

New Realities

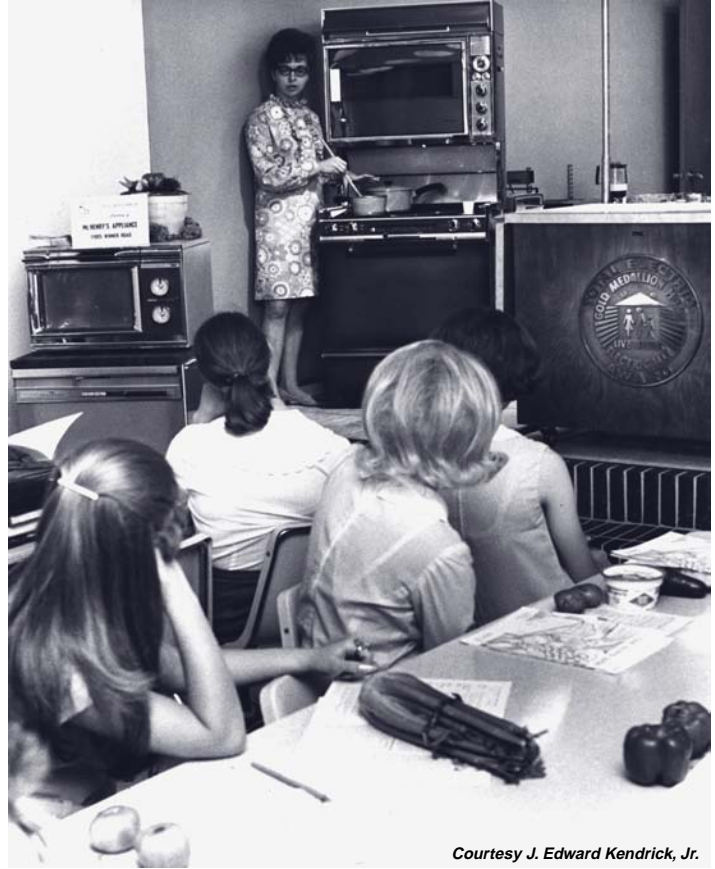
The world turned upside down for America's electric utility industry in October 1973. Events in the far-off Middle East revealed just how fragile the nation's fuel supply had become.

The run-up in power costs that was to plague the industry had been developing for some time. Much of the industry on both coasts still depended on oil for power generation fuel. When the Yom Kippur War broke out in the Middle East in 1973, Arab producers embargoed oil shipments to the U.S. Overnight, oil prices doubled, tripled and doubled again. Inflation created a further ratcheting upward of electric rates, and double-digit interest rates at the end of the 1970s contributed to even higher electric prices.

Natural gas prices followed oil prices upward as pricing failed to keep up with the increase in exploration and drilling costs. For those companies exploring and drilling for natural gas, the 1938 law that regulated prices discouraged bringing new gas deposits into commercial production. Even coal, which accounted for the lion's share of utility electric generation nationwide in 1970, shot up in price as rail rates and labor discord added to industry costs.¹

The energy crises of the 1970s were unheard of when Independence Power & Light's engineering consultants presented a 10-year plan to the city council in 1971. The plan called for the installation of two 18,900-kilowatt gas turbine-generators at Substation I in 1972 (Kiger and Lee Summit Roads) and an additional two gas turbine-generators at Substation H, U.S. 71 Bypass and Salisbury Road, in 1972 and 1974. The total cost for the new turbine-generators came to just over \$7 million. Phase II of the plan envisioned adding a 58-megawatt gas turbine-generator somewhere on the system in 1975 at a cost of \$7.4 million. The 10-year plan would be capped with the construction of an additional 145 megawatts of steam generation capacity at Blue Valley Power Station in 1979 at an estimated cost of \$36 million.² The 10-year plan also outlined strategies for the Department to spend more than \$11 million to upgrade substation facilities and to expand its transmission and distribution system.³ Power consumption in the city reached an all-time high of 453.1 million kilowatt-hours in 1972, and revenues jumped 8 percent to \$9.85 million. The Department added 920 customers during the year, many of them industrial and commercial accounts.⁴ Independence continued to enjoy an economic boom through the early 1970s, with new apartment complexes, residential subdivisions, schools and commercial office buildings, many of them all-electric facilities, being built at a record pace.⁵

Increasingly, the Department's distribution system after 1972 was placed underground. The Jackson Square Urban Renewal Project was all underground. In 1973, underground service was made available to all new residential developments.⁶



Courtesy J. Edward Kendrick, Jr.

