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AGRICULTURAL APPROPRIATIONS FOR 1964

HEARINGS

BEFORE THE

SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS UNITED STATES SENATE

EIGHTY-EIGHTH CONGRESS

FIRST SESSION

ON

H.R. 6754

MAKING APPROPRIATIONS FOR THE DEPARTMENT OF AGRICULTURE AND THE FARM CREDIT ADMINISTRATION FOR THE FISCAL YEAR ENDING JUNE 30, 1964, AND FOR OTHER PURPOSES

RURAL ELECTRIFICATION ADMINISTRATION

Printed for the use of the Committee on Appropriations

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DEPARTMENT OF AGRICULTURE AND RELATED AGENCIES APPROPRIATIONS, 1964

TUESDAY, APRIL 2, 1963

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 10 a.m., pursuant to recess, in room 1114, New Senate Office Building, Hon. Spessard L. Holland (chairman of the subcommittee) presiding.

Present: Senators Holland, Robertson, Ellender, Young, Case, Aiken, and Humphrey.

DEPARTMENT OF AGRICULTURE

RURAL ELECTRIFICATION ADMINISTRATION

STATEMENT OF JOHN A. BAKER, ASSISTANT SECRETARY OF AGRICULTURE; ACCOMPANIED BY NORMAN M. CLAPP, ADMINISTRATOR, RURAL ELECTRIFICATION ADMINISTRATION; RICHARD A. DELL, DEPUTY ADMINISTRATOR; EDGAR F. RENSHAW, ASSISTANT ADMINISTRATOR—TELEPHONE; RICHARD H. WOOD, ASSISTANT ADMINISTRATOR—ELECTRIC; JOHN W. SCOTT, ASSISTANT ADMINISTRATOR—OPERATIONS; LESLIE SURGINER, CONTROLLER; RICHARD M. HAUSLER, DIRECTOR, RURAL AREAS DEVELOPMENT; DAVID H. ASKEGAARD, ACTING BUDGET OFFICER; RALPH F. KOEBEL, ASSISTANT GENERAL COUNSEL, OFFICE OF THE GENERAL COUNSEL; AND CHARLES L. GRANT, DIRECTOR OF FINANCE AND BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

SALARIES AND EXPENSES

Senator HOLLAND. The subcommittee will please come to order.

Today the committee will consider the budget request for the Rural Electrification Administration. This agency makes electric and telephone loans, loans for wiring premises, and the acquisition and installation of electrical and plumbing appliances and equipment, including electrical power and machinery.

For salaries and expenses the budget request is for $11,344,000, an increase of $880,000 over anticipated amounts available for fiscal 1963. Within the increase of $880,000, $551,940 is for pay costs.

We have with us this morning Mr. John Baker, Assistant Secretary, whose jurisdiction extends over REA, among other things. And we have Mr. Clapp, the Administrator of the agency.

Which of you gentlemen wishes to proceed first?

Introduction of Witnesses

Mr. Baker. Mr. Clapp.

Mr. Clapp. Mr. Chairman and members of the committee, I would like to identify for the chairman and the members of the committee the persons here at the table with me. On my extreme left is Mr. Frank Renshaw, the Assistant Administrator for the telephone program. Next to him is Mr. Richard Wood, Assistant Administrator for the electric program.

On my immediate left is Mr. David Askegaard, our acting budget officer. On my extreme right is Mr. Richard Dell, the Deputy Administrator of REA. Mr. Baker you have already greeted.

Senator Holland. We are glad to have all of you gentlemen.

First, let me speak about loan authorizations.

Funds Available for Loans

For fiscal 1963 $400 million was authorized for the electrification loan program of which $100 million was placed in reserves, plus over $23 million of carryover funds from 1962. The telephone program had $80 million of new authorizations plus over $42.7 million for carryover from 1962, totaling $122.7 million. In addition, the contingency authorization of $100 million provided in fiscal 1963 could be used in either program, but none of it has been applied to the telephone program.

In 1964 the estimate proposes $425 million of new authorization for electrification loans, of which $75 million is to be placed in the contingency reserve for electrification loans only.

(The justifications follow:)

a. Salaries and expenses

Appropriation Act, 1963	$10,024,000
Proposed transfer, 1963 for increased pay costs	440,000
Base for 1964	10,464,000
Budget estimate, 1964	11,344,000
Increase	+880,000

SUMMARY OF INCREASES AND DECREASES, 1964

Rural electrification program:	
To strengthen the lending and management activities	+29,960
To strengthen engineering activities	+206,325
Rural telephone program:	
To strengthen the lending and management activities	+23,600
For development and application of improved and more efficient engineering equipment and techniques and to strengthen engineering activities	+80,175
Reduction to reflect estimated savings due to the installation of a centralized data processing operation (MODE) for personnel and payroll data	−12,000
For pay act costs pursuant to Public Law 87-793	+551,940
Net increase	+880,000

Project statement

Project	1962	1963, estimated	Increases		1964, estimated
			Increased pay costs, Public Law 87-793	Other	
1. Administration of rural electrification program:					
(*a*) Lending and management activities	$3,018,988	$3,129,460	+$166,380	+$26,360	$3,322,200
(*b*) Engineering activities	2,297,553	2,456,760	+128,915	+203,525	2,789,200
Total, administration of electrification program	5,316,541	5,586,220	+295,295	+229,885 (1)	6,111,400
2. Administration of rural telephone program:					
(*a*) Lending and management activities	2,329,093	2,444,715	+130,985	+20,800	2,596,500
(*b*) Engineering activities	2,339,432	2,433,065	+125,660	+77,375	2,636,100
Total, administration of telephone program	4,668,525	4,877,780	+256,645	+98,175 (2)	5,232,600
Subtotal [1]	9,985,066	10,464,000	+551,940	+328,060	11,344,000
Unobligated balance	38,935				
Total increased costs (Public Law 87-793): Pay costs	(----------)	(440,000)	(+551,940)	(+15,060)	(1,007,000)
Total available or estimate	10,024,000	[2] 10,464,000	+551,940 (3)	+328,060	11,344,000
Transferred from "Special milk program, Agricultural Marketing Service" for increased pay costs	----------	−440,000			
Total appropriation or estimate	10,024,000	10,024,000			

[1] Represents obligations. Applied costs for 1962 are $9,957,900. The difference of $27,200 reflects the excess of orders placed in 1962 for equipment and other material over equipment and materials used in that year.

[2] Includes $1,900 estimated to be transferred to "Salaries and expenses, general administration," during fiscal year 1963 for the Office of the Inspector General.

INCREASES AND DECREASES

A net increase of $328,060 in administrative funds for fiscal year 1964 (exclusive of additional funds for pay costs on the base for 1964) is urgently needed. Despite strenuous efforts to economize including severe limitations on travel and on purchase of equipment, the REA staff, which has been steadily depleted during recent years by absorption of increased administrative costs within the annual appropriation, is unable to meet the needs of the REA program.

The additional $328,060 in administrative funds is urgently needed as follows:

(*1*) *A net increase of $229,885 under the project "Administration of the rural electrification program"*

The electrification program is concerned with the financing needs, technical assistance and operations of almost 1,000 active borrowers and is responsible for the security of more than $4.5 billion in loans approved for the financing of borrowers' electric facilities. While demands on the program have steadily become more complex, staffing for the electrification program has decreased from a level of about 1,152 man-years of employment in 1950 to the present level of approximately 500 man-years of employment. Assistance to REA borrowers has been progressively diminished and constant pressure is placed upon the staff to improve and streamline techniques and procedures to enable maximum utilization of a relatively small staff in order to meet pressing day-to-day demands on the program.

The net increase consists of:

(*a*) *$29,960 for lending and management activities.*—An increase is necessary to enable the field staff to give necessary assistance and to make necessary re-

views in connection with loan applications and to maintain adequate contact with the borrowers to protect the security of the Government in loans which now aggregate more than $4.7 billion.

(*b*) *$206,325 for engineering activities.*—An increasingly heavy burden has been placed on REA to help borrowers with their negotiations for satisfactory power supply. Power supply problems of borrowers are becoming much more important and complex as their sales of power increase. With the cost of power representing more than 35 percent of the revenues of distribution borrowers, dependable power supplies at minimum cost are necessary to maintain the security of the REA loan. Also, when loan applications are received for generation and transmission facilities, extensive engineering studies and analyses are necessary which are often very time consuming due to the interconnections and complicated contractual arrangements which are proposed.

Distribution borrowers are operating electric facilities costing approximately $3 billion. Additions to distribution facilities are being made at an annual rate of more than $100 million. Continuing minimum attention by the REA engineering staff must be given to assure that these facilities are maintained in adequate condition, and that new construction is performed in accordance with approved plans and specifications.

(*c*) *A reduction of $6,400 to reflect estimated savings due to the installation of a centralized data processing operation (MODE) for payroll and personnel data.*—An explanation of this reduction is included in the preface to these explanatory notes in volume 1.

(*2*) *A net increase of $98,175 under the project "Administration of the rural telephone program"*

There are now about 800 rural telephone borrowers with approved loans totaling over $900 million. These borrowers will provide new or improved service to about 1,800,000 consumers.

If telephone service is to be brought to a maximum number of rural people, work must be done to improve and reduce the cost of construction, equipment, and materials; to develop and adapt new techniques, equipment and construction practices to rural systems; and to develop more efficient and lower cost operation as the program advances to the more difficult areas. Despite the continuing overall growth of the telephone program, staffing for the telephone program has decreased from a level of about 515 man-years of employment in 1959 to the present level of approximately 450 man-years of employment. With this limited staff REA's work with borrowers in matters of management, accounting and technical assistance, as well as engineering developmental work, has been severely restricted.

The net increase consists of:

(*a*) *$23,600 for lending and management activities.*—Increased field activity is necessary to bring telephone service to the maximum number of rural persons, and to maintain adequate contact with the constantly growing number of borrowers. The number of borrowers is expected to increase from 828 in fiscal 1963 to 866 in fiscal 1964.

(*b*) *$80,175 for engineering activities.*—The increase is needed to make possible the development and application of improved and more efficient engineering equipment and techniques to the construction and operation of rural telephone systems. Particularly urgent is the need for testing and evaluation of new equipment and materials now being marketed. Specifications must be revised to keep pace with new developments.

(*c*) *A reduction of $5,600 to reflect estimated savings due to the installation of a centralized data processing operation (MODE) for payroll and personnel data.*—An explanation of this reduction is included in the preface of these explanatory notes in volume 1.

(*3*) *An increase of $551,940 for pay costs pursuant to Public Law 87–793 consisting of $331,425 to provide for full-year costs of the first step of the pay increase and $220,515 for fiscal year 1964 cost of the additional increase effective January 5, 1964.*

(An overall explanation of increases for Pay Act costs is included in the preface to these explanatory notes in volume 1.)

(b) Loan authorizations

	Loan authorization	Estimated loans
Electrification loans:		
Authorization to borrow from Treasury:		
Appropriation Act, 1963	[1] $400,000,000	$350,000,000
Budget estimate, 1964	[2] 425,000,000	350,000,000
Increase	+25,000,000	----------
Telephone loans:		
Authorization to borrow from Treasury:		
Appropriation Act, 1963	80,000,000	95,000,000
Budget estimate, 1964	70,000,000	95,000,000
Decrease	−10,000,000	----------

[1] Includes reserve authorization of $100,000,000 for either the electrification or telephone program.
[2] Includes a proposed reserve authorization of $75,000,000.

Project statement (on basis of estimated loans)

Project	1962	1963 estimated	1964 estimated
1. Rural electrification loans	$261,369,500	$350,000,000	$350,000,000
2. Rural telephone loans	91,556,000	95,000,000	95,000,000
Total estimated loans [1]	352,925,500	445,000,000	445,000,000

[1] Represents obligations (loans approved). Applied costs (loan advances) are as follows: 1962, $293,044,363; 1963, $330,000,000; and 1964, $410,000,000.

EXPLANATION OF ESTIMATES

Rural electrification loans.—The loan estimate of $350 million will require a new loan authorization of $350 million as there is expected to be no carryover of unused funds from fiscal year 1963. In addition a reserve authorization of $75 million is proposed, to be used to the extent needed during the fiscal year. It is estimated that approximately $125 million would be loaned for distribution, $220 million for transmission and generation of electricity and $5 million for loans under the consumers financing provision (sec. 5) of the Rural Electrification Act.

REA-financed generation and transmission cooperatives generate about 1 percent of the total yearly utility generation in the United States. The utility industry estimates that the country's total energy output will grow from 765 billion kilowatt-hours in 1960 to 1.7 trillion kilowatt-hours in 1970 and to 3.4 trillion kilowatt-hours in 1980. The annual growth rate is about 7.75 percent which will quadruple the country's total output in 20 years. The industry estimates that the annual rate of electric utility capital investment will increase from $4,690 million in 1960 to $9,272 million in 1970, and to $17,329 million in 1980.

The proposed loan level for fiscal year 1964 will enable the REA systems to maintain their modest comparative position in the total electric industry.

Rural telephone loans.—The loan estimate of $95 million will require a new loan authorization of $70 million since there is expected to be a carryover of about $27.7 million of unused funds from the fiscal year 1963.

The estimate provides for continuation of about the anticipated 1963 loan level. Surveys and studies of telephone service requirements in rural areas of the country indicate that approximately $1.5 billion will be needed for loans to REA-financed systems and that the job can be carried out over the next 15 years at an annual loan level of between $95 and $100 million.

The following tables reflect loans and funds available for fiscal year 1962, 1963, and 1964.

Electrification loans

	1962 actual	1963 estimate	1964 estimate
Loan funds available:			
New loan authorization	[1] $245,000,000	[2] $400,000,000	[3] $425,000,000
Carryover from prior year	34,171,880	23,185,628	185,628
Rescissions of prior year loans	5,383,248		
Total loan funds available	284,555,128	423,185,628	425,185,628
Less:			
Loans approved	−261,369,500	−350,000,000	−350,000,000
Reserves not used		−73,000,000	−75,000,000
Balance to next year	23,185,628	185,628	185,628

[1] Includes reserve authorization of $70,000,000.
[2] Includes reserve authorization of $100,000,000 for either the electrification or telephone program.
[3] Includes a proposed reserve authorization of $75,000,000.

Telephone loans

	1962 actual	1963 estimate	1964 estimate
Loan funds available:			
New loan authorization	[1] $162,500,000	$80,000,000	$70,000,000
Carryover from prior year	979,026	42,701,631	27,701,631
Rescissions of prior year loans	778,605		
Total loan funds available	164,257,631	122,701,631	97,701,631
Less:			
Loans approved	−91,556,000	−95,000,000	−95,000,000
Reserves not used	−30,000,000		
Balance to next year	42,701,631	27,701,631	2,701,631

[1] Includes reserve authorization of $30,000,000.

Progress of Electrification and Telephone Programs

The cumulative figures presented in the following tables show the progress that has been made in the electrification and telephone programs since their inception.

