional utilities, though, it has had to petition for permission to refuse new residential customers.

The hard question that the utility is looking at, however, is when it is going to have to cut of electricity customers. This year, the last of four 600,000-kilowatt generators the company is building up the Hudson in cooperation with upstate utilities will come on line, and no further Con Ed generation construction is currently scheduled. (Even if the company does receive permission to go ahead at Cornwall, it is questionable whether it will be able to borrow the necessary construction funds; besides, Cornwall will be a pumped-storage facility, engineered to even out peak demands. It will not generate any electricity and will, in fact, if it is ever built, actually consume 600,000 kilowatts daily.) Con Ed's present peak record is 8,220,000 kilowatts; if it is to meet the 20-million kilowatt demand it expects by 1990, the company is going to have to be ready to purchase great amounts of power from outside its system (it already buys about 21 per cent of its supply) and redouble its transmission capacity.

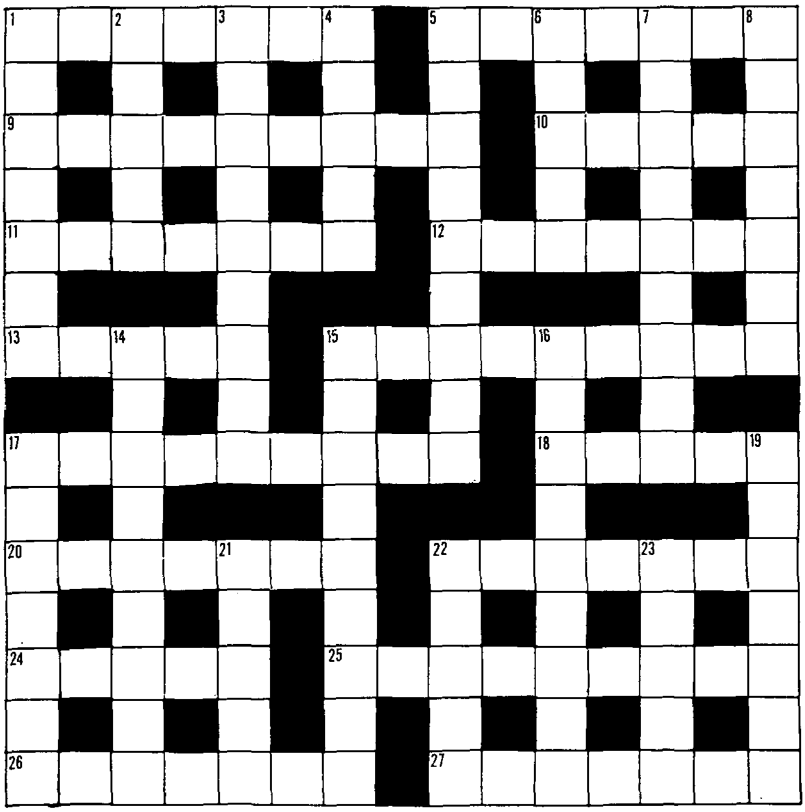
All this is going to cost money. And then there will be increasing labor costs, beginning with new union contracts in June. "This year, because of inflation, money is our Number One issue," says James Joy, business agent of Con Ed's largest union, Local 1-2 of the Utility Workers of America. Also due soon is a hefty increase in the city real estate tax, which will cost Con Ed an additional $12 million or so annually, beginning with the present year. And finally there is the $90 million which the Atomic Energy Commission demands the company spend on a 50-story cooling tower at Indian Point to minimize the thermal pollution of the Hudson River.

These, however, are small change when compared to the company's huge financial obligation either to pay off its $2.8 billion in long-term debt or to refloat the notes over the next 30 years at massive new interest charges. It has to start soon. A $9 million issue of 2 5/8 per cent debentures comes due July 1, 1976. The next year, another $100 million in 2 5/8 per cent bonds runs out. Even if it is no longer "foreclosed" from the equity markets by then, Con Ed may not be able to roll over these notes at anything less than four times their present interest. At that rate, the company's annual debt-service obligation, $194.6 million in 1974, could top half a billion dollars within the next decade.

If Con Ed cannot meet these certain increases in its costs without forcing utility charges out of sight altogether, the only alternative may be a state takeover of the company and the issuing by the power authority of low-interest bonds backed by state credit. Luce, however, is staking his hopes on a long shot: a proposal in Congress to establish some kind of urban utility-aid agency analogous to the old Rural Electrification Administration, which would finance utility debt at low, federally subsidized interest rates. "The need of the 1930s for electricity at prices that farmers could afford," he maintains, "is not greatly different from the need of the 1970s for electricity at prices that city dwellers can afford." In the light of the present state of the national economy, Luce was asked if he really thought this was a feasible possiblity. "The city has to have electricity," he said, "so we can't assume the job is impossible." If it is, however. . . . well, it probably won't be long until we won't have Con Ed to kick around any more. ■

the political puzzle

by John Barclay



Across

1. Not quite the place to do Iran bit. (7)
5. Asian land with volcano in activity. (7)
9. On watch in Ghetto-like area. (9)
10. Place to mention Onassis in footnote. (5)
11. Lars takes Ike to get up on roof. (7)
12. City has mixed up this old country. (7)
13. Second person is nothing, Urey! (5)
15. Leader designed to end priest rule. (7)
17. Battles decided by steel coin. (9)
18. Let it all hang out, sir! (5)
20. In Rome, 200 lie by modern transportation. (7)
22. Had enough of Ford tie. (5,2)
24. A town god in Germany. (5)
25. Official to rearrest you. (9)
26. Loser recured. (7)
27. Stops at side streets. (7)

Down

1. Key club conservative. (7)
2. Dial one for long trip. (5)
3. Lightening of a tent beam. (9)
4. No son has high points! (5)
5. They go off in a harsh vein. (9)
6. My pet peeve is a fuelless tank. (5)
7. Wet thorns in Washington. (9)
8. Won't do a good job in Sims act. (7)
14. He's quite calm at the dunce exit. (9)
15. Tree strop helps him sharpen objections. (9)
16. Lobby groups for street sin. (9)
17. He cuts in to give an owl beer. (7)
19. Attempts to get off rest of day. (7)
21. He won't believe you can turn over New York in 199 days. (5)
22. This step is rated "X". (5)
23. Cuts old violin up. (5)

The numbers indicate the number of letters and words, e.g., (2,3) means a two-letter word followed by a three-word letter. Groups of letters, e.g., USA, are treated as one word. *Answers to last month's puzzle are on page 13.*