Electrification completed its conquest of the American home in the 1960s. All-electric Gold Medallion Homes were the rage, and the electric light department hosted cooking classes at the Electric Living Center on the Square.

Unprecedented Inflationary Problems

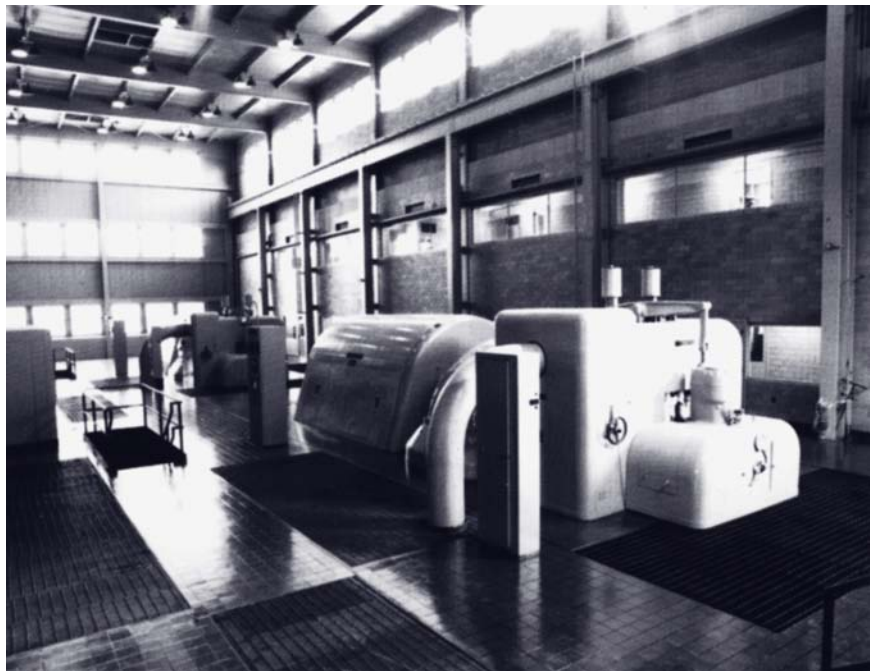
The Egyptian attack on Israel's BarLev Line, the defense positions protecting the Sinai Peninsula, in 1973 and the resulting oil embargo of Israeli supporters, primarily the U.S. and Western European nations, by the Organization of Petroleum Exporting Countries (OPEC) forever changed the economics of electric power generation in the U.S. Independence wasn't hit with the shortages of fuel oil that plagued many East and West Coast utilities, but the Department had to deal with cost increases unthinkable just a decade previous.

Duane Simpson, the Department's electric utility director, noted in 1979 that in the past seven years, the cost of electricity to residential consumers had more than doubled, from 2.4 cents per kilowatt-hour in 1972 to 5.1 cents in 1979.⁷ In seven years, the cost of coal had risen from \$8 per ton to almost \$30 a ton. Fuel oil costs had jumped from 10 cents a gallon to 65 cents a gallon. Natural gas costs had increased from 25 cents per million cubic feet (MCF) to \$1.40 per MCF. "We see strong evidence of a continuation of energy shortage and unprecedented inflationary problems," Simpson concluded.⁸

To be fair, the shortages weren't the only culprit in the dramatic rise in prices between 1973 and 1979. Inflation and interest rates hit double-digits in 1978 and 1979 and almost exponentially amplified the cost of any electric utility construction project. Then, too, environmental costs substantially increased the cost of building and operating steam electric power plants. The first Earth Day took place in 1970, and within two years, Congress had passed and President Richard M. Nixon had signed landmark air and water pollution control legislation.

Shortages of fuel oil and natural gas began to affect the Department in 1974. By October 1974, utility managers had begun to question the wisdom of burning fuel oil in the boilers of the Blue Valley Power Station. Meanwhile, the Federal Power Commission had placed the utility in a low priority category for burning natural gas in the station's boilers. Early in 1975, the Department began to investigate conversion to a coal-burning system at Blue Valley Power Station.⁹

By 1978, the coal conversion was well underway at Blue Valley Power Station. The big power plant had chiefly burned natural gas and fuel oil for 20 years, but it was obvious to the Department that coal would be the fuel of the future. But conversion wasn't cheap. Environmental regulations added more than \$12 million to the cost of the project.¹⁰



IP&L's 1979 purchase of the Missouri City Station from a neighboring rural electric cooperative was a signal that the future of electric power generation in Missouri would be coal-fired.