Table No. I.—*Electrification loans—Cumulative figures*

Date	Total net loans, all purposes	Estimated coverage when construction is completed on all loans approved to date	
		Miles of line	Consumers served
June 30—			
1936–40	$268,972,949	251,642	854,828
1941	369,027,621	356,053	1,171,867
1942	460,180,345	409,490	1,345,107
1943	466,881,323	414,287	1,358,114
1944	498,811,447	448,889	1,438,567
1945	524,542,502	471,351	1,495,233
1946	813,914,990	672,667	2,080,167
1947	1,068,436,162	811,019	2,484,503
1948	1,381,459,261	931,467	2,847,991
1949	1,830,318,858	1,097,705	3,352,603
1950	2,205,470,314	1,214,702	3,688,969
1951	2,427,204,114	1,286,127	3,896,824
1952	2,592,629,925	1,317,279	4,034,334
1953	2,730,009,085	1,351,297	4,195,732
1954	2,885,932,099	1,387,441	4,367,045
1955	3,050,119,414	1,411,765	4,546,463
1956	3,238,250,759	1,435,478	4,717,730
1957	3,536,955,428	1,460,431	4,903,777
1958	3,772,577,652	1,479,209	5,088,096
1959	3,942,338,539	1,491,406	5,188,687
1960	4,153,325,751	1,503,863	5,312,265
1961	4,424,756,408	1,520,899	5,459,083
1962	4,680,742,660	1,534,551	5,560,708
1963 (estimated)	5,030,742,660	1,548,551	5,675,708
1964 (estimated)	5,380,742,660	1,562,551	5,790,708

TABLE NO. II.—*Electrification construction—Cumulative figures*

Date	Loan funds advanced to borrowers	Construction completed		
		Total miles energized	Total consumers served	Total kilowatt-hours billed (annual)
June 30—1936–40	$221,287,287	232,978	549,604	311,479,000
1941	296,395,142	307,769	779,561	566,422,777
1942	354,616,010	369,129	981,193	893,461,286
1943	369,152,582	381,747	1,041,821	1,460,460,571
1944	387,630,670	397,861	1,152,031	1,791,607,706
1945	427,366,738	424,072	1,287,347	2,066,121,706
1946	514,619,844	414,837	1,549,057	2,185,149,697
1947	704,705,701	546,781	1,843,351	2,861,024,042
1948	950,941,658	666,156	2,263,869	4,016,273,673
1949	1,272,228,526	839,685	2,778,180	5,474,001,598
1950	1,558,887,178	1,018,336	3,251,787	6,973,694,936
1951	1,827,017,836	1,134,498	3,547,323	8,737,816,038
1952	2,054,591,865	1,210,473	3,769,426	10,603,286,075
1953	2,262,225,801	1,271,443	3,951,940	12,560,298,086
1954	2,443,754,333	1,315,630	4,109,223	14,947,103,217
1955	2,600,496,268	1,348,069	4,187,825	17,788,343,000
1956	2,755,235,812	1,372,001	4,301,705	20,664,933,000
1957	2,941,213,434	1,394,353	4,406,503	22,870,371,000
1958	3,146,545,731	1,414,034	4,521,997	24,960,020,000
1959	3,358,263,066	1,437,034	4,653,502	28,539,692,000
1960	3,580,884,081	1,454,081	4,766,931	31,893,325,000
1961	3,764,297,121	1,472,767	4,890,506	34,755,243,000
1962	3,960,104,248	1,492,174	5,014,829	37,718,458,000
1963 (estimated)	4,190,104,248	1,511,174	5,134,829	40,400,000,000
1964 (estimated)	4,500,104,248	1,530,174	5,254,829	43,400,000,000

TABLE NO. III.—*Telephone loans—Cumulative figures*

Date	Borrowers	Total net loans	Estimated progress after completion of construction authorized by total loans to date	
			Route-miles of line to be constructed or improved	Subscribers to receive new or improved service
June 30—				
1950	17	$3,426,500	3,948	16,837
1951	113	41,255,000	41,288	155,816
1952	190	82,260,718	72,563	251,050
1953	219	118,144,218	88,337	302,597
1954	279	184,578,542	125,576	410,657
1955	351	234,180,542	157,751	515,683
1956	466	312,391,542	201,524	695,389
1957	551	391,139,542	241,681	863,329
1958	611	478,459,015	277,730	1,020,454
1959	665	575,213,415	317,227	1,191,324
1960	705	679,210,237	356,581	1,371,791
1961	753	818,257,691	407,621	1,604,011
1962	790	909,035,087	442,063	1,753,463
1963 (estimated)	828	1,004,035,087	478,063	1,903,463
1964 (estimated)	866	1,099,035,087	514,063	2,053,463

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TABLE NO. IV.—*Telephone construction—Cumulative figures*

Date	Total loan funds advanced to borrowers	Construction completed	
		Route-miles of line constructed or improved	Subscribers receiving new or improved service
June 30—			
1950			
1951	$155,868	(1)	(1)
1952	7,797,218	204	[2] 1,686
1953	31,662,022	8,243	[2] 24,729
1954	60,102,148	26,541	[2] 85,000
1955	99,889,134	45,498	[2] 148,000
1956	153,808,413	68,607	[2] 223,000
1957	226,748,656	103,064	368,804
1958	309,608,665	144,556	537,562
1959	402,878,138	182,893	741,283
1960	501,262,035	219,051	935,062
1961	609,326,639	259,683	1,112,255
1962	706,563,875	292,700	1,295,658
1963 (estimated)	806,563,875	328,700	1,475,658
1964 (estimated)	906,563,875	363,700	1,630,658

[1] Not available.
[2] Estimated.

STATUS OF AUTHORIZATION

Senator HOLLAND. Mr. Clapp, the Administrator of the REA, is here to present testimony to the committee, but before you begin, with regard to the loan authorization for 1963 as shown on page 113 of the justification, how much of the $100 million contingency reserve available for 1963 will be drawn down for use during this year? Having been drawn down, as I understand, it can be carried forward into the ensuing year.

Mr. CLAPP. Mr. Chairman, we anticipate that approximately $27 million of the contingency fund will be drawn down for loans in this fiscal year.

LOAN FUND AVAILABILITY

Senator HOLLAND. To get at the present situation on loan fund availability, how much authorization would you use this year, and how much authorization will you carry over into fiscal 1964, including the drawdown on 1963 contingency authorization which you have just mentioned?

Mr. CLAPP. In the electric program we anticipate that we will be using approximately $350 million of the loan authorization. The portion of the contingency fund which will not be used and which will lapse is approximately $73 million. This will involve a carryover of an estimated $185,628.

In the telephone program, out of total loan funds available for fiscal 1963 amounting to $122,701,631, we expect to require for loans this fiscal year $95 million, leaving a balance to carry over of $27,701,631.

Senator ROBERTSON. Mr. Chairman, if I might ask a question at this point about the carryover, I would appreciate it.

Senator HOLLAND. Yes.

USE OF LOAN AUTHORIZATIONS TO DATE

Senator ROBERTSON. I recently was informed on the electricity loan, I believe it was, that you loaned about $170 million and had about $190 million that you hadn't loaned, and you only have 2½ more months to go. I couldn't understand how you plan to get rid of that $190 million in 2 months' time.

Mr. CLAPP. Senator, the pattern of loans in both the electric and telephone programs tends to accelerate toward the end of the fiscal year, and this is controlled somewhat by the construction season. The normal development of loans concentrates the engineering studies and our evaluations in the winter months, so that the bulk of the loans—I shouldn't say the bulk, but a very heavy proportion of the loans—is ready for final action toward the spring of the year.

It is our estimate that we will hit approximately $350 million in electric loans for this fiscal year.

Senator ROBERTSON. Of course, all members of this subcommittee are members of the full committee. We have known of many instances in the last 10 or 15 years of departments coming to the end of the year with money that hadn't been expended and they get rid of it in a hurry so that none of it lapses at the end of the fiscal year.

I just want assurance that you are not putting out loans regardless of security or anything, just to get rid of this money before the end of the year.

Mr. CLAPP. Senator, you have our assurance on that. For one thing, it is impossible to process a loan in short order, and secondly, I would just like to point out again that we are expecting that approximately $73 million of the contingency fund will lapse at the end of this fiscal year.

Senator ROBERTSON. That is irrespective of the fact that you have not used as much as one-half of this new money; not the contingency but of the loan money, and here it is April, May, and then June 30. You have 3 months.

Mr. CLAPP. Our loans are running ahead of this time last year.

USE AND AVAILABILITY OF AUTHORIZATIONS

Senator HOLLAND. Mr. Clapp, let me see if I can understand these figures correctly.

If I understand it, you were authorized to make electrification loans for this fiscal year in the amount of $423 million. Is that correct if you used the contingency authorization for electrification only and the $23 million carried forward from 1962?

Mr. CLAPP. This includes the authorization of $300 million for the electric program and $100 million contingency. Then we also had a carryover of $23 million from the previous fiscal year.

Senator HOLLAND. Total loan authorization in the account for fiscal 1963 was $400 million, which together with $23 million carryover making $423 million available if you used the contingency reserve for electrification loans.

Mr. CLAPP. I think, Mr. Chairman, the direct authorization was $300 million for electric. Then there was $100 million contingency available either for electric or telephone.

Am I not correct?

Mr. GRANT. Mr. Chairman, may I say a word here?

Senator HOLLAND. Yes.

Mr. GRANT. Actually the authorization for electrification loans was $400 million including $100 million contingency to be placed in reserve for both electrification and telephone loans.

Senator HOLLAND. I have the bill before me now. It says the appropriation is $400 million, of which $100 million was to be placed in reserve as the contingency fund. That is the situation. It wasn't an outright appropriation of $400 million, but was available in the contingency reserve if needed.

As I understand your testimony, you have committed $27 million of the $100 million which was placed in reserve. Is that correct?

Mr. CLAPP. It is not committed, Mr. Chairman, as yet, but we anticipate that it will be necessary.

Senator HOLLAND. What about the $300 million?

Mr. CLAPP. That we anticipate we will require.

Senator HOLLAND. In other words, what you are testifying is that you plan that in this fiscal year your entire commitments will be $327 million for electrification?

Mr. CLAPP. Plus $23 million which we carried over of unused authority from last year.

Senator HOLLAND. That will be a total of $350 million for 1963.

Mr. CLAPP. That is correct, sir.

REQUEST FOR 1964

Senator HOLLAND. You are now asking in the committee print of the new bill, as I see it, for $425 million, where you had $400 million last year, but you are cutting the reserve request from $100 to $75 million and limiting it to the electrification program. In effect, you are raising the total for electrification loans by $25 million, outside of the reserve account.

Mr. CLAPP. That is correct; for the electric program.

Senator ROBERTSON. Mr. Chairman, can I ask a question to clarify my confusion?

Senator HOLLAND. Yes.

Senator ROBERTSON. It is difficult for me to follow the difference between appropriations for reserves, for telephones, and what goes into loans for electric light fixtures, plumbing, and whatnot. Are you asking $50 million more for rural electrification than you had last year?

Mr. CLAPP. We are dealing with two elements in the authorization, Senator.

Senator ROBERTSON. Just answer the question before you explain it away.

Mr. CLAPP. If you were to assume that we will require the full contingency, then this is an increase of $25 million as compared to the full amount authorized for possible use in the electric program in this fiscal year. This has to do with the electric program only.

There is a decrease of $10 million in the authorization for the telephone program.

Senator ROBERTSON. But you did have an appropriation for this year of $300 million, and you are asking for $350 million. Is that correct?

Mr. CLAPP. That is true of the base authorization.

Senator ROBERTSON. All right; the base authorization.

The point I was making, Mr. Chairman, was this 2-percent money runs for 100 years, and I don't think they will pay it back in that time. At 2 percent the interest on $50 million for 100 years is $100 million right there.

NECESSITY FOR INCREASE

I have pointed out that they have more available for the last quarter than they spent in the first three quarters of this year, and they are asking for an increase. I just wanted to be assured that there was the necessity for this increase for our farmers. They are the ones I am interested in.

I don't feel any obligation to borrow and lend money at 2 percent to get cheap electricity for the people in the city or for a man who may live on the edge of the city and works in the city. That is the point I was trying to make, Mr. Chairman.

Senator HOLLAND. For the telephone program, new authorization requested is $70 million plus $27.7 carryover, for a total of $97.7 million.

LOANS DURING FISCAL YEAR 1963

To get the present situation on loan fund availability, Mr. Clapp, how much authorization will you use this year, and how much authorization will you carry into fiscal 1964, including the drawdown on the 1963 contingency of $27 million?

Mr. CLAPP. Yes, sir.

Senator HOLLAND. How much of that has been used up to this date?

Mr. CLAPP. Our loans to the end of March in the electric program totaled $168,741,500. In the telephone program our total loans as of March 31 amounted to $44,425,000.

Senator HOLLAND. And in both cases you intend to commit much more than half of the total appropriation including that part of the contingency which you intend to use in case of electrification loans in these last 3 months.

Mr. CLAPP. This is the normal pattern, Mr. Chairman.

Senator HOLLAND. Well, will you state for the record just how much it is that you do expect to commit in the next 3 months?

Mr. CLAPP. We expect in the electric program to commit a total of $350 million, and in the telephone program a total of $95 million.

Senator HOLLAND. How much?

Mr. CLAPP. $95 million.

1964 PROGRAMS

Senator HOLLAND. As I read your justification at page 112 for 1964, these justifications indicate that you plan to use $125 million for distribution loans. This is in the electrification program; $220 million for generation and transmission loans, and $5 million for section 5 loans. Is that your current estimate?

Mr. CLAPP. Yes.

Now this does not include whatever contingencies may arise that will require the use of the contingency fund.

NEED FOR RESERVE LOAN AUTHORIZATION FISCAL, 1964

Senator HOLLAND. The total of those three amounts I just read is $350 million. The next question then would be why do you need a reserve of $75 million next year to add to that $350 million which covers your entire projected fiscal 1964 program?

Mr. CLAPP. As the President stated in his budget message a year ago this past January, the requirements for generation and transmission loans are dependent in a great measure upon our success in getting suitable power supply arrangements, or assisting our borrowers in getting suitable power supply arrangements, without resort to REA financing for their own generating and transmission facilities.

It is necessary to maintain the availability of REA financing for generation and transmission facilities in order to back up the bargaining position of our borrowers in negotiating proper and suitable wholesale power contracts. If they are successful in doing this, it means that the demands for REA financing for generation and transmission are diminished.

The contingency fund is simply there to be used in case it is necessary to draw upon it. We are hopeful that we will stay within the $350 million of the authorization.

Senator ELLENDER. Mr. Chairman.

Senator HOLLAND. Senator Ellender.

Senator ELLENDER. The contingency fund is predicated upon the fact that the cooperatives may not be able to obtain power at reasonable rates, then and only then, will you use the money from that fund to build the generation and transmission system?

Mr. CLAPP. This is the purpose of it, to be sure that financing is available for borrowers to build their own generating and transmission facilities, if it is necessary to secure proper power supply arrangements.

LOANS FOR GENERATION AND TRANSMISSION

Senator ELLENDER. How much of the amount that you are asking for fiscal 1964 will be used for generation and transmission loans?

Mr. CLAPP. We anticipate that of the $350 million, the base authorization, $220 million would be available for generation and transmission loans.

INCREASE IN USE OF FUNDS

Senator ELLENDER. To what extent have you been using the money that you have obtained over the years from Congress to construct generators and transmitters? Can you give us a picture of the percentage of funds used for that purpose?

