Background, Pro and Con on Discussion Over Dixon-Yates Power Contract

Editor's note: A dispute that began early this year and shows every sign of continuing has put the names "Dixon" and "Yates" into frequent headlines. The issues are involved; the discussion heated. The following dispatch gives the history and background of the Dixon-Yates contract, and the pro and con arguments that have been made about its terms.

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Washington — (U.P.) — The Dixon-Yates contract has embroiled the Eisenhower administration in controversy with congressional Democrats because it calls on private utilities to meet a power shortage in the Tennessee Valley Authority area, the nation's foremost public power domain. Specific terms of the contract also have come in for considerable dispute. But critics and defenders agree that the basic issue is whether the government owned TVA or a private company should build the new steam - electricity- generating plant which all agree is needed in the vicinity of Memphis.

Since it was created 21 years ago in the early days of the New Deal, TVA has grown into a billion-dollar enterprise, operating not only the 30 flood control and hydroelectric dams originally conceived for the project but also 15 steam generating plants. Its total power capacity is now 6,075,000 kilowatts.

Power Shortage

Even this is not enough, however, to meet the steadily growing power needs of the valley. During and since World War II, the Atomic Energy Commission has built two huge A-bomb plants in the area, at Oak Ridge, Tenn., and Paducah, Ky. These and other defense installations now use nearly 40 per cent of TVA's power.

The seven-state TVA area also has undergone tremendous expansion in private industry, sparked partly by TVA's cheap power. Power needs have climbed particularly around Memphis, where many of the new industrial plants are located.

TVA asked Congress two years ago for $100,000,000 dollars to build a new steam plant at Fulton, Tenn., north of Memphis, to meet the looming power shortage. Then-President Truman endorsed the request, but Congress turned it down.

Request Killed

Last year, with the Republicans in power, TVA repeated the request.

President Eisenhower, who once referred to TVA as "creeping socialism" and who was looking for ways to trim government spending, killed the request.

Mr. Eisenhower told Congress last January he was looking for an "arrangement," presumably with private utilities, to replace TVA of the necessity of supplying 600,000 kilowatts of power to the atomic plant at Paducah. That would make that much TVA power available for Memphis and make a new TVA plant unnecessary, he said.

The President has since explained that he believes the federal government cannot go on forever building new power plants in the Tennessee Valley without treating other areas unfairly. If TVA's expansion continued, he said recently, "logically we would have to begin plans for a gigantic power development to cover the entire nation equitably."

On Mr. Eisenhower's orders, AEC Chairman Lewis L. Strauss early this year started sounding out private utilities about a long term contract to supply 600,000 kilowatts of power to Paducah.

Dixon was Interested

J. W. McAfee, president of Electric Energy, Inc., a private utility which already furnishes about 40 per cent of the power for the Paducah atomic plant, said he wasn't interested. If the AEC eventually decided it did not need all the power, he said, there would be no other market for it in the Paducah area.

But McAfee told Strauss that Edgar H. Dixon, president of Middle South Utilities, Inc., was interested in supplying power to TVA at Memphis. Dixon's holding company owns the Mississippi Power and Light company, New Orleans Public Service company, Arkansas Power and Light company and Louisiana Power and Light company.

Dixon later was joined in the conversations with Strauss by Eugene A. Yates, 73-year-old board chairman of the Southern company, which owns utilities in Mississippi, Florida, Alabama and Georgia.

In June, on direct orders of Mr. Eisenhower, the AEC started negotiations with Dixon and Yates to build a $107,250,000 steam plant at West Memphis, Ark., across the Mississippi river from Memphis.

Under that plan, Dixon-Yates would supply 600,000 kilowatts to TVA at Memphis. This would "replace" the 600,000 kilowatts TVA was sending to the AEC up north at Paducah.

Prompt Protests

TVA supporters promptly protested. They said the proposed contracts would be far different from the long-term power purchase contracts which the AEC had signed with private utilities in the past. The difference was, they said, that the power in this case would not be delivered directly to an atomic plant, but would be fed into the TVA power grid nearly 200 miles south of the AEC installation that was ostensibly "buying" the power.