The Department strengthened its diversified generating capability in 1979 when it agreed to purchase a small, coal-fired power plant from Northwest Electric Power Cooperative in Missouri City. The Missouri City Station purchase was completed in 1982 and gave Independence Power & Light a comfortable reserve margin. The addition of Missouri City Station also meant that the Department would not have to consider adding new generating capacity to its system until the late 1980s.¹¹

Difficult Years

The decade from 1978 to 1988 was perhaps one of the most difficult in the Department's 100-year history. Besides inflation and skyrocketing interest rates, the Department dealt with a 23-month strike by the International Brotherhood of Electrical

Workers (IBEW), political upheavals leading to the resignation of the city manager, and the worst ice storm in the city's history.

The Department had enjoyed harmonious relations with the International Brotherhood of Electric Workers since the IBEW local was organized early in the century. But rampant inflation following the first Arab oil embargo in 1973 decreased the value of worker paychecks and spurred activism among labor organizations nationwide. The IBEW was particularly affected, engaging in work stoppages at many electric utilities nationwide from 1974 to 1980.

The Department's turn in the labor spotlight came on August 31, 1978, when 110 employees represented by the IBEW walked out following an impasse over negotiation of a new contract. The city said that the strike was illegal and, in the fall of 1978, replaced the IBEW members after they refused to return to work.¹²

The IBEW local and the city settled the strike in August 1980, and striking members of the local sought to regain their jobs. Then Missouri Attorney General John Ashcroft was asked to rule whether the IBEW or the employees' labor group formed after the strike legally represented Independence Power & Light Department employees. Ashcroft eventually handed down a decision in favor of the city and its employees' union (the HRC).¹³ In the end, many of the IBEW strikers were re-hired under an agreement between the IBEW and the City. Others had left the area or found new jobs during the two-year-long labor dispute.¹⁴ In 1985, the "in-house" HRC union was decertified and IBEW representation was restored by a vote of affected employees.

The strike and a new City Council led to major changes in the governance of the utility. One victim of the strike and its aftermath was City Manager Robert Semple, who resigned following concerns expressed



Today's line crews use bucket trucks to work on electric lines, when accessible. Before the 1970's, IPL employees climbed power poles to do the same work.

'So much a day, and so much a mile'

The cost of updating Blue Valley Power Station and the newly-acquired Missouri City Station in the late 1970s and early 1980s to keep up with surging electric power demand forced Independence Power & Light to reexamine how the utility supplied electricity for its customers.

By the mid-1980s, much of the Midwest was awash in electric power. Utilities in the region had constructed dozens of baseload electric power plants during the late 1970s and early 1980s in anticipation of kilowatt-hour growth and to diversify fuel supply.

But the energy crises of the 1970s and skyrocketing energy costs had caused electric power demand growth to slow for the first time in 40 years. In the 15 years from 1965 to 1980, kilowatt-hour growth in the U.S. dropped from a 6 percent average annual increase to just over 2 percent a year. The result was excess generating capacity that Midwestern electric utilities were anxious to sell.¹

For Independence Power & Light, the glut of Midwestern electric power meant that there were bargains aplenty for surplus electricity. In late 1984, the Department began asking Midwestern electric utilities to quote prices on wholesale power. All told, Independence Power & Light contacted 24 utilities in its search for a reasonable power supply contract. Nearby Kansas City Power & Light was one of the finalists, not surprising given the neighboring utility's many interconnections with the Independence Power & Light system.

The second finalist was Iowa Public Service (IPS). Located in Sioux City, Iowa, IPS had completed the fourth unit of its coal-fired, 1,500-megawatt Neal Generating Station in 1979 and was offering attractive long-term wholesale contracts to municipal utilities in Iowa, Kansas and Missouri.²

In July 1985, Independence Power & Light signed a 10-year power supply contract with KCP&L, and a 20-year contract with IPS. Utility officials estimated that the contracts could save Independence ratepayers \$30 million in the first five years of the contracts. The average ratepayer would save approximately \$50 a year.