Mr. CLAPP. Yes, Senator, the proportion of total loans for generation and transmission purposes has been increasing.

In fiscal year 1962 I believe the percentage was about 59 percent that went for generation and transmission purposes. I can confirm that figure in just a moment.

Senator ELLENDER. Off the record.

(Discussion off the record.)

Senator ELLENDER. We want the accurate figures.

Mr. CLAPP. That is substantially correct, Senator.

Senator ELLENDER. You may look them over, and, if you desire to correct them, you may do so.

Senator HOLLAND. May I ask that in addition to stating the approximate 59 percent, you state the approximate amount for 1962.

Mr. CLAPP. The approximate amount would be $155 million.

LOAN TREND

Senator ELLENDER. What was it the year before, and the years before? In other words, show the trend.

Mr. CLAPP. In fiscal year 1961 the percentage of loan funds that went for generation and transmission was 55 percent.

Senator ELLENDER. What was it in fiscal 1960?

Mr. CLAPP. In fiscal 1960 it was 40 percent; fiscal 1959, 36 percent; fiscal 1958, 36 percent; fiscal 1957, 40 percent.

The current percentage for fiscal 1963 to date, as of March 31, is 45.5 percent.

REASONS FOR INCREASE

Senator ELLENDER. To what do you attribute this rise, Mr. Clapp?

Mr. CLAPP. I think two things, Senator. First of all, there has been a backlog of generation and transmission requirements on the part of our borrowers that built up in recent years, under the previous administration.

Then the technology of the industry is developing to the point where larger scale generation is necessary to achieve the economies the industry should be able to make available for rural systems. This means that we are dealing in larger denominations on most loan applications for generation and transmission.

Senator ELLENDER. Is your first reason based on the fact that the past administration was not willing to loan money for generation and transmission facilities?

Mr. CLAPP. Well, they made some substantial loans for generation and transmission, but I think there was a feeling on the part of the borrowers that they should delay because their chances for approval were not as good as they would like to have.

Senator ELLENDER. They felt it would be better under another administration.

Mr. CLAPP. I think there was this feeling on the part of the borrowers, and this built up a backlog of applications.

Senator YOUNG. Mr. Chairman, will he yield at this point?

Senator ELLENDER. Surely.

LOAN FUNDS BY YEARS

Senator YOUNG. I think this is being a bit unfair, without backing up your statement with any figures.

Now, Mr. Chairman, I would like to have inserted in the record the amount of money loans by REA for each of the Eisenhower years, and the succeeding years.

Senator HOLLAND. May I intervene here to say that the record of our hearings of last year, on page 6, includes tables which I understand would give the full picture up to 100 percent of their loans, of REA, for these years—1956, 1957, 1958, 1959, 1960, and 1961.

Is that your understanding, Mr. Clapp?

Mr. CLAPP. Yes. This is the table, I think, Mr. Chairman, from which I was just giving Senator Ellender the figures.

Senator HOLLAND. Well, I would suggest that certainly we would want the 1962 figures, which are complete now, to be added to that compilation and placed in this record along with a reprint of the years shown.

Mr. CLAPP. We would be very happy to do so.

Senator HOLLAND. And I think that the same figures as now estimated for 1963, showing, of course, that it is an estimate, should likewise be printed in the record.

Mr. CLAPP. We would be glad to do so.

Senator HOLLAND. And just to conclude, Senator Young, do you want to go back any further than 1956?

Senator YOUNG. Yes. I would like to go back to the beginning of the program if it's going to be political, in order to point out the record made when we had the Republican control of Congress, and when we had the Republican administration. If you want to make it political, do a good job.

Senator HOLLAND. The list there covers the years I have named, and I have requested them to add 1962 and 1963. Now how many years do you wish to go back prior to 1956?

Senator YOUNG. Go back to the close of World War II.

REQUEST FOR BREAKDOWN

Senator HOLLAND. Will you produce the facts under this same breakdown showing 100 percent of the REA investments for each year beginning with fiscal 1946?

Senator YOUNG. That is all right. And then just state when there was a Republican-controlled Congress, and when we had a Republican President.

Senator HOLLAND. Well, I think, if I may suggest, that if he puts in for every year from 1946 to now, that would leave it to any of us that wish to, to use these figures in any way that we desire.

POLITICAL QUESTION

Senator YOUNG. Well, Mr. Clapp raised a political question, so I think we ought to have the record straight.

Mr. CLAPP. Mr. Chairman, I certainly had no intention of making it political. I was simply trying to be responsive to Senator Ellender's question, and I think this was a factor in the sudden increase.

BACKLOG UNDER PREVIOUS ADMINISTRATION

Senator ELLENDER. Well, what prompted my question was your statement that there was a considerable backlog that grew under the previous administration. I would assume then that the past Administrator was not as successful in delivering loans as you are. That is what I had in mind.

Mr. CLAPP. Well, I would not want to draw any comparison like that, Senator.

Senator HOLLAND. That is the implication, sir, and, being only the referee in the matter, I got the same implication, and I think the request to begin with 1946 and bring it to date, including 1962 and the estimate for 1963, will give the whole picture from which any of us can draw any conclusions.

Senator YOUNG. Mr. Chairman, I think the record will prove that the Republican Congresses were more liberal with the distribution loans than the Democratic Congresses, and that the biggest appropriations were during these periods.

Senator HOLLAND. We have the record before us in the hearing. It seems to me then that we can make any valid conclusion that we wish to from it. Personally, I think every Senator has a right to do just that.

So, if you will include in this breakdown of the entire operation—beginning in fiscal 1946, bringing it to fiscal 1963—then any conclusions justified by the figures can be made by any reader, including Members of the Senate, because most of us can read. And I don't think we will have any difficulty making such conclusions as each of us thinks is fair from the figures shown.

(The information referred to follows:)

Amount and percentage of electric loans by purpose, fiscal years 1946 through 1963

[Dollar amounts in millions]

Year	Distribution		Generation [1]		Transmission		Consumer facility		Total	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
1946	$256.6	88.7	$31.9	11.0			$0.9	0.3	$289.4	100
1947	220.6	86.6	33.3	13.1			.7	.3	254.6	100
1948	277.1	86.8	41.6	13.1			.4	.1	319.1	100
1949	361.9	80.6	86.9	19.3			.5	.1	449.3	100
1950	238.2	63.3	136.1	36.2			1.9	.5	376.2	100
1951	166.2	74.9	50.6	22.8			5.0	2.3	221.8	100
1952	101.9	61.5	24.3	14.6	$37.9	22.9	1.7	1.0	165.8	100
1953	125.1	75.8	7.7	4.7	29.0	17.6	3.2	1.9	165.0	100
1954	133.8	80.1	18.5	11.1	12.7	7.6	2.1	1.2	167.1	100
1955	122.3	73.0	19.8	11.8	21.3	12.7	4.1	2.5	167.5	100
1956	123.9	65.3	34.5	18.2	26.8	14.1	4.6	2.4	189.8	100
1957	175.2	58.3	66.8	22.2	53.1	17.7	5.3	1.8	300.4	100
1958	151.3	62.6	47.7	19.8	38.6	16.0	4.0	1.6	241.6	100
1959	109.4	61.7	30.7	17.3	34.1	19.2	3.1	1.8	177.3	100
1960	129.1	58.7	60.1	27.3	28.9	13.1	2.0	.9	220.1	100
1961	120.5	43.9	77.1	28.1	74.8	27.2	2.1	.8	274.5	100
1962	103.8	39.7	98.9	37.8	56.4	21.6	2.2	.9	261.3	100
1963 [2]	125.0	35.8	110.0	31.4	110.0	31.4	5.0	1.4	350.0	100

[1] Breakdown between generation and transmission not available for years 1946 through 1951.
[2] Estimate.

TREND OF INCREASED FUNDS FOR G. & T.

Senator ELLENDER. Mr. Chairman, my purpose in trying to elicit this information from the witness was to determine the trend of G. & T. loans and to show when the upswing commenced.

I can well remember that when I became a member of this committee efforts were made to get an appropriation for the SPA to construct steamplants in order to firm electricity produced at our various dams throughout certain areas of our country. I believe it was in 1947 that there was an appropriation requested of around $23 million for that express purpose, and the Congress turned it down. Congress felt that the Southwestern Power Administration had no authority to build steamplants in order to firm electricity generated from dams that were publicly constructed. I think the record is clear on that point. I had it looked up by Mr. Pujol, of our staff.

EXCERPTS FROM RECORD AND REPORT

And, Mr. Chairman, I request permission to place in the record at this point, excerpts from the Congressional Record and from the reports that were made in this committee, showing the attitude and the position taken by both the Congress and this committee on this subject.

Senator HOLLAND. Off the record a moment.

(Discussion off the record.)

Senator HOLLAND. I have no objection to that going in. Is there any objection?

That statement will appear in the record.

(The statement referred to follows:)

Memorandum to: Senator Allen J. Ellender.

Subject: The use of rural electrification loans to finance construction of steam generation facilities to be integrated with the hydroelectric systems of Federal power marketing agencies.

The President's budget for the fiscal year ending June 30, 1947, included a request of $23 million for "Construction and acquisition of fuel-electric generating stations, transmission lines * * *" by the Southwestern Power Administration. (See the budget, 1947, H. Doc. 411, 79th Cong., pp. 377–378.)

The House Appropriations Committee recommended that the funds requested for the construction of fuel-electric generating plants be disallowed. In commenting on this action in its report (H. Rept. 1984, 79th Cong.), the committee said in part:

"* * * Included in the estimate of $23 million, are funds for the acquisition and completion of a Government-owned steamplant in Arkansas, the construction of a fuel generating plant in Texas, and the construction of transmission lines and substations costing in excess of $11 million. The committee is unable to find any satisfactory justification for the proposed steamplants at the present time and has eliminated funds for them from the bill * * *."

The House committee did recommend $3,198,000 for the construction of certain transmission facilities, and this was increased on the floor of the House to $7,500,000.

The Senate Appropriations Committee recommended that the $7,500,000 be disallowed (See S. Rept. 1434, 79th Cong.); however, the full $7,500,000 was restored on the Senate floor.

The record is clear, Congress refused to make appropriations for the purchase or construction of steam generating plants by the Southwestern Power Administration.

After Congress had refused to provide appropriations for the construction of steam plants, the Southwestern Power Administration entered into agreements with several G. & T. cooperatives (generating and transmitting) whereby the Southwestern Power Administration would purchase a substantial portion of the power and energy from the steamplants of the G. & T.'s and lease some of their transmission facilities. The construction of the G. & T.'s facilities was financed with loans from the Rural Electrification Administration. Funds to implement the contracts between the Southwestern Power Administration and the "G. & T.'s" were provided in the annual "continuing fund" made available to the Southwestern Power Administration. Even though Congress refused to provide appropriations for the Southwestern Power Administration to construct steamplants, the same result was obtained through these agreements with the REA financed G. & T.'s.

The use of steam generated capacity by the G. & T.'s financed with loans from the Rural Electrification Administration, was so successful in providing thermal capacity in the Southwestern Power area, it is being adopted in two major areas where the Bureau of Reclamation has the responsibility of marketing federally generated hydroelectric power; namely, the Missouri River Basin and the Upper Colorado River area.

THIRD LOAN CRITERION

Senator ELLENDER. Mr. Clapp, you have added a third criterion to make it possible for REA borrowers to get G. & T. loans. Why was this necessary?

Mr. CLAPP. Well, I think that in analyzing the purpose of the generation and transmission program one must recognize that its usefulness is in terms of supplying power where it is needed, where it is not otherwise available, in making it possible to secure lower cost power, and also as a means of protecting the security of the Government in these distribution systems that have been financed through REA loans by providing an independent source of power of their own to pave the way for the most efficient and effective operation of these distribution systems.

I think that it is quite apparent on reflection that there conceivably can be situations in which price alone does not necessarily determine what is the course for the best interests of the distribution system. We have involved here a question of the relationship between a wholesale power supplier and its wholesale customer; in this case, the rural electric cooperative. Where there are situations that bring the wholesale power supplier and its objectives into direct conflict with the interests of the distribution system which is the wholesale supplier's wholesale customer, where the wholesale supplier is actively and aggressively and, admittedly, going out and trying to serve that same territory at retail, this exposes the distribution system to a hazard. This is not only a hazard from the standpoint of its ability to perform the function it was built to perform but also a hazard to the security of the Government loan that built the system.

FINANCIAL STATUS OF ELECTRIC BORROWERS

Senator ELLENDER. Well, did you look into the profits made by the cooperatives? None of them have gone broke so far as I know.

I have a statement here which was prepared by the committee staff which indicates that during the 4-year period from December 31, 1957 to December 31, 1961, REA borrowers made gross additions to their utility plant totaling $837,826,152, and these additions were financed as follows:

1. From net increase in debt, both long term—gross borrowings minus debt payments—and current, $395,063,929.
2. From cashflow derived from depreciation and amortization, $333,800,493.
3. From profits derived from operations and from investments, $108,961,730.

USE OF EARNINGS

During this same period of time the REA borrowers had profits both from operations and investments aggregating $342,969,605. These earnings were used as follows:

1. To either pay debts both long term and current, or to acquire new plant additions, $108,961,730.
2. To make investments in associate organizations or other property and securities, $210,815,408.
3. To increase the amount of cash on hand, in banks, and other current assets, $18,505,687.

4. To prepay certain expenses, $4,686,780.

So it seems that these REA's are doing pretty well, doesn't it?

Mr. CLAPP. They are making substantial progress, Senator.

Senator ELLENDER. Why should you be worried about the Government not being paid back when they are doing so well? That is what I can't understand. That is why I asked the question?

LONG-TERM SECURITY OF THE BORROWERS

Mr. CLAPP. I think that we have to recognize that from the standpoint of long-term security of the Government loan and the security of the system itself, there must be provided power supply arrangements which enable the distribution system to develop the full potential of the territory that it has been built to serve.

This does not mean that these systems are being turned loose to invade other territory. We can't make loans to finance that kind of expansion. This simply means that they must be protected in their right to serve the territory that they have been built to serve.

Unless this is done, the inner strength that is necessary in these distribution borrowers will not be developed, and there will be just a perpetual need for some kind of special assistance, both in financing and in other forms, from here on out.

Now I think, Senator, that we have to make a choice. There are two ways of approaching this program. We can do it either way, but we can't do it both ways. We can attempt to build and protect the strength that the co-op systems can build for themselves in their territories by encouraging territorial protection, and by insisting on their right to serve all of the loads that develop in their territory.

HANDICAPS

At the present time the rural electric system suffers from some very substantial handicaps. For instance, there is the handicap of density. It is true that these co-ops are 15, 20, 25 years old now. It is true that they have built an enviable record in paying their bills to the Government. There are still some that are having trouble, but, by and large, they have done a remarkable job.

Senator ELLENDER. There is no doubt about that, and my information is that they are growing in fields that are far afield from what was originally intended, in my opinion.

FARMS SERVICED

I think the record shows that now about 96 percent of the farms of the Nation are serviced.

Senator HOLLAND. More than that.

Senator ELLENDER. How much is it now?

Mr. CLAPP. It is between 97 and 98 percent under the present census definition.

Senator ELLENDER. Well, 98 percent, and we are still going strong. But I go back to the proposition that in 1947 the Congress prevented the SPA from building steam generating plants on the ground that no authority existed. It is my considered judgment that many of the G. & T. loans you are making are permitting the SPA and other Federal marketing agencies to bypass the intent of Congress. Many

of the G. & T. loans that you are now making would not be feasible unless an agency of the Federal Government purchased the power. Am I not correct in that?

UPSHUR CASE

Mr. CLAPP. Senator, I want to say very emphatically——

Senator ELLENDER. Well, am I right or wrong?

Because I would like to revert to the answers you gave to written questions that were posed to you this past week. Take the Upshur case, for instance, in Texas. According to your office's response to the questions, you admit that except for the fact that SPA purchased this electricity, it could not be financed by the cooperative.

Mr. CLAPP. Well, Senator, let me say——

Senator ELLENDER. Is that correct or not?

Mr. CLAPP. The feasibility of the Upshur loan is partly dependent upon the arrangement with Southwestern Power Administration.

Senator ELLENDER. I think it is wholly dependent. A loan to build a plant having a 33,000 kilowatt-hour capacity has been approved while usage is presently about 11,000 kw. Except for the fact that SPA will buy the excess power generated—this loan would not be feasible.

Now how do you justify that under the law?

POOLING OF RESOURCES AND FACILITIES

Mr. CLAPP. Well, Senator, it is an established fact in the industry that the most effective and efficient use of electrical facilities comes about through the pooling of resources and facilities of various types in various ways in the integration of hydro with steam capacity, and the pooling of transmission facilities.

Now I certainly deny, Senator, that there is any intent to bypass the Congress with respect to——

Senator ELLENDER. Well, that is what you are trying to do, sir, and I again say it.

Now I would be the last man on earth to say that any cooperative that comes to you for a loan to build its own G. & T. should not have the loan granted. If it can show that it is being overcharged for power or that its need for power cannot be furnished from existing sources, I certainly wouldn't be opposed to that. But I draw the line when it can be shown that the justification for a G. & T. loan is dependent upon the purchase of the excess power generated by another Government agency. I believe it is immoral to construct subplants with 2-percent money under these circumstances.

POLICY OF PREFERENCE RIGHTS

Mr. CLAPP. Well, Senator, the Congress has established as a matter of policy the preference rights of nonprofit organizations such as these cooperatives to power generated and marketed through the SPA.

Senator ELLENDER. Yes, but let me say this to you: You are using 2-percent money through the REA, and the electricity that is being generated through these REA's, is being sold SPA to consumers that aren't entitled to it. It is only REA customers who should be entitled to it.

JUSTIFICATION FOR LOANS

Mr. CLAPP. These loans are justified entirely upon the need and the benefits that go to the beneficiaries of the Rural Electrification Act. Now it is true that through pooling and through the coordination of these facilities which we finance with both public and in many cases private facilities, it is possible for the beneficiaries of the Rural Electrification Act to get lower cost power, more efficient utilization of their facilities, and a greater benefit from the investment than if they were considered as isolated and kept as isolated systems serving entirely their own loads without the ability to interchange.

Senator ELLENDER. I know that. I realize that.

Mr. CLAPP. I understand this, Senator.

Senator ELLENDER. And I am familiar with that, but when through REA borrowers you accomplish indirectly what Congress directly denied to SPA in 1947, I believe this is wrong.

POSITION OF CONGRESS

Mr. Chairman, I ask that excerpts be put in the record to indicate that the Congress was against the utilization of the continuing fund for the purpose of purchasing electricity except in certain contracts of SPA where there was a moral obligation. But thereafter, as the record shows, Congress said it should not be done. Now we are going to get around congressional intent by using REA funds at 2 percent to build large G. & T. plants to provide power to the very Government agencies that have been denied the right to produce this power themselves. Many of the REA loans could not be justified otherwise.

Mr. CLAPP. This has a bearing, Senator——

Senator HOLLAND. Just a moment, please.

Do you have something else you wish to place in the record?

Senator ELLENDER. Yes, and I would also like to put in the record at this point, Mr. Chairman, a series of 12 questions that were propounded to the REA, at my request, by the staff of this committee covering loans made for G. & T.'s since January 1, 1961. I was promised that the answers would be made available this week. Perhaps I was a little late in submitting them, Mr. Chairman. I am not trying to blame anyone, but all of the loans have not been supplied. However, I do have the one on Upshur.

Senator HOLLAND. The questions and answers in those cases will also be placed in the record.

(The information referred to follows:)

Memorandum to: Senator Allen J. Ellender.
Subject: Continuing fund of SPA.

Section 5 of the 1944 Flood Control Act is the basic legislation under which the Interior Department markets surplus hydroelectric power from multiple-purpose projects constructed and operated by the Department of the Army. This section authorizes the Secretary to "construct or acquire only such transmission lines and related facilities as may be necessary * * * to make power and energy * * * available in wholesale quantities * * * on fair and reasonable terms and conditions to facilities owned by the Federal Government, public bodies, and privately owned companies." The language was approved by Congress after both the House of Representatives, on a voice vote, and the Senate Commerce Committee had refused to approve a recommendation by the executive branch granting the Secretary broad discretion in constructing transmission lines and other facilities to market power under the act.

The Southwestern Power Administration (SWPA) was designated as a power marketing agency of the Interior Department in 1943. In 1946, it requested an initial appropriation of $23 million as the first step in a comprehensive marketing plan under section 5 of the Flood Control Act estimated initially to cost more than $200 million. The plan envisioned construction of more than 15,000 miles of transmission lines and 250,000 kilowatts of Federal steam generation. Congress refused to approve this program appropriating only enough money to interconnect the three existing hydro projects in the area. The House Appropriations Committee stated that it could find no justification for steamplants at that time.

In 1947, the Texas Power & Light Co. entered into a power marketing contract with SWPA for delivery of Dennison Dam power to preference customers in its area, some of whom were located as far as 300 miles from the dam. This was accomplished by the construction of only a few miles of transmission lines in Texas by SWPA and without Federal steamplants.

During the next several years electric companies in the area attempted to negotiate power marketing arrangements with SWPA. In fiscal year 1950, after the House had approved some construction funds for SWPA, the Senate Appropriations Committee instructed SWPA to negotiate contracts with electric companies along principles of the Texas Power & Light Co. contract.

From the beginning of its program SWPA had a "continuing fund" of $100,000 made up of power revenues for taking care of emergency operational needs. The late Senator Robert Kerr sponsored an amendment in the Interior Department Appropriations Act for fiscal year 1950 to increase SWPA's continuing fund from $100,000 to $300,000 and to permit its use for purchasing power and renting facilities for the transmission and distribution of electric power and energy to public bodies, cooperatives and privately owned companies. Senator Kerr stated on the floor of the Senate on August 23, 1949, during debate on his amendment:

"The Senate committee has indicated that he (Douglas Wright, SWPA Administrator) may make contracts with utility companies similar to the Texas contract. The Administrator had said that it was his purpose to do that. If he does, he will be in the position of selling power on the one hand and buying it on the other hand. The sole purpose of the continuing fund is to enable him to do that; and the sole purpose of the clarifying amendment is to make this crystal clear."

QUESTIONS TO REA

1. Name of borrower:
2. City: State:
3. Date application received:
4. Date loan made:
5. Description of proposed transmission facilities, including any immediate or future plans to interconnect with other transmission systems. $————
6. Description of proposed generation facilities. Indicate if the proposed facilities are the initial or additional unit or units of a plant comprised of one or more units. $————
7. Does the borrower plan to lease any portion of the proposed transmission facilities (including wheeling agreements) to a nonmember (including Federal power marketing agencies)?

Give details.

8. Does the borrower plan to sell any of the power and energy from the proposed generation facilities to a nonmember (including Federal power marketing agencies)?

Give details.

9. Is the feasibility of the loan for the proposed transmission facilities dependent on nonmember (including Federal power marketing agencies) use of a portion of such facilities?
10. Is the feasibility of the loan for proposed generation facilities dependent on the sale of a portion of the power and energy to a nonmember (including Federal power marketing agencies)?
11. On what condition, as set out in REA Bulletin 20–6, May 31, 1961, is the loan based?
12. Is the borrower subject to the jurisdiction of a State utilities commission or comparable agency?

The requested information on generation and transmission loans since January 1, 1961, covers all loans made to power-type borrowers and all loans to distribution-type borrowers which provided for increased generation capacity.

1. Upshur Rural Electric Cooperative Corp.
2. Gilmer, Tex.
3. Application received: August 22, 1960. Revised application received. October 1, 1962.
4. Loan approved: February 14, 1963. Amount of loan: $9,170,000.
5. Facilities to be constructed include 190 miles of 138-kilovolt transmission line from SPA's Brown switching station in the vicinity of Brown, Okla., to the general vicinity of Broken Bow Dam, presently under construction, then south to Ore City, Tex. The cost of these facilities is estimated at $3,860,500. The borrower proposes to construct 65 miles of 69-kilovolt transmission line, at an estimated cost of $660,000, to serve various load centers of Upshur Rural Electric Cooperative Corp. and to provide service to Panola-Harrison Electric Cooperative, Inc., Marshall, Tex. The 138-kilovolt transmission line will be interconnected with SPA at the Brown switching station.
6. The borrower proposes to construct a single unit steam generating plant with a nameplate rating of 33,000 kilowatts. This will be the first unit in this plant. The estimated cost of the generating unit and all related facilities is $4,693,000.
7. The borrower will lease to SPA the entire 138-kilovolt line for a term of 40 years. SPA will make payments covering the annual cost of 120 miles of such line and will operate and maintain the entire line. Upshur retains the first right of use of this line for standby capacity from the SPA pool and for other act purposes.
8. The surplus power and energy not needed for the immediate needs of Upshur and Penola-Harrison will be sold to SPA with Upshur obtaining, in addition, maximum standby benefit and energy exchange arrangements with SPA.
9. The feasibility of this loan reflects and is in part dependent on this lease arrangement. Excess capacity not required by Upshur is available to SPA.
10. The feasibility of the loan for generation reflects and is in part dependent on the sale of excess capacity to SPA.
11. The loan was based on the second and third criteria set out in REA Bulletin 20–6 dated May 31, 1961. The capacity and character of the generation and transmission facilities provided under this loan were determined upon the basis of the power needs of this borrower.
12. The borrower is not subject to the jurisdiction of a State commission or comparable agency.
1. Name: Alabama Electric Cooperative, Inc.
2. City: Andalusia, Ala.
3. Date application received: October 26, 1959.
4. Date loan made: October 31, 1961. Amount of loan: $20,350,000 (Alabama 42H).
5. Amount of loan for transmission: $8,220,000 plus $650,000 available from prior loans.
Description:
(*a*) 277 miles; 115 kilovolts: To integrate a new source of hydropower from the Walter F. George project and the output from the new plant at Jackson, Ala., into the borrower's system at various points as listed: From Clio substation easterly to Walter George project of the Southeastern Power Administration, from Walter George project southwesterly to Bridges Creek substation, from Bridges Creek substation westerly to Opp substation, from Gantt plant westerly to Evergreen substation, from Evergreen substation westerly to Jackson Plant, from Jackson Plant southeasterly to Oak Grove substation.
(*b*) 442 miles; 46 kilovolts: To provide capacity and service to its member cooperatives' load centers. Principally in western portion of system around Jackson Plant and Oak Grove substation areas.
6. Amount of loan for generation: $12,130,000; 66,000-kilowatt initial steam generator unit in the new plant to be located near Jackson, Ala. The plant is to be coal fired.
7. Alabama Electric Cooperative does not plan to lease any portion of the transmission system to other parties, and has made no arrangements to wheel power for other parties.
8. The Alabama Electric Cooperative does not propose to sell any of the power and energy from the proposed generation facilities to a nonmember. Alabama Electric Cooperative does supply, from its integrated system, the power requirements of eight members which are not rural cooperatives. These are the municipal systems of Andalusia, Opp, Elba, Brundidge, Troy, and Luverne plus two in-

dustrial members, the Opp cotton mill and Micolas cotton mill. These members were supplied power by the Alabama Water Service Co. when Alabama Electric Cooperative acquired the properties of that system in 1944, as a means of bringing service to unserved rural people. Alabama Electric Cooperative has continued the acquired power supply responsibility.

9. The feasibility of the loan for the proposed transmission facilities is not dependent on nonmembers' use of these facilities.

10. Feasibility of the loan for generation facilities is not dependent on sales to nonmembers.

11. This loan was based on conditions B and C as set out in REA Bulletin 20–6, in that the facilities will result in lower cost power to the cooperatives and are necessary to protect the security and effectiveness of the rural systems. The capacity and character of the generation and transmission facilities provided under this loan were determined upon the basis of the power needs of the member systems.

12. Alabama Electric Cooperative is not subject to the jurisdiction of the Public Utilities Commission of the State of Alabama. However, the State department of finance does have jurisdiction over the cooperative's borrowing to finance facilities.

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1. Name: Arizona Electric Power Cooperative, Inc.
2. City: Benson, Ariz.
3. Date application received: April 13, 1961.
4. Date loan made: December 22, 1961. Amount: $19,840,000 (Arizona 28A Apache).
5. Amount of loan for transmission: $4,082,000.

Description:

(*a*) 28 miles; 115 kilovolts: From Benson to Cochise to interconnect with existing USBR system and to serve one of the distribution cooperative members.

(*b*) 62 miles; 115 kilovolts: From Cochise to Thatcher to serve a second distribution cooperative member.

(*c*) 2 miles; 69 kilovolts: From Thatcher to the system of a third distribution cooperative member. The fourth member cooperative, serving the rural areas north, west, and south of Tucson will receive its power supply by delivery over existing USBR 115-kilovolt facilities in the Tucson area.

(*d*) 85 miles; 115 kilovolts: From Benson to Hayden, Ariz., to interconnect with the system of the Salt River Project Agricultural Improvement and Power District to obtain standby power for the generating facilities from USBR by displacement through the system of the Salt River project. One 60-MVA, 115–69-kilovolt substation and one 25-MVA, 115-kilovolt phase-shifting transformer at Cochise. One 20-inch-MVA, 115–69-kilovolt substation at Thatcher. Transmission terminal facilities at Hayden.

Original plans were for locating the generating plant at Benson. Since the loan was made further explorations and tests show Cochise to be a better plant site primarily because it offers a more assured and lower cost water and fuel supply. The Cochise site also eliminates the need for the Benson to Cochise 115-kilovolt transmission line, thus reducing the cost of power to the member cooperatives. The Hayden line will extend from Cochise to Hayden and will be of almost the same mileage as from Benson to Hayden.

6. Amount of loan for generation: $15,758,000. Proposed generating facilities are initial facilities. They consist of a combined-cycle, 75,000-kilowatt steam, turbogenerator unit combined with a 10,000-kilowatt gas turbine unit and associated step-up transformers.

7. The borrower does not propose to lease any portion of the proposed transmission facilities. The USBR, however, can utilize temporary, excess capacity not required in the Cochise to Hayden transmission line as determined by the borrower in consideration of the standby and power exchange arrangements under its contract with USBR.

8. The borrower does not plan to sell power from the generating facilities to nonmembers. Temporary surplus capacity, not immediately needed by the member cooperatives, will be sold to the Salt River project, a member of the borrower, on a scheduled basis. Such surplus capacity can be recaptured by the borrower to meet needs of member cooperatives not presently anticipated. This arrangement will permit optimum utilization and the most economical

operation of the generating facilities and provide revenues to the borrower which will reduce the firm power costs to its cooperative members.

9. The feasibility of the loan for the Cochise-Hayden line was dependent in part on the use of this line by the USBR as it permitted working out standby arrangements for the generating plant with USBR. The capacity and character of this transmission facility were determined upon the basis of the power needs of the member cooperatives.

10. The feasibility of the loan was based in part upon the sale of surplus capacity to and the overall arrangements with the Salt River project which enabled the borrower to install efficient generating capacity to meet the members' load growth and assure more efficient operations of such a plant in the early years. The capacity and character of the generation facilities included in this loan were determined upon the basis of the power needs of the member cooperatives.

11. The loan was made based on condition B of REA Bulletin 20–6 dated May 31, 1961, where rates offered by alternate sources of power would result in a higher cost of power for the consumers than the cost from the facilities financed by REA.

12. The borrower is under the jurisdiction of the Arizona Corporation Commission.

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1. Name: Arkansas Electric Cooperative Corp.
2. City: North Little Rock, Ark.
3. Date application received: May 28, 1962.
4. Date loan made: October 19, 1962. Amount of loan: $22,573,000.
5. Amount of loan for transmission: $10,354,000 (plus $143,600 from prior loans).

Description:

(*a*) 36 miles; 161 kilovolts: Bulk transmission. 36 miles of 161-kilovolt line extending from the Augusta plant site northwest approximately 36 miles to connect with the SPA system at Greer's Ferry, Ark.

(*b*) 594 miles; 69 kilovolts: The major portion of the 594 miles of 69-kilovolt line will also be used primarily to deliver bulk power. These facilities radiate from the Augusta plant site in four directions forming the 69-kilovolt backbone facilities required to provide initial service to four member cooperatives. These facilities not only integrate the numerous load centers of the members but also provide for sources of power supply by interconnecting with existing facilities of SPA at several points. Facilities are also included to establish additional load centers required to meet the continuing load growth of two other member cooperatives.

6. Amount of loan for generation: $12,219,000 (plus $1,962,400 available from prior loans).

Location: Vicinity of Augusta, Ark.
Size: 100,000 kilowatt nameplate (single unit—new plant).
Type of generation: steam.
Fuel: Gas.

7. The borrower does not propose to lease any portion of the transmission facilities to a nonmember, including Federal power marketing agencies.

8. In order to obtain for the cooperatives the benefits of combining the output of the cooperative's steamplant with SPA hydro to which the cooperatives have statutory preference rights, there is a proposed arrangement under which (1) SPA agrees to supply standby for the cooperative's unit in return for the use in the SPA pool of 10-megawatt capacity of the cooperative's plant (net capability of plant is estimated at 110 megawatts); (2) SPA further agrees to supply at stipulated rates, the cooperative's requirements for not less than 10 years, and the cooperative agrees to supply at stipulated rates, into the SPA pool up to 100 megawatts and accompanying energy up to 50 percent plant factor. The capacity and character of the generation facilities provided under this loan were determined by the power needs of the member cooperatives.

9. The feasibility of the loan is not based upon the use of any of the transmission facilities by any nonmember, including Federal power marketing agencies, except in relation to the extent that SPA utilizes the 36-mile 161-kilovolt Augusta-Greer's ferry line pursuant to (8) above. The capacity and character of the transmission facilities provided under this loan were determined by the power needs of the member cooperatives.

10. The feasibility and economics of the loan for generation reflected are in part dependent upon the arrangements described in (8) above. The pooled arrangement for utilization of steam and hydro power supply, an approach which is in common use by all segments of the power supply industry, enables the borrower to meet the needs of its member systems in the most economical fashion possible by effecting savings through facility sharing.

11. The loan is based upon condition B of REA Bulletin 20–6—the rates offered by existing power sources would result in a higher cost of power for the consumers than the cost from facilities financed by REA.

12. The borrower is subject to the jurisdiction of the Public Service Commission of the State of Arkansas.

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1. Name: Kamo Electric Cooperative, Inc.
2. City: Vinita, Okla.
3. Date application received: February 6, 1962.
4. Date loan made: June 30, 1962. Amount of loan: $6,713,000.
5. The total amount of this loan, $6,713,000, plus $5,370,493 available from prior loans, is to be used to finance 52 miles of 161-kilovolt transmission lines and 438 miles of 69-kilovolt transmission lines plus substations and other related facilities to provide additional load centers and increased capacity to meet Kamo's member systems' load growth on the Oklahoma and Missouri systems. Funds are included in this loan to provide for interconnection with the system of Grand River Dam Authority at Catoosa and with the system of SPA at Table Rock.
6. There are no generation facilities included in this loan.
7. Kamo is a member of Associated Electric Cooperative and receives its power supply requirements for the Missouri system from Associated.

Under the Associated arrangement, Associated is granted use of the capacity of the Missouri system facilities for delivery of power to Kamo load centers and to other members of Associated, and for performance of applicable transmission service responsibility under Associated's contract with SPA, which is summarized in the statement on the loan to Associated (Missouri 73A).

A large portion of the Oklahoma system is operated by the Grand River Dam Authority which is an agency of the State of Oklahoma and which provides the power supply requirements for Kamo's Oklahoma system. That portion of the system is used to wheel power to Kamo's load centers. Where capacity is temporarily available over and above that required for delivery to Kamo's members, it may be used for wheeling to others. GRDA bears all the cost of the facilities used for these purposes. The character and capacity of facilities provided for by this loan have been determined by the needs of Kamo's member cooperatives.

8. No generation facilities are included in this loan.
9. The feasibility of this loan is based in part on the use of the facilities in Oklahoma by the Grand River Dam Authority, but is not dependent upon Associated's use of the capacity of the Missouri system facilities. The credit to Kamo by Associated for use of capacity from secondary or 69-kilovolt transmission facilities is stated amount for use of such capacity which, accordingly, will not be increased by the availability of capacity from the facilities provided by this loan.
10. No generation facilities are included in this loan.
11. Since these facilities will be used to deliver power and energy to members load centers under the Kamo power supply plan which has been determined as providing the lowest cost sources of power available, this loan is based on condition B of REA Bulletin 20–6, dated May 31, 1961, where rates offered by alternate sources of power would result in a higher cost of power for the consumers than the cost from the facilities financed by REA.
12. Kamo is not subject to the jurisdiction of the Missouri Public Service Commission, nor the Oklahoma Corporation Commission.

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1. Name: Colorado-Ute Electric Association, Inc.
2. City: Montrose, Colo.
3. Date application received: December 12, 1960.
4. Date loan made: March 15, 1961. Amount: $212,000 (Colorado 46E).
5. The E loan did not include any transmission facilities.
6. There are no funds for generation facilities included in this loan.

7. There are no funds for transmission facilities included in this loan.
8. There are no funds for generation facilities included in this loan.
9. There are no funds for transmission facilities included in this loan.
10. There are no funds for generation facilities included in this loan.
11. This loan was for headquarters facilities needed for improved efficiency and economy of operation, and does not include funds for generation or transmission facilities.
12. The Colorado-Ute Electric Association is subject to the jurisdiction of the Public Utilities Commission of Colorado.

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1. Name: Colorado-Ute Electric Association, Inc.
2. City: Montrose, Colo.
3. Date application received: June 2, 1961.
4. Date loan made: December 27, 1961. Amount of loan: $1,274,000 (Colorado 46F).
5. Amount of loan for transmission: $1,274,000.
Description of these facilities:
(*a*) 47 miles; 115 kilovolts: Line to extend from borrower's existing 115-kilovolt system near Collbran approximately 47 miles east and north to a point near Rifle where it will connect with existing 69-kilovolt facilities to be acquired from the White River Electric Association, Inc. (Colorado 40). Line required to integrate Colorado 40 system with power cooperative's in order to provide service to Colorado 40 as a member cooperative.
(*b*) 9 miles; 69-kilovolts: Extension from existing 69-kilovolt facilities near Meeker required to establish an additional load center near Wilson Creek for Colorado 40.
6. No funds for generation were included in this loan.
7. Colorado-Ute does not plan to lease any portion of these lines to nonmembers. The capacity and character of the transmission facilities provided under this loan were determined upon the basis of the power needs of the member cooperatives.
8. No funds for generation were included in this loan.
9. Feasibility of this loan is not dependent on nonmember use of the transmission lines.
10. No funds for generation included in this loan.
11. This loan was based on condition B of REA Bulletin 20–6 in that it results in a reduction in power cost to Colorado 40.
12. The borrower is under the jurisdiction of Public Utilities Commission of Colorado.

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1. Name: Colorado-Ute Electric Association, Inc.
2. City: Montrose, Colo.
3. Date application received: October 3, 1961. (Colorado 46G)
4. Date loan made: March 1, 1962. Amount: $15,602,000
This loan is to be supplemented by the transfer of $6 million from a previous REA loan made in 1960 to Arkansas-Valley G. & T. Inc., which had not been used.
5. Amount of loan for transmission: $5,712,000.
Description of these facilities:
(*a*) 80 miles; 138 kilovolts: Line to extend from plant site 75 miles south and connect with existing 115-kilovolt facilities near Rifle. Line to extend from vicinity of Steamboat Springs south approximately 5 miles to connect with Bureau of Reclamation system near Oak Creek.
(*b*) 45 miles; 115 kilovolts: Line to extend south approximately 45 miles to connect with Bureau at Shiprock, N. Mex., where it will be tied in with proposed Bureau 230-kilovolt CRSP line from Shiprock to Glen Canyon and Bureau CRSP 230-kilovolt line from Shiprock to Morrow Point.
(*c*) 55 miles; 69 kilovolts; 5 miles 46 kilovolts: Needed to integrate existing facilities and meet normal load growths of three member distribution cooperatives.
These transmission lines are to be interconnected with those of the U.S. Bureau of Reclamation and others as required to provide optimum use of all facilities to serve the member systems of Colorado-Ute.

(Subsequent to the making of the loan, the plant site originally considered at Craig was moved near Hayden to take advantage of a low-cost fuel source. This relocation results in a slight reduction in the transmission mileage and routing.)

6. Amount of loan for generation facilities: $9,890,000.

A coal-fired steam-generating plant of one 150 megawatt unit to be constructed in the vicinity of Hayden, Colo. This is the initial unit in this plant. Cost of this plant is estimated at $25,547,000, of which $15,890,000 will be financed by REA loan funds ($9,890,000 in funds from this loan and $6 million in REA loan funds transferred to Colorado-Ute from a previous $7,235,000 loan to Arkansas-Valley). Funds in the amount of $9,657,000 are furnished by the Salt River project agricultural improvement and power district.

7. The transmission facilities of Colorado provided for under this loan and previous loans will not be leased to others. Because of the joint transmission arrangement with the Bureau of Reclamation, the Bureau can use the surplus capacity in certain of Ute's facilities as determined by Ute as not required for service to its members. The capacity and character of the transmission facilities provided under this loan were determined upon the basis of the power needs of the member cooperatives.

8. Temporary surplus capacity from Ute's resources not immediately required for Ute's member cooperatives will be sold to Salt River. The character and the portion of the capacity of generation cost financed by REA were determined upon the basis of the power needs of the member cooperatives.

9. The feasibility of this loan for the proposed transmission facilities was determined in part by the use of the Bureau transmission facilities in exchange for the Bureau's use of the surplus capacity in Ute's transmission facilities.

10. The feasibility of the Ute generation loan is not dependent upon the sales of surplus capacity. However, this particular power supply arrangement could not have been accomplished except with the cooperation of the Salt River in joint financing and the assuring of optimum use of the generation facilities.

11. The Colorado-Ute G loan was made on condition B of the REA Bulletin 20–6 dated May 31, 1961, where rates offered by alternate sources of power would result in a higher cost of power for the consumers than the cost from the facilities financed by REA.

12. The Colorado-Ute Electric Association, Inc., is subject to jurisdiction of the Colorado Public Utilities Commission.

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1. Name: Hoosier Cooperative Energy, Inc.

2. City: Osgood, Ind.

3. The first formal application for a loan was submitted to REA on May 10, 1957. This application was returned without action due to changes in the proposed plan. A revised application was submitted on August 24, 1959. After further study by the borrower this application was again revised and resubmitted on April 14, 1960.

4. Date loan made: June 15, 1961. Amount: $60,225,000.

5. Amount of loan for transmission facilities: $28,361,000.

Description:

(*a*) 285 miles; 154 kilovolts: Plant location is in southwestern part of distribution members' total service area. Initial transmission system will include a 154-kilovolt loop with 154/69-kilovolt transmission substations at Franklin and Worthington in the northern part of the total service area.

(*b*) 1,267 miles; 69 kilovolts: 69-kilovolt system will be utilized to supply distribution load centers of members.

There are no transmission facilities included in the loan for interconnections with other electric systems.

6. Amount of loan for generation facilities: $31,864,000. These funds will be used to finance a new coal-fired steamplant consisting of three 66,000-kilowatt (nameplate) units. The plant will be located near Petersburg, Ind.

7. The borrower does not plan to lease any portion of the proposed transmission facilities.

8. The borrower plans to sell power and energy (load estimated at 2,000 kilowatts) from the proposed plant to a new mine which will supply coal to the proposed steamplant. The borrower reserves the right to disconnect the service to the mine at the time of system peak if this capacity is necessary to meet load requirements of its members. This is the only proposed sale of power to other than member cooperatives.

9. The feasibility of the proposed transmission facilities is not dependent on the use of the facilities by other than member cooperatives. All facilities necessary to serve the mine load, except metering equipment, will be furnished by the coal company. The capacity and character of the transmission facilities provided under this loan were determined upon the basis of the power needs of the member cooperatives.

10. The feasibility of the proposed generation facilities is not dependent on the sale of power and energy to other than member cooperatives. The capacity and character of the generation facilities provided under this loan were determined upon the basis of the power needs of the member cooperatives.

11. The loan to this borrower was made based on condition B of REA Bulletin 20–6 dated May 31, 1961, where rates offered by alternate sources of power would result in a higher cost of power for the consumers than the cost from facilities financed by REA.

12. At the request of the borrower and the Indiana Statewide REC, the loan was transferred to Indiana Statewide REC. This organization is subject to the jurisdiction of the Public Service Commission of Indiana.

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1. Name: L. & O. Power Cooperative.

2. City: Rock Rapids, Iowa.

3. Date application received: November 21, 1960. A modified application was received on June 21, 1961.

4. Date loan made: October 30, 1961. Amount of loan: $492,000.

5. The amount of loan for transmission: $492,000 plus $34,885 available from previous loans.

Description:

(*a*) 26 miles; 69 kilovolts: Line to extend from terminus of cooperative's existing 69-kilovolt system, near East Ocheyedan east and south 26 miles to Bureau of Reclamation substation at Spencer, Iowa. Line results in physical tie between Bureau's Sioux Falls, S. Dak., and Spencer, Iowa, substations.

(*b*) 8 miles; 69 kilovolts: Extension from existing 69-kilovolt system near West Pipestone 8 miles east to East Pipestone to establish additional load center as required to meet the load growth of one of the member cooperatives. Funds also provided to rebuild approximately 4.5 miles of 69-kilovolt line between Luverne and Pipestone.

