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ENERGY CRISIS ADS

Who Do the Power Companies Think We Are?

Barring any unexpected events, there should be no shortage of major petroleum products either in the United States or the world during the rest of the year, according to industry and other sources.

The New York Times
May 13th, 1974

Washington — Democratic members of the House of Representatives voted overwhelmingly today to force a straight yes-or-no vote in the House on immediate termination of the 22% depletion allowance for the oil industry.

The New York Times
May 16th, 1974

Remember last winter when we waited in gasoline lines to pay up to 77¢ a gallon? When we wore that extra sweater to work to stay warm? And who could forget the warnings from 1600 Pennsylvania Avenue: "The crisis has passed but the problem remains"?

As if we weren't up to our hot-water heaters in "energy crisis" news, we came home to see the electric companies advertising the problem in local newspapers and magazines:

"Are we blind to the real energy crisis?" (accompanied by a picture of Uncle Sam blindfolded).

And now the most distressing news of all — we paid the money to those companies who used to tell us what a terrible fix we were in with slick propaganda and largely fallacious appeals for our sympathy, patience and money.

Through two standard loopholes — one available to all businesses and the other open only to electric utilities — energy companies will likely bilk the public for 48 to 100% of the costs of their campaigns.

First, any company can legally deduct 100% of the cost of advertising from income that would otherwise be subject to federal income tax. This amounts to a 48% subsidy from taxpayers because the treasury is deprived of the tax that would otherwise be paid on the income at the 48% corporate tax rate.

Nearly all advertising, including "informational" or "image" types, is classified as a "legitimate business expense" by the Internal Revenue Service. The only exceptions to the loophole are political ads which call for specific changes in legislation.

However, the distinction between political and nonpolitical advertising is far from clear. A questionnaire sent to eight major oil companies by Senator Philip Hart (D-Mich.) reveals that seven consider their advertising to be nonpolitical and deductible even though one ad called for the de-regulation of natural gas prices (Exxon) and another urged readers to write their congressional representatives about automobile emission standards (Phillips). Only one company, Mobil Oil, said it did not plan to use the deduction for its advertising.

Jay Kinney

In addition to the tax break from the IRS, a second loophole allows electric utilities to include all of their advertising costs in the rates they charge customers. These rates are controlled by state public service commissions, most of which routinely allow the cost of even blatantly propagandistic advertising to be included in the rate-making formulas.

One of the biggest and most outrageous of the current advertising campaigns is being sponsored by the largest private U.S. electrical utility, American Electric Power Company (AEP). The company's $2.7 million campaign for 1974 is designed to convince Americans that coal is the answer to the nation's energy problems. Through financing loopholes, AEP will likely charge its customers and U.S. taxpayers for most of the costs of its crusade for coal.

Under the politically and ethnically sensitive theme of "America has more coal than the Middle East has oil — let's dig it," the company has already printed over half of the 20 full-page newspaper and magazine advertisements it has planned for 1974. The slogan is accompanied in most of the ads by a caricature of two smug-expressioned Arabs. Each of the messages reaches over 100 million people through three large eastern- or national-circulation daily newspapers, four magazines, and all of the daily and weekly newspapers in the company's seven-state operating area, according to AEP's chairman of the board, Donald C. Cook.

Cook and other AEP spokesmen have refused to confirm that the company will use either of the two loopholes and they may not even bother to employ the helping hand from the IRS since the company paid no federal income tax in 1973 and has a carry-over tax credit for future years of nearly $18 million. However, available evidence indicates AEP will attempt to include most of the costs of the campaign in the rates charged to its customers.

AEP is a holding company which owns all of the common stock of seven mideastern electric utilities in Michigan, Indiana, Virginia, Kentucky, Tennessee, Ohio and West Virginia. (It also owns its own railroad, a fleet of tugboats and barges, six mining companies, and either owns or leases millions of acres of land with coal deposits.)

Under questioning during AEP's annual stockholders' meeting in New York City on April 24th, Cook said the holding company had paid for the first two ads in the "let's dig it" campaign and that the "operating companies" had paid for the rest. He denied that customers were paying for the campaign and said the cost came out of stockholders' profits. But, Cook also revealed that some or all of the operating companies might seek rate increases from their respective state public service commissions in 1974. Asked later if this meant that the costs might then be included in rates charged to customers, AEP spokesmen for Cook refused to answer.

However, a past statement of policy by the company involving a similar set of "informational" advertisements, indicates AEP's history in this arena. Testifying at a January hearing on West Virginia's implementation of the federal Clean Air Act, an AEP vice president and general counsel, Joseph Dowd, stated the company's position:

"We look at it this way, Your Honor. We have an obligation to provide electric service to our customers. Things are happening in this country that we have strong views with respect to. We feel that many of these things are going to make it extremely difficult, extremely expensive, or perhaps even impossible to continue to maintain the kind of service to our customers that we have been providing in the past. The purpose of these ads is to bring public attention to these problems, in order that we may continue to serve our customers in the way we have served them in the past.

"In that sense, we feel these expenses are properly chargeable as an operating expense" (meaning that customers will pay the cost in rates).

The scandal of Americans paying for their own brainwashing becomes even more ludicrous when the misleading claims of the "let's dig it" campaign are examined.

For example, AEP says the U.S. actually "has energy to burn" due to its vast reserves of coal, and "the most sensible way to help solve the energy shortage is to generate more electricity," which "can be used for virtually all energy needs except some forms of transportation." Obviously such a wide-scale substitution of coal-produced electricity would require a vast increase in the production and burning of coal, but only twice (and in the first two ads) does AEP even hint at the serious and perhaps overwhelming

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problems of such an increase in coal use. These problems include miner safety in deep coal operations, the destruction of hundreds of thousands of acres of strip-mined land (much of which is either not reclaimed or is unreclaimable) and the substantial deterioration in air quality that would result from coal use on this magnitude. Rather, AEP asks, "Why wait . . . let's dig it."

The controversy about the campaign's outrageous statements even reached the White House after the head of the President's Council on Environmental Quality, Russell Peterson, wrote AEP saying one of the advertisements was "irresponsible" and "subversive of the public interest." However, not to be upstaged, AEP's Cook not only wrote a scathing response to Peterson, but also sent a letter to President Nixon suggesting that Nixon "fully investigate both the official and clandestine activities of Mr. Peterson."

The oil companies' counter campaign might not come soon enough. Rising sentiment against their manipulation of the public has become a prime political issue. The way was opened for the House vote when the Democratic Caucus voted to clear an amendment ending the allowance as of last January 1st. As a result, Congress is now closer to repealing the oil depletion allowance than at any other time in the history of the industry's tax break. Ending the depletion allowance would also raise extra tax revenue and cut the industry's profits almost in half.

—Lee Stephenson

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