TVA advocates contended the administration was using the AEC as a front to enter into a deal the real purpose of which was to "strangle" TVA's hold and growth and give private power a foothold in the TVA area.

TVA supporters also claimed that the AEC would pass "excessive" costs of the Dixon-Yates contract on to TVA. This would raise TVA rates to its customers and destroy the so-called "yardstick" role TVA had played in setting standards of low cost power.

Former TVA Chairman Gordon Clapp said the contract was "the opening step in a program deliberately planned to destroy TVA."

President Defends Plan

Mr. Eisenhower replied vigorously that he was not trying to destroy or cripple TVA. He said the Dixon-Yates contract was the best plan presented for meeting power needs in the TVA area without a big outlay of federal funds for a new government owned generating plant.

Herbert Vogel, recently appointed TVA chairman by Mr. Eisenhower, backed the Dixon-Yates contract and said he was sure AEC and TVA could work out an agreement so that TVA "will bear only those costs that are commensurate with the benefits."

The controversy raged through a Senate filibuster on the atomic energy control law last spring and into the congressional election campaign. It produced two congressional investigations, by the Senate Anti-Monopoly Subcommittee and the Joint Congressional Atomic Energy Committee.

Finally, on Nov. 11, the contract was signed. A few days later the Congressional Atomic Committee, with its 10 Republican members outvoting the eight Democrats, waived a legally required 30-day waiting period to let the contract take effect at once.

25-Year Contract

Under its terms, a new company, the Mississippi Valley Generating Company, will be formed, with the Dixon group having 80 per cent interest and the Yates group the other 20 per cent.

The contract runs for 25 years, with an option for the government to extend it to 45 years.

The Dixon and Yates groups will put up $5,500,000 of their own capital. The rest will be borrowed by the combine from other sources, such as insurance companies.

The contract calls for construction within three years of a steam plant estimated to cost $107,250,000. The AEC will pay Dixon-Yates about $9,000,000 a year as a "base charge" for the plant, plus $9,699,000 a year for the actual power. The latter figure includes $536,000 a year as an offset for federal income taxes which the company would have to pay on its expected profits.

If construction costs turn out to be higher than $107,250,000, the AEC will split the extra costs with Dixon-Yates, up to an overall total of $117,000,000. Above that the company will have to stand all added expense.

Last Minute Changes

The AEC also will shart 50-50 with the company in any savings realized by a cut in construction costs.

Last minute changes in the contract also provided:

1. A $600,000 a year earning limit for the company. This represents a ceiling of 10.9 per cent on the company's annual profits on its proposed $5,500,000 investment. It is not a guarantee that the profits must be that large.

2. The right of the government to take over the plant within the first three years if necessary "in the public interest."

3. Prior approval by AEC of the contractor, designer or architect selected for the job.

Above Estimates

The last change was aimed at meeting protests that Dixon-Yates planned to use Ebasco Services, Inc., as contractor on the job. Ebasco was fired from a Joppa, Ill., powerplant project for AEC when costs ran $40,000,000 more than estimates.

Acting Comptroller General Frank H. Weitzel had reported to Congress earlier that there was no limit on the profits the company might make and that the government could cancel the contract only with costly penalties. The last-minute chances apparently were designed to meet these objections.

Weitzel also held that some other parts of the contract, which have not been changed, were loosely drawn and may have loopholes to benefit the company. For instance, the AEC must pay the company for its expected income taxes at the rate of $536,000 a year even if the company makes no profit and therefore has no tax to pay.

To these and other criticisms, Dixon and Yates have replied that the contract is anything but a plum for their companies.

Claim Small Earnings

"The possible earnings are too small to make it attractive as a usual business venture," they said in a recent statement.

"The return the Mississippi Valley Generating Company hopes to earn on its investment under the contract is less than that realized by electric utilities on the average throughout the United States as a whole. The contract provides a modest ceiling beyond which earnings on risk capital may not go."

AEC and Dixon-Yates claim there is no guaranteed profit, that the company could lose money badly if its estimates on costs are too low.