6. The loan did not include any generation facilities.

7. L. & O. plans to wheel power and energy for the Bureau of Reclamation on a surplus capacity basis as determined by L. & O. over its transmission lines. This power and energy would be delivered to two small municipal systems which are preference customers of the Bureau. The capacity and character of the transmission facilities provided under this loan were determined upon the basis of the power needs of the member cooperatives.

8. L. & O. has no generation facilities.

9. The feasibility of L. & O.'s proposed transmission facilities is not dependent on their use by the Bureau to deliver power to its preference customers.

10. The loan did not include any generation facilities.

11. This loan was based on condition B of Bulletin 20–6, dated May 31, 1961, the rates offered by existing power sources would result in a higher cost of power for the consumers than the cost from facilities financed by REA.

12. L. & O. is not subject to the jurisdiction of a State utility commission or comparable agency.

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1. Name: City of Pella.

2. City: Pella, Iowa.

3. Date application received: March 8, 1960.

4. Date loan made: March 6, 1961. Amount of loan: $1,750,000 (represents partial financing of plant to provide for Rural Electrification Act beneficiary).

5. Amount of loan for transmission: None.

6. Amount of loan for generation: $1,750,000. For joint financing by the city of Pella and REA of one 12,650-kilowatts steam turbine generating unit and related facilities costing $2,450,000 to be added to the city's existing plant consisting of four smaller units totaling approximately 7,250 kilowatts.

7. There are no transmission facilities included in this loan.

8. REA financing of the proposed generating facilities was limited to 69.31 percent of the total cost but not to exceed $1,750,000. This was based upon and

determined by the estimated use of the city's plant for service and related benefits to the Pella Cooperative Electric Association, a REA borrower (Iowa 40 Marion).

9. There are no transmission facilities included in this loan.

10. Feasibility of the loan was determined on the basis of the city of Pella's ability to repay it. The city may schedule the use of the generating facilities as it sees fit, but has the obligation to supply the energy requirements of the distribution cooperative up to the capacity of the generating facilities provided for in this loan.

11. The loan was made on the basis of condition B of REA Bulletin 20–6 dated May 31, 1961, where alternate arrangements for power would result in a higher cost of power for the consumers of the distribution cooperative than the cost from the facilities partially financed by REA. The capacity and character of the generation facility provided under this loan were determined upon the basis of the power needs of Pella Cooperative Electric Association.

12. The State of Iowa does not have a public utilities commission or comparable agency.

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1. Name: Big Rivers Rural Electric Cooperative Corp.

2. City: Owensboro, Ky.

3. Date application received: Initial application received April 18, 1962. Amended application received May 21, 1962.

4. Date loan made: July 6, 1962. Amount of loan: $18 million.

5. Amount of loan for transmission: $4,840,000.

Description:

(*a*) 61 miles; 161 kilovolts: From the generating plant near Sebree, Ky., extending southwest and interconnecting with the Southeastern Power Administration at Barkley Dam. The cooperative will contract with SEPA for firm standby capacity.

(*b*) 221 miles; 69 kilovolts: Basic system extends in four directions from Sebree plant site and from the Barkley Dam to integrate the load centers of two member systems.

6. Amount of loan for generation: $13,160,000. This is for an initial single unit coal-burning steam-generating plant of 66,000-kilowatts nameplate capacity to be located near Sebree, Ky.

7. The borrower does not plan to lease any portion of the proposed transmission facilities to nonmembers including Federal power marketing agencies.

8. The borrower does not plan to sell any of the power and energy from the proposed generation facilities to nonmembers including Federal power marketing agencies.

9. The feasibility of the loan for the proposed transmission facilities is not dependent on nonmembers including Federal power marketing agencies. The capacity and character of the transmission facilities provided under this loan were determined upon the basis of the power needs of the member cooperatives.

10. The feasibility of the loan for proposed generation facilities is not dependent on the sale of a portion of the power and energy to nonmembers including Federal power marketing agencies. The capacity and character of the generation facilities provided under this loan were determined upon the basis of the power needs of the member cooperatives.

11. The loan is based upon condition B of REA Bulletin 20–6—the rates offered by existing power sources would result in a higher cost of power for the consumers than the cost from facilities financed by REA.

12. The borrower is subject to the jurisdiction of the Kentucky Public Service Commission.

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1. Name: Wolverine Electric Cooperative.

2. City: Big Rapids, Mich.

3. Date application received: May 29, 1961.

4. Date loan made: December 29, 1961. Amount: $1,486,000.

5. Amount of loan for transmission: $1,486,000 plus $938,700 available from prior loans.

Description:

(*a*) 118 miles; 69 kilovolts: Includes facilities to provide for loop service and to interconnect with city of Grand Haven. Facilities to extend from Burnips northwesterly approximately 37 miles to Grand Haven. Northeasterly 24 miles from Grand Haven to Casnovia. From Casnovia 23 miles north to White Cloud. From Casnovia approximately 34 miles northwest to Rogers.

(*b*) 31 miles; 69 kilovolts: 31 miles of short extensions from existing system required to establish new load centers to meet land growth of member cooperatives. The cooperative has entered into a pooling arrangement with the city of Grand Haven, Mich., and will defer installing additional generation through purchase of surplus capacity from Grand Haven. The pooling arrangement also provides advantages from load diversity, reduction in standby capacity, and interchange of economy and emergency power and energy. Future plans anticipate additional interconnections with other REA borrowers and possibly other municipal plants thus enlarging the power pool and increasing the benefits.

6. There are no generation facilities included in the loan.

7. The borrower does not plan to lease any portion of the proposed transmission facilities to nonmembers, including Federal power marketing agencies.

8. No generation facilities are included in this loan.

9. The feasibility of the loan for proposed transmission facilities is not dependent on nonmember use of the facilities. The capacity and character of the transmission facilities provided under this loan are determined upon the basis of the power needs of the member cooperatives.

10. No generation facilities are included in this loan.

11. The loan is based upon condition B of REA Bulletin 20–6—the rates offered by existing power sources would result in a higher cost of power for the consumers than the cost from facilities financed by REA.

12. There has been no assumption of jurisdiction by the Michigan Public Service Commission or comparable agency.

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1. Name: Wolverine Electric Cooperative.
2. City: Big Rapids, Mich.
3. Date application received: January 22, 1962.
4. Date loan made: June 11, 1962. Amount of loan: $457,000 (Michigan 46–D).

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1. Name Northern Michigan Electric Cooperative, Inc.
2. City: Boyne City, Mich.
3. Date application received: January 22, 1962.
4. Date loan made: June 11, 1962. Amount of loan: $474,000 (Michigan 47–E).
5. (*a*) Wolverine: Amount loaned for transmission, $457,000.

23 miles; 138 kilovolts: From Leroy Junction extending northeast to a point midway in Missaukee County where it will connect with facilities to be constructed by the Northern Michigan Electric Cooperative with loan funds provided simultaneously with this loan.

(*b*) Northern Michigan: Amount loaned for transmisison, $474,000.

27 miles; 138 kilovolts: From South Boardman southwest to a point midway in Missaukee County where it will connect with facilities to be constructed by the Wolverine Electric Cooperative with loan funds provided simultaneously with this loan.

This transmission interconnection was for the purpose of extending the advantages of pooled operations and more efficient use of existing and potential generating units of both systems, reduction of total capacity required and advantages of substantial diversity resulting in a lower cost of power to the member cooperatives.

6. There are no generation facilities included in the loan.

7. The borrowers do not plan to lease any portion of the proposed transmission facilities to nonmembers including Federal power marketing agencies. The capacity and character of the transmission facilities provided under this loan were determined upon the basis of the power needs of the member cooperatives.

8. No generation facilities are included in this loan.

9. The feasibility of the loan for proposed transmission facilities is not dependent on nonmembers including Federal power marketing agencies.

10. No generation facilities are included in this loan.

11. The loan is based upon condition B of REA Bulletin 20–6—the rates offered by existing power sources would result in a higher cost of power for the consumers than the cost from facilities financed by REA.

12. There has been no assumption of jurisdiction by the Michigan Public Service Commission or comparable agency.

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1. Name: Sho-Me-Power Corp.

2. City: Marshfield, Mo.

3. Date application received: May 1, 1962.

4. Date loan made: June 30, 1962. Amount of loan: $2,195,000 (Missouri 59–K).

5. The total amount of this loan is for transmission facilities. The major item is a 35-mile 161-kilovolt transmission line from Maries to Cuba with a 161–69-kilovolt stepdown substation at Cuba and a similar substation at Lebanon, Mo.

6. There are no generation facilities included in this loan.

7. Sho-Me is a member of Associated Electric Cooperative, and receives the bulk of its power supply requirements from Associated. Associated is granted full use of the capacity of the facilities provided by this loan and this capacity will become a part of the integrated transmission capacity available to Associated under its arrangements with its member federated cooperatives. Sho-Me will be credited on its power bills for the operating and fixed costs related to these facilities. The capacity and character of these facilities, and the inclusion of their capacity in integrated transmission arrangements of Associated with SPA and the companies, were determined by the overall needs of the member federated cooperatives of Associated. This capacity will be used by Associated in carrying out its transmission service responsibilities under its arrangement with SPA which is summarized in the statement on the loan to Associated Electric Cooperative, Inc. (Missouri 73–A.) For the performance of these transmission services through the capacity of the facilities provided by this loan, SPA is to allow Associated a credit of $169,200 per year against power deliveries by SPA from the date these facilities are placed in service.

8. No generation facilities are included in this loan.

9. The feasibility of this loan reflects and is in part based on the use of the capacity of the affected facilities in Associated's overall power supply plan for its member systems, which includes the integration arrangements with the companies and SPA.

10. No generation facilities are included in this loan.

11. Since these facilities are required by the Associated power supply plan which has been determined to provide the lowest cost source of power supply available, the loan is based on condition B of REA Bulletin 20–6, dated May 31, 1961, where rates offered by alternate sources of power would result in a higher cost of power for the consumers than the cost from the facilities financed by REA.

12. Sho-Me Power Corp. is subject to the jurisdiction of the Missouri Public Service Commission.

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1. Name: Sho-Me Power Corp.

2. City: Marshfield, Mo.

3. Date application received: June 29, 1962.

4. Date loan made: November 23, 1962. Amount of loan: $5,241,000 (included $648,000 on distribution facilities) (Missouri 59–L).

5. Amount of loan for transmission: $4,593,500. These funds are to be used to finance construction of 117.5 miles of 69-kilovolt transmission line extensions and related substation facilities for new load centers on member systems.

6. No generation facilities are included in this loan.

7. Sho-Me is a member of Associated Electric Cooperative and receives the bulk of its power supply requirements from Associated. Under the Associated arrangement, Associated is granted use of the capacity of these facilities for delivery of power to Sho-Me load centers and the other members of Associated, and for performance of applicable transmission service responsibility under Associated's contract with SPA, which is summarized in the statement on the loan to Associated (Missouri 73–A). The character and capacity of the facilities provided for by this loan have been determined by the needs of Sho-Me's member cooperatives.

8. No generation facilities are included in this loan.

9. The feasibility of this loan is not dependent on Associated's use of the capacity of these facilities. The credit to Sho-Me by Associated for use of capacity from secondary or 69-kilovolt transmission facilities is a stated amount for use of such capacity, which accordingly will not be increased by the availability of capacity from the facilities provided for by this loan.

10. No generation facilities are included in this loan.

11. Since these extensions will deliver power and energy to member load centers under the Associated power supply plan, which has been determined as being the lowest cost source of power available, this loan is based on condition B of REA Bulletin 20–6, dated May 31, 1961, where rates offered by alternate sources of power would result in a higher cost of power for the consumers than the cost from the facilities financed by REA.

12. Sho-Me is subject to the jurisdiction of the Missouri Public Service Commission.

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1. Name: M. & A. Electric Power Cooperative.

2. City: Poplar Bluff, Mo.

3. Date application received: May 1, 1962.

4. Date loan made: June 30, 1962. Amount of loan: $1,700,000 (Missouri 60H).

5. Amount of loan for transmission: $1,700,000.

The major item is a 32-mile, 161-kilovolt transmission line from the SPA Idalia substation to Cape Girardeau, Mo., where facilities will be provided to interconnect with Union Electric Co. and to provide a 161-kilovolt to 69-kilovolt substation at Cape Girardeau to meet the load requirements of M. & A. member cooperatives in this area.

Since this loan was made, negotiations with Union Electric Co. and Missouri Utilities have resulted in a change of plan for these facilities to provide equivalent benefits at lower cost. The new arrangement provides for Associated and its member M. & A. to lease capacity from Missouri Utilities in a transmission line being rebuilt by Missouri Utilities to provide the needed capacity for the interconnection with Union Electric. M. & A. and Associated now propose to build a more desirable extension of the 161-kilovolt system by a line from Idalia to Clubb, and to construct the 161-kilovolt to 69-kilovolt substation at Clubb to meet the requirements of M. & A. members in that area. REA has approved an amendment to the Associated-SPA contract to provide for this change.

6. Amount of loan for generation: No funds for generation were included in this loan.

7. M. & A. is a member of Associated Electric Cooperative, and receives the bulk of its power supply requirements from Associated. Associated is granted full use of the capacity of the facilities provided by this loan and this capacity will become a part of the integrated transmission capacity available to Associated under its arrangements with its member federated cooperatives. M. & A. will be credited on its power bills for the operating and fixing costs related to these facilities. The capacity and character of these facilities, and the inclusion of their capacity in integrated transmission arrangements of Associated with SPA and the companies, were determined by the overall needs of the member federated cooperatives of Associated. This capacity will be used by Associated in carrying out its transmission service responsibilities under its arrangement with SPA which is summarized in the statement on the loan to Associated Electric Cooperative, Inc. (Missouri 73A). For the performance of these transmission services through the capacity of the facilities provided by this loan, as revised, SPA is to allow Associated a credit of $43,500 per year against power deliveries by SPA to Associated from the date the Idalia interconnection is completed. Upon energization of the Idalia-Clubb line and Clubb substation these credits will be increased by $46,200 per year and upon completion of the second stage of Clubb substation operation, this credit will be further increased by $23,100 per year.

8. No generation facilities were included in this loan.

9. The feasibility of this loan reflects and is in part based on the use of the capacity of the affected facilities in Associated's overall power supply plan for its member systems, which includes the integration arrangements with the companies and SPA.

10. No generation facilities are included in this loan.

11. Since these facilities are required by the Associated power supply plan which has been determined to provide the lowest cost source of power supply available, the loan is based on condition B of REA Bulletin 20–6, dated May 31, 1961, where rates offered by alternate sources of power would result in a higher cost of power for the consumers than the cost from the facilities financed by REA.