"Part of the cost will depend on how much we buy," said Robert Svehla, assistant city manager. "It's like renting a car. You pay so much a day and so much a mile."³

¹ Beck, *Interconnections: The History of the Mid-Continent Area Power Pool* Minneapolis: MAPP, 1988, pp.149-159

² Beck, *The Service People: An Illustrated History of Midwest Energy Company Sioux City: Iowa Public Service Company, 1991, p.394*

³ Lisa Massoth, "Independence sees big savings with plan to buy electricity," *Kansas City Star*, May 3, 1985

over a coal contract for Blue Valley Power Station.¹⁵ Another casualty of this period was Duane Simpson, the acting Department director, who resigned in April 1980 after 21 years of service with the city.¹⁶

The 1978 IBEW strike and its ramifications proved to be a baptism of fire for the city's Public Utilities Advisory Board. Established in the early 1970s, the board was expanded and its duties broadened as a result of a city charter amendment adopted in August 1978.¹⁷ Unfortunately for the seven-member board, most of its duties for the first several years following the 1978 expansion were taken up with the labor and political situation.

The utility was on the receiving end of one final major blow in the 1980s, this one natural rather than man-made. A massive ice storm that moved through the Missouri River Valley during St. Patrick's Day weekend of 1984 left power lines and tree limbs in Independence coated with as much as two inches of ice. By that Monday morning, nearly 10,000 households were without electricity. Downed power lines littered the streets primarily in the southern half of the city.¹⁸

Power & Light Department crews worked around the clock to restore power, and Department Director Parley Banks called for assistance from other utilities and independent contractor crews. "At any given time, there are 12-15 trucks out," Banks told reporters that Wednesday. He noted at the time that 3,500 households were still without power.¹⁹ It wasn't until the following week that service was restored to all Department customers.

By the time James B. Harder came aboard as Department director in the summer of 1987, much of the difficulty the utility had experienced during the preceding 15 years was thankfully in the past.²⁰ The city was involved in a legal dispute with its coal supplier, Associated Producers of Oklahoma City, but that would essentially be the last negative publicity the Department would experience for many years to come.

The 1970s and 1980s were difficult years for the American electric utility industry in general, and the Independence Power & Light Department in particular. It is likely that few of the managers and staff of the utility were sorry to see the last of the 1980s.

1 Beck, *Northern Lights: An Illustrated History of Minnesota Power Duluth: Minnesota Power, 1985*, pp.441-451

2 "For City's Electric Utility, 2 Events Spell Out Progress," *Independence Examiner*, February 2, 1971

3 *Ibid.*

4 "Report from the Electric Utility Director," *City of Independence Power & Light, 1972 Annual Report*, p.3

5 "Modern Suburban Living," *City of Independence Power & Light, 1972 Annual Report*, pp.4-5

6 "Underground Construction," *Independence, Missouri Power & Light Department, 1979 Annual Report*, p.5

7 "Director's Report," *Independence, Missouri Power & Light Department, 1979 Annual Report*, p.1

8 *Ibid.*, p.1

9 "Blue Valley Plant Coal Conversion," *Independence, Missouri Power & Light Department, 1979 Annual Report*, p.4

10 *Ibid.*, p.4

11 "Power Production," *Independence, Missouri Power & Light Department, 1979 Annual Report*, p.312

12 Charles R.T. Crumpley, "Workers end strike, seek old utility jobs in Independence," *Independence Examiner*, August 19, 1980

13 Terrence Thompson, "Clarification is sought in power unions' dispute," *Independence Examiner*, May 30, 1980

14 Lola Butcher, "Power, light workers oppose rehiring fired employees," *Independence Examiner*, August 19, 1980

15 Lola Butcher, "Council accepts resignation following accusations," *Independence Examiner*, March 4, 1980; See Also, Judie Black, "Area governments grapple with ethics codes," *Kansas City Star*, March 10, 1980

16 Lola Butcher, "Simpson resigns after 21 years as city servant," *Independence Examiner*, April 10, 1980

17 "Operations Review," *Independence, Missouri Power & Light Department, 1979 Annual Report*, p.2

18 Lisa Gutierrez, "Power and Light telephone lines are ringing off the wall," *Independence Examiner*, March 22, 1984

19 Jan Smith, "Frustration mounts as power outages last into the week," *Independence Examiner*, March 22, 1984

20 Forrest Martin, "New director challenged by troubled utility," *Independence Examiner*, August 7, 1987