Another risk which Dixon-Yates is incurring, according to supporters of the contract, is that the government might cancel the whole deal sometime in the future and leave the firm with a lot of power to be marketed somewhere else.

Eight-Year Cancellation

The contract provides that the AEC may cancel the contract, after the plant is built, in this manner: First, it must give Dixon-Yates three years' notice. After that period, AEC may reduce its power take each year by 100,000 kilowatts until it is no longer paying for any power. Thus complete cancellation would take eight years.

Escalator clauses in the contract protect the company from sharp rises in operating costs and the AEC from sharp drops. If fuel and labor costs rise above estimates, the AEC will pay more for the power; if these costs decline, the annual payments will drop.

Critics of the contract argued that the last-minute changes did not put an effective ceiling on Dixon-Yates' earnings, and that, in the words of Sen. Estes Kefauver (D-Tenn.), "The sky is still the limit" on profits.

Extra Profit Possible

Kefauver pointed out that the plant is expected to have a capacity of 650,000 kilowatts, giving the company 50,000 kilowatts more than required by the government. He said the contract provides that the company can sell this in any way it wants at an extra profit.

Some of the other charges raised in the controversy and the administration's answers:

Charge: The contract was negotiated in secret and no competitive bids were sought.

Answer: President Eisenhower personally ordered all files on the negotiations to be made public, and they were on Aug. 21. The administration claims competitive bids are not feasible on such contracts and were not called for on similar AEC power contracts under the Truman administration. The Eisenhower administration did consider, and reject, another proposal for a plant by a group of New York investors.

Argue Over Site

Charge: The West Memphis, Ark., site is a poor one which has been flooded by the Missisipi river in the past.

Answer: The company, which picked the site, stands to profit only if it can make good on schedule under the contract.

Charge: The Dixon-Yates plant will cost the government anywhere from $3,600,000 to $5,000,000 a year more than a new TVA plant, and the government still won't end up owning it.

Answer: The difference in cost is explained by the difference in taxes which Dixon-Yates would be liable for and TVA free of, the greater cost to Dixon-Yates of financing the project, the profit to Dixon-Yates, and the extra costs because of the site.

Physical Medicine Program Underway For Domiciliary

Camp White — A program of physical medicine and rehabiliation is now established for the special needs of domiciled veterans at the V. A. Center here, according to Dr. Samuel D. Earhart, in charge of this phase of the medical service.

The schedule together with the special facilities provided and projected has received the endorsement of Dr. A. B. C. Knudson, director of physical medicine for the Veterans Administration.

"Dr. Knudson recognizes that our facilities as well as our aims are somewhat limited," Dr. Earhart declared. The plan now calls for rehabilitating the men so that they may remain at the domiciliary and not be sent to hospitals, he said. Some will be enabled to return home. Therapy, recreation and detail are employed to this end.

At present from 70 to 80 men are enrolled with a record of 1600 treatments during the past month. "We plan to extend this program as equipment and personnel are provided," Dr. Earhart stressed. Two more therapists are needed for physical and corrective therapy and one each for manual arts therapy and occupational therapy.

Special calesthenics for one group of men lacking coordination are being considered. In addition, it is planned to provide an incentive for time spent in such diversions as fishing, lapidary and art work as well as hobbies for which no credit is given at the present time. Dr. Earhart feels that the initiative and interest shown by the few engaged in these pastimes should be recognized.

Volunteer aid in forming classes in art, flower making, stamp collecting and in training of aphasia patients have supplemented regular occupational therapy and arts and crafts.

Manager Eugene K. Ricker sums up the situation by expressing the "hope of all of us that the work, beyond its present preliminary stage, can be accomplished in the not too distant future."

Damage Suit Filed In Josephine Court

Grants Pass — A $10,365.20 personal injury damage suit has been filed in Josephine county circuit court against Moore Timber Products, Inc., by Freeman A. Felton.

A complaint filed this week charges Felton was injured Sept. 1 in an accident at a Moore company sawmill while employed there as an edging-picker. Felton asks $10,000 general damages, $265.20 for loss of wages, and an unspecified amount for medical expenses.