12. M. & A. Electric Power Cooperative is not subject to the jurisdiction of the Missouri Public Service Commission.

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1. Name: Central Electric Power Cooperative.
2. City: Jefferson City, Mo.
3. Date application received: May 2, 1962.
4. Date loan made: June 30, 1962. Amount of loan: $1,900,000 (Missouri 71G Moniteau).
5. The total amount of this loan is for transmission facilities. The major item is a 40-mile, 161-kilovolt transmission connecting with the system of Missouri Public Service Co. at Sedalia and with Kansas City Power & Light Co. at Norton under the plan of the integrated system of Associated Electric Cooperative, and a 161-kilovolt to 69-kilovolt substation at Salisbury.
6. There are no generation facilities included in this loan.
7. Central is a member of Associated Electric Cooperative, and receives the bulk of its power supply requirements from Associated. Associated is granted full use of the capacity of the facilities provided by this loan and this capacity will become a part of the integrated transmission capacity available to Associated under its arrangement with its member federated cooperatives. Central will be credited on its power bills for the operating and fixed costs related to these facilities. The capacity and character of these facilities, and the inclusions of their capacity in the integrated transmission arrangements with SPA and the companies, were determined by the overall needs of the member federated cooperatives of Associated. This capacity will be used by Associated in carrying out its transmission service responsibilities under its arrangement with SPA which is summarized in the statement on the loan to Associated Electric Cooperative, Inc. (Missouri 73A). For the performance of these transmission services through the capacity of the facilities provided by this loan, SPA is to allow Associated a credit of $139,200 per year against power deliveries by SPA from the date these facilities are placed in service.
8. No generation facilities are included in this loan.
9. The feasibility of this loan reflects and is in part based on the use of the capacity of the affected facilities in Associated's overall power supply plan for its member systems, which includes the integration arrangements with the companies and SPA.
10. No generation facilities are included in this loan.
11. Since these facilities are required by the Associated power supply plan which has been determined to provide the lowest cost source of power supply available, the loan is based on condition B of REA Bulletin 20–6, dated May 31, 1961, where rates offered by alternate sources of power would result in a higher cost of power for the consumers than the cost from the facilities financed by REA.
12. Central Electric Power Cooperative is not subject to the jurisdiction of the Missouri Public Service Commission.

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1. Name: N.W. Electric Power Cooperative, Inc.
2. City: Cameron, Mo.
3. Date application received: May 2, 1962.
4. Date loan approved: June 30, 1962. Amount: $1,621,000 (Missouri 72F).
5. Amount of loan for transmission: $1,621,000. The major item is a 38-mile, 161-kilovolt transmission line from Fairport to Maryville with a stepdown substation at Maryville to provide service to N.W.'s member systems. At Maryville this line will interconnect with 161-kilovolt facilities of St. Joseph Light & Power Co. which are leased to Kansas City Power & Light Co. Also included are funds to provide for additions to existing substations at Fairport and Missouri City.
6. Amount of loan for generation: None.

7. N.W. is a member of Associated Electric Cooperative, and receives the bulk of its power supply requirements from Associated. Associated is granted full use of the capacity of the facilities provided by this loan and this capacity will become a part of the integrated transmission capacity available to Associated under its arrangements with its member federated cooperatives. N.W. will be credited on its power bills for the operating and fixed costs related to these facilities. The capacity and character of these facilities, and the inclusion of their capacity in integrated transmission arrangements of Associated with SPA and the companies, were determined by the overall needs of the member federated cooperatives of Associated. This capacity will be used by Associated in carrying out its transmission service responsibilities under its arrangement with SPA which is summarized in the statement on the loan to Associated Electric Cooperative, Inc. (Missouri 73A). For the performance of these transmission services through the capacity of the facilities provided by this loan, SPA is to allow Associated a credit of $163,200 per year against power deliveries by SPA from the date these facilities are placed in service.

8. No generation facilities are included in this loan.

9. The feasibility of this loan reflects and is in part based on the use of the capacity of the affected facilities in Associated's overall power supply plan for its member systems, which includes the integration arrangements with the companies and SPA.

10. No generation facilities are included in this loan.

11. Since these facilities are required by the Associated power supply plan which has been determined to provide the lowest cost source of power supply available, the loan is based on condition B of REA Bulletin 20–6, dated May 31, 1961, where rates offered by alternate sources of power would result in higher cost of power for the consumers than the cost from the facilities financed by REA.

12. Northwest Electric Power Cooperative is not subject to the jurisdiction of the Missouri Public Service Commission.

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1. Name: Associated Electric Cooperative, Inc.

2. City: Springfield, Mo.

3. Date application received: May 2, 1962.

4. Date loan approved: June 30, 1962. Amount: $250,000 to provide for communications, dispatching, and headquarters facilities. (Mo. 73A).

5. There are no transmission facilities provided for in this loan. However, we should like to discuss the transmission arrangements of Associated. Associated Electric Cooperative is an organization consisting of six federated cooperatives operating in the State of Missouri. These are: KAMO Electric Cooperative, Sho-Me Power Cooperative, Northeast Electric Power Cooperative, M. & A. Electric Power Cooperative, Central Electric Power Cooperative, and Northwest Electric Power Cooperative.

Under Associated's arrangements with the federated members, Associated is granted full use of the capacity of the existing and future 161-kilovolt transmission facilities of the federated members. These facilities make up the Associated primary transmission facilities, and Associated credits the federated members with all fixed and operating costs of these facilities against the cost of power delivered by Associated to the federated members. The capacity of these facilities is used by Associated for delivery of power to the federated members, which involves the carrying out by Associated of its transmission responsibilities under its contracts with the companies and Southwestern Power Administration. The companies are: Kansas City Power & Light Co., Missouri Public Service Co., and the Empire District Electric Co.

Under the Associated companies contract, Associated makes use of the primary transmission system to perform its interconnection and interchange functions set forth in this agreement. Associated also provides transmission services under its contracts with SPA, which include the delivery of SPA power to Associated, and to the extent of incidental surplus capacity, the deliveries of SPA power to the Companies (which will be used in the power pooling arrangement with Associated), up to 29,000 kilowatts to certain other specified customers of SPA, and the absorption of losses in transmission of SPA power. For the performance of these services, SPA credits Associated with a stated amount against power deliveries from SPA to Associated. Associated is also granted the use of the federated members' secondary or 69-kilovolt transmission capacity

for the purposes of delivering power to the load centers of the federated members, and to perform certain specified transmission services for SPA through incidental surplus capacity in these facilities.

6. There are no generation facilities provided by this loan. However, Associated is granted the entire capacity of the federated members' thermal generating plants, and will schedule the output of the members' plants.

In connection with its power pooling arrangement with the companies, Associated undertakes to use its thermal capacity at certain times to its full extent to meet its members' load requirements. The only nonmember supply contemplated is to SPA of offpeak supplemental energy to be delivered to certain specifid customers of SPA. SPA credits this supplemental energy delivered by Associated against deliveries of power by SPA to Associated at specified rate, subject to adjustment for fuel costs. Associated will provide standby for its own loads with regard to SPA power. The companies also furnish some standby services to Associated.

7. The transmission services to be performed by Associated under its arrangement with SPA are summarized in item 5 above.

8. The borrower plans to deliver offpeak supplemental energy to SPA as indicated in item 6 above.

9. The feasibility for this loan reflects and is in part based upon the overall power supply plan of Associated, including its integration arrangements with the companies and SPA.

In common with the general pattern of integration arrangements in the utility industry, each party to these arrangements, by integrating its resources, derives the benefits of reduced investment in, and maximum utilization of, its facilities. Associated's benefits are commensurate with those of the other parties. The capacity and character of these transmission facilities and the inclusion of their capacity in the integration arrangements were determined by the needs of Associated's federated members.

10. While power cost studies relating to this loan reflected the supply of offpeak supplemental energy to SPA as outlined, its effect on feasibility was found to be insignificant.

11. Since the Associated's power supply plan has been determined the lowest cost source of power available to the federated members of Associated, this loan is based on condition B of REA Bulletin 20–6, dated May 31, 1961, where the rates offered by existing power sources would result in a higher cost of power for the consumers than the cost from facilities financed by REA.

12. Associated Electric Cooperative is not subject to the jurisdiction of the Missouri Public Service Commission.

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1. Name: Plains Electric Generation & Transmission Cooperative, Inc.

2. City: Albuquerque, N. Mex.

3. Date application received: January 31, 1961.

4. Date loan approved: February 28, 1961. Amount of loan: $1,500,000.

5. Amount of loan for transmission: $1,400,000. Facilities to be constructed consist of approximately 70 miles of 115-kilovolt line extending from the Algodones plant site to the vicinity of Cuba, N. Mex., via the vicinity of San Ysidro, N. Mex. Funds also included for 115/69 kilovolt substations at San Ysidro and La Jara. Facilities are required to adequately meet and are based on the present and anticipated load growth of two of the member cooperatives. Plans do not call for interconnecting the Algodones to Cuba line with other suppliers.

6. Amount of loan for generation: $100,000. These funds are to be used to make necessary changes in the substation and switching facilities of the Algodones generating plant required for connection of the Algodones to Cuba line.

7. The borrower does not plan to lease any portion of the transmission facilities to a nonmember, including Federal power marketing agencies.

8. There is no proposed generating capacity involved in this loan.

9. The feasibility of the loan for the proposed transmission facilities is not based on nonmember use of the facilities, including Federal power marketing agencies.

10. The feasibility of the loan for the substation and switching facilities at the Algodones generating plant is not based on nonmember use of the facilities including Federal power marketing agencies.

11. The loan was based on condition A of REA Bulletin 20–6, dated May 31, 1961, where no adequate and dependable source of power is available to meet the consumers' needs.

12. At the time the loan was approved, this borrower was not under the jurisdiction of the New Mexico Public Service Commission. Since that time, New Mexico has enacted a statute which purports to give the Commission jurisdiction over cooperatives.

1. Name: Central Power Electric Cooperative.
2. City: Minot, N. Dak.
3. Date application received: November 3, 1960.
4. Date loan made: June 29, 1961. Amount of loan: $1,009,000.
5. Amount of loan for transmission: $799,500.

Description:

(*a*) 25 miles; 115 kilovolts: Provides for adequate capacity to serve the borrowers' loads by interconnecting with the Bureau lines at Towner, extending north-northwest to Gardena, N. Dak., where a connection is made with the Ottertail Power Co. lines to serve substations of North Dakota; 22 in the area.

6. Amount of loan for generation: $209,500. No additional capacity. Loan funds provide for minor generating plant modifications.

7. Central does not lease its transmission facilities. It does, however, have an agreement with the Ottertail Power Co., whereby Central exchanges transmission capacity in its line for capacity in Ottertail's lines. Central and Ottertail charge each other for the use of transmission facilities.

8. The loan does not include additional generating capacity. Central does, however, operate its generation in an interconnected arrangement with Ottertail, Northern States Power Co. and the Bureau of Reclamation. Under these arrangements, the four power suppliers provide emergency service and from time to time buy, sell, and exchange energy for mutual benefit.

9. The feasibility of the loan for transmission facilities reflects and is in part based on the mutual arrangements between Central and Ottertail which provide for Ottertail's use of the facilities in exchange for Central's use of other transmission facilities of Ottertail. The capacity and character of the transmission facilities provided under this loan were determined upon the basis of the power needs of the member cooperatives.

10. No additional generation capacity is included in the loan. The exchange of mutual services mentioned under Item 8 does not affect feasibility of the generation portion of the loan.

11. The loan to Central is based on conditions A and B of Bulletin 20–6, dated May 31, 1961. Additional transmission capacity was required in the area and the facilities and arrangements with Ottertail are the best and most economical solution for Central.

12. Central is not subject to the jurisdiction of a State Utility Commission or comparable agency.

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1. Name: Basin Electric Power Cooperative.
2. City: Bismarck, N. Dak.
3. Date application received: Initial application received July 5, 1961. Amended application received December 14, 1961.
4. Date loan made: May 8, 1962. Amount of loan: $36,600,000.
5. Amount loaned for transmission: $1,143,000.

Description:

(*a*) 15 miles; 230 kilovolts: From the proposed generating plant near Garrison, N. Dak., extending northward to interconnect with the Bureau of Reclamation transmission facilities near Garrison Dam.

Basin Electric Power Cooperative was created to meet the deficit power needs of its members in the upper Missouri River Basin area. All of the REA borrowers in the USBR Eastern Division's marketing area receive power directly or indirectly from the Bureau. The Bureau had informed the co-ops that it was not in a position to supply the REA borrowers' increased requirements for firm power after 1965. The facilities provided by this loan and accompanying agreements are intended to take advantage of the available capacity in the existing Bureau transmission system in the seven States. It is effected through the Missouri Basin systems group pooling agreement involving Basin members, other users and the USBR to obtain the most economic and beneficial use of

generation and transmission facilities of all participating systems. As with all participants who will use the Bureau's transmission system for delivery of thermal power, Basin has entered into a contract with the Bureau for use of joint transmission system and mutual services. This contract gives Basin the right to use certain capacity in the joint system, a commitment for standby power and energy for emergencies and scheduled outages, and the pooling of reserves for its 200,000-kilowatt unit. Basin agrees to pay an "at cost" price for the use of the joint transmission system and agrees to sell to the Bureau surplus energy (that energy not used by Basin's members when the plant is fully loaded with load factor power) during the winter months. The output of the Basin generating unit will be delivered to the Bureau of Reclamation's transmission system at the Garrison interconnection.

6. Amount of loan for generation: $35,457,000. This is for an initial single-unit lignite coal-burning steam-generating plant with 200,000-kilowatt nameplate capacity to be located near Stanton, N. Dak.

7. The borrower does not plan to lease any portion of the proposed transmission facilities, including wheeling agreements, to nonmembers including Federal power marketing agencies. It is possible, however, that the 15-mile section of transmission line will be incorporated into the joint transmission system in the future.

8. The borrower plans to sell surplus energy from the proposed generating facilities to the Bureau of Reclamation and to nonmembers. (For details see Item No. 5).

9. The feasibility of the loan for the proposed transmission facilities is not dependent on nonmembers' (including Federal power marketing agencies') use of a portion of the transmission.

10. The feasibility and economic advantages of the loan for proposed generation facilities reflect and are in part based on the overall pooling arrangements which included the provisions for the sale of surplus energy to nonmembers including the Bureau of Reclamation as described above.

11. The loan is based upon Condition A of REA Bulletin 20–6 where no adequate and dependable source of power is available to meet the consumers' needs.

12. The borrower is not subject to the jurisdiction of a State utilities commission or comparable agency.

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1. Name: Western Farmers Electric Cooperative.
2. City: Anadarko, Okla.
3. Date application received: February 28, 1961.
4. Date loan made: April 13, 1961. Amount of loan: $7,600,000 (Oklahoma 32M).
5. Amount of loan for transmission: $7,600,000.

Description:

(*a*) Two 138-kilovolt substations: Interconnection with SPA at Tupelo, Okla., and additional capacity at Snyder, Okla.

(*b*) 271 miles; 69 kilovolts: Includes 65 miles of line connecting to the SPA system near Tupelo and extending west to connect with borrower's existing 69-kilovolt system at Elmore City, Okla. Line required to provide direct feed to southeastern portion of borrower's system to relieve heavy loading conditions in that area. Includes 78 miles of line to integrate load centers of Southwest Rural Electric Association, Inc., with cooperative's system in the vicinity of Electra, Lockett, Fargo, and Guyer, Tex. Includes approximately 28 miles of line extending from the Woodward, Okla. generating plant east and north to Freedom, Okla., thus providing loop service in the north-central portion of the cooperative's service area. Balance of 69 kilovolt line is needed for member service extensions from existing facilities required to meet the load growth of the member cooperatives and serve two new substations on Oklahoma 6.

6. Amount of loan for generation: None.

7. Western has a transmission service arrangement with SPA which, when modified in accordance with a letter of understanding dated May 1, 1962, will provide for performance of transmission service by Western over its entire system, including the transmission facilities provided for under this loan. This service will include transmission of power and energy purchased by Western from SPA, and, to the extent of available capacity, surplus to Western's needs,

transmission of power and energy to other customers of SPA. As consideration for this service, Western will receive a stated amount annually.

8. No funds for generation facilities are included in this loan.

9. The feasibility of the loan for the proposed transmission facilities reflects and is in part based on the arrangements described. The capacity and character of the transmission facilities provided under this loan were determined upon the basis of the power needs of the member cooperatives.

10. No funds for generation facilities are included in this loan.

11. The loan is based upon condition (B) of REA Bulletin 20–6 where the rates offered by existing power sources would result in a higher cost of power for the consumers than the cost from facilities financed by REA.

12. The borrower is not subject to the jurisdiction of a State utilities commission or a comparable agency.

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1. Name: Western Farmers Electric Cooperative.
2. City: Anadarko, Okla.
3. Date application received: October 16, 1961.
4. Date loan made: January 16, 1962. Amount of loan: $9,446,000.
5. Amount of loan for transmission: $1,374,000 plus $1,861,600 available from previous loans.

Description:

(a) 103 miles; 138 kilovolts: Bulk transmission line to extend from plant site at Fort Supply, Okla., south and east approximately 60 miles to connect with cooperative's existing 69-kilovolt system at Taloga, Okla. Line required to move power from new plant to central distribution point. Bulk transmission line to extend from Snyder, Okla., southeast approximately 43 miles to connect with 138-kilovolt facilities of Brazos Electric Power Cooperative, Inc., Waco, Tex. Line will enable the two cooperatives to combine standby reserves and exchange economy energy. Line will also be utilized under proposed interchange arrangements with SPA. Substation facilities are provided to make interconnection with SPA 138-kilovolt system, at Paoli, Okla. Power deliveries from this point will relieve heavy loading conditions in the entire southeastern portion of the cooperative's system.

(b) 24 miles; 69 kilovolts: Approximately 8 miles of 69-kilovolt line is required to integrate the cooperative's existing 69-kilovolt facilities in the southeastern portion of its system with the new 138-kilovolt point of delivery from the SPA system at Paoli. Approximately 16 miles of 69-kilovolt line is to be built extending southwest from the vicinity of Lockett and Guyer, Tex., to a point in Willbarger County where it will be interconnected with 69-kilovolt facilities of Brazos Electric Power Cooperative, Inc. This connection will be used primarily for emergency purposes.

6. Amount of loan for generation: $8,072,000.
   Location: Near Fort Supply (initial unit in new plant).
   Size: 44,000-kilowatt nameplate.
   Type: Steam.
   Fuel: Gas.

7. Western has a transmission service arrangement with SPA, which, when modified in accordance with a letter of understanding dated May 1, 1962, will provide for performance of transmission service by Western over its entire system, including the transmission facilities provided for under this loan. This service will include transmission of power and energy purchased by Western from SPA, and, to the extent of available capacity surplus to Western's needs, transmission of power and energy to other customers of SPA. As consideration for this service, Western will receive a stated amount annually.

8. (*a*) The loan did not contemplate the sale of power from the proposed generating plant to nonmembers (including Federal power marketing agencies). The borrower has advised that it is exploring the possibility of interchange arrangements including possible deliveries of temporary surplus capacity.

(*b*) There is a power exchange contract between Western and SPA, which, when modified in accordance with a letter of understanding dated May 1, 1962, will provide for (1) the supply to Western by SPA, at applicable SPA rates of stipulated amounts of peaking power and energy, ranging from 32,000 kilowatts initially to 70,000 kilowatts in 1970 and thereafter, (2) the supply to SPA by Western, at stipulated rates of 31,000 kilowatts of firm power and energy

(Western's presently installed thermal capacity is 78,400 kilowatts) and (3) standby service on an interchange basis.

(c) Interconnections are planned at two points with Brazos Electric Power Cooperative. One of these is for emergency use and the other, planned for 1966, will act as an interchange connection. These interconnections will be beneficial to both cooperatives with regard to emergency and standby capacity needed.

(d) Interchange agreements are also in effect between Western Farmers and the towns of Fairview and Laverne, Okla. In addition, Western Farmers has two interconnections for emergency service with Oklahoma Gas & Electric Co., at Alva and Woodward

9. The feasibility of the loan for the proposed transmission facilities reflects and is in part based on the arrangements described in (7) above.

10. Feasibility of the loan for proposed generation facilities reflects and is in part based upon the arrangements described in 8(b) and 8(c) above. The resultant pool arrangements covering steam and hydro power supply and the interconnected system approach resulting from this loan, is a fundamental method used by all segments of the electric utility industry and enables Western Farmers to meet the needs of its member systems in the most economical manner possible.

11. The loan is based upon condition "B" of REA Bulletin 20–6 where the rates offered by existing power sources would result in a higher cost of power for the consumers than the cost from facilities financed by REA. The capacity and character of the generation and transmission facilities provided under this loan were determined upon the basis of the power needs of the member cooperatives.

12. The borrower is not subject to the jurisdiction of a State utilities commission or a comparable agency.

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1. Name: Brazos Electric Power Cooperative, Inc.
2. City: Waco, Tex.
3. Date application received: November 15, 1961.
4. Date loan approved: January 19, 1962. Amount of loan: $10 million.
5. Amount of loan for transmission: $5,085,643 plus $484,457 available from previous loans.

Description:

(a) 111 miles; 138 kilovolts: bulk transmission; 76 miles required to move power from new North Texas unit to 69-kilovolt distribution point near Olney, Tex.; 35 miles from Olney to Electra, Tex., to interconnect with Western Farmers Electric Cooperative, Anadarko, Okla. Facilities to interconnect with 138-kilovolt facilities of Southwestern Power Administration to points nearer Olney and Valley View, Tex.

(b) 181 miles; 69 kilovolts: 18 miles from Seymour to Wilbarger County, Tex., to interconnect with Western Farmers Electric Cooperative; 114 miles to integrate isolated load centers of two member cooperatives with existing Brazos system; 36 miles of line to move power from the North Texas plant to the southwest portion of Brazos' existing 69–kilovolt system; 14 miles to provide new member load centers.

6. Amount of loan for generation: $4,914,357 plus $53,943 available from previous loans.

Location: North Texas plant.

Size: 33-megawatts nameplate. Additional single unit. Existing plant consisted of two 16.5-megawatt units.

Type of generation: Steam.

Fuel: Gas.

7. The borrower does not plan to lease any portion of the proposed transmission facilities to a nonmember, including Federal power marketing agencies.

8. Since Brazos operates in an informal power pool presently involving some 10 municipalities and will in the future interconnect with SPA and Western Farmers Electric Cooperative, some power and energy from the proposed generating facilities may enter systems of nonmembers. Such power would normally be on a surplus availability basis at the sole discretion of Brazos.

9. The feasibility of the loan for the proposed transmission facilities is not dependent on nonmember use of such facilities, including Federal power marketing agencies. The capacity and character of the transmission facilities provided

under this loan were determined upon the basis of the power needs of the member cooperatives.

10. The feasibility of the loan for the proposed generation facilities reflects but is not dependent on the sale of any part of the power and energy to be generated to a nonmember including Federal power marketing agencies. The capacity and character of the generation facilities provided under this loan were determined upon the basis of the power needs of the member cooperatives.

kilovolt line. Funds are also provided for bundling of 16 miles of existing

11. The loan is based upon condition B of REA Bulletin 20–6 where the rates consumers than the cost from facilities financed by REA.

12. The borrower is not subject to the jurisdiction of a State utility commission or comparable agency.

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1. Name: South Texas Electric Cooperative.
2. City: Victoria, Tex.
3. Date application received: March 10, 1961.
4. Date loan made: May 12, 1961. Amount of loan: $14,683,000.
5. Amount of loan for transmission: $7,292,735.
   Description:
   (*a*) 741 miles; 69 kilovolts: Basic 69-kilovolt system to transmit power from the generating plant to the load centers of the member systems and interconnection with the Pearsall plant owned by the Medina Electric Cooperative, Hondo, Tex.
   (*b*) 92 miles; 24.9 kilovolts: To extend service to the members' load centers.
6. Amount of loan for generation: $7,390,265.
   Location: Goliad, Tex.
   Size: 44,000-kilowatt nameplate (new plant).
   Type generation: 2, 11,000-kilowatt gas turbine units; 1, 22,000-kilowatt steam unit.
   Fuel: Gas.
7. The borrower does not plan to lease any portion of the proposed transmission facilities to a nonmember, including Federal power marketing agencies.
8. The borrower does not plan to sell any of the power and energy from the proposed plant to a nonmember, including Federal power marketing agencies. The contemplated pooling arrangements involve a cost-sharing agreement with Medina Electric Cooperative, which is not a member of South Texas Electric Cooperative, under which each party would install generation in turn, but the arrangement does not provide for a direct sale of power by South Texas to Medina.
9. The feasibility of the loan for the proposed transmission facilities is not dependent on nonmember use of such facilities, including Federal power marketing agencies. The capacity and character of the transmission facilities provided under this loan were determined upon the basis of the power needs of the member cooperatives.
10. The feasibility of the loan for generation is not dependent on the sale of a portion of the power and energy to a nonmember, including Federal power marketing agencies. The capacity and character of the generation facilities provided under this loan were determined upon the basis of the power needs of the member cooperatives.
11. The loan is based upon condition B of REA Bulletin 20–6 where the rates offered by existing power sources would result in a higher cost of power for the consumers than the cost from facilities financed by REA.
12. The borrower is not subject to the jurisdiction of a State utility commission or comparable agency.

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1. Name: The Lower Colorado River Authority.
2. City: Austin, Tex.
3. Date application received: December 14, 1962.
4. Date loan made: January 23, 1963; amount of loan: $18 million.
5. Amount of loan for transmission: $1,294,845.
   Description of these facilities:
   (*a*) 46 miles; 138 kilovolts: Bulk transmission is in three segments all originating at the generating plant near Bastrop. The first segment extends from the plant site approximately 4 miles southwest where it interconnects

with the Hi-Cross-Winchester 138-kilovolt line of LCRA. The second segment extends from the plant site approximately 36 miles southwest via the vicinity of Bateman to step-down transmission substation at Luling City, which serves LCRA's existing 69-kilovolt line between Luling City and Flatonia. The third segment extends from the plant site approximately 6 miles southeast and connects with LCRA's Hi-Cross and Winchester 138-kilovolt line. Funds are also provided for bundling of 16 miles of existing 138-kilovolt conductor on the Hi-Cross-Winchester line.

(*b*) 6.5 miles; 69 kilovolts: 3.5 miles of 69-kilovolt line from the plant site to interconnect with LCRA's existing 69-kilovolt system between Bastrop and Smithville. Three miles of 69-kilovolt line from the proposed pumping station on the Colorado River near Powell Bend to LCRA's existing 69-kilovolt system between Bastrop and Camp Swift.

6. Amount of loan for generation: $16,705,155 plus $954,160 to be furnished by borrower. These funds will be used to finance a new single unit 125-megawatt (nameplate) gas-fired steam-generating plant and related facilities located in the vicinity of Bastrop, Tex.

7. LCRA does not plan to lease any portion of the proposed transmission facilities.

8. LCRA is a conservation and reclamation district of the State of Texas and is authorized to develop, generate, transmit, and sell electric power and energy. Eleven REA-financed distribution cooperatives serving approximately 74,000 rural consumers, now purchase all or a portion of their wholesale power requirements from LCRA. Although LCRA will utilize the proposed steamplant to supplement its hydropower in meeting all its consumers' load requirements, the load of the cooperatives by the end of the period from 1963 through 1972 will reach a total demand of approximately 183,000 kilowatts, which is considerably in excess of the nameplate rating of the unit in the loan.

This loan to LCRA assures the cooperatives of a source of power at a stated rate for the next 10- or 20-year period, depending upon the option of the cooperative.

9. The feasibility of the loan for the proposed transmission facilities is not dependent on the use of these facilities by others. This loan has been secured by the issuance of revenue bonds in the full amount of the loan.

10. The feasibility of the loan for the proposed generation facilities is not dependent on the sale of a portion of the power and energy to other consumers. Reference is made to the use of the plant under (8) and the loan security under (9) above.

11. The loan was made based on condition B of REA Bulletin 20–6 dated May 31, 1961, where rates offered by alternate sources of power would result in a higher cost of power for the consumers than the cost from the facilities financed by REA. The capacity and character of the generation and transmission facilities provided under this loan were determined upon the basis of the power needs of the REA financed distribution cooperatives.

12. There is no regulatory commission or comparable agency in the State of Texas.

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1. Name: Dairyland Power Cooperative.
2. City: La Crosse, Wis.
3. Date application received: October 24, 1961.
4. Date loan made: May 15, 1962; amount of loan: $6,660,000.
5. No transmission facilities were included in the loan.
6. The loan amount plus $340,000 from previous loans will finance the conventional portion of a 50,000-kilowatt nuclear steam generating plant.

Location: Genoa, Wis. (new site).
Size: 50,000 kilowatts.
Type: Steam.
Fuel: Nuclear.

The nuclear reactor will be financed by the Atomic Energy Commission.

7. The loan did not include any transmission and Dairyland does not lease its transmission facilities. See comments below (8 and 9) with respect to the Upper Mississippi Valley Power Pool.

8. Dairyland does not plan to sell power and energy from the proposed generating plant to nonmembers. The capacity and character of the generation facilities provided under this loan were determined upon the basis of the power

needs of the member cooperatives. Dairyland is however a member of the Upper Mississippi Valley Power Pool. In addition to Dairyland, members of the pool include Minnesota Power & Light Co., Ottertail Power Co., Interstate Power Co., Northern States Power Co. of Wisconsin, Northern States Power Co. of Minnesota, and the Rural Cooperative Power Association. The members of the pool exchange mutual services including selling, purchasing, and exchanging power and energy for the benefits of all participants. In this pool context, Dairyland may make surplus power and energy sales from the unit to other pool members.

9. No transmission facilities are included in the loan. Dairyland and the other members of the Upper Mississippi Valley Power Pool, however, are interconnected and cooperate in operation and planning transmission additions for mutual benefit.

10. Feasibility of the loan for generating facilities is not dependent on power sales to nonmembers. Economics of the loan consider pool operation.

11. The loan to Dairyland was based on condition B of Bulletin 20–6 dated May 31, 1961—the rates offered by existing power sources would result in a higher cost of power for the consumers than the cost from facilities financed by REA.

12. Dairyland is not subject to the jurisdiction of a State utility commission or comparable agency.

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1. Name: Chugach Electric Association, Inc.
2. City: Anchorage, Alaska.
3. Date application received: April 27, 1962.
4. Date loan made: June 4, 1962. Amount of loan: $2,500,000.
5. Amount of loan for transmission: None.
6. Amount of loan for generation: $2,500,000. For financing by Chugach the cost of purchase and installing 7,500-kilowatt oil-fired gas turbine generator and waste heat recovery steam generation unit to be installed at the Bernice Lake site on the Kenai Peninsula. This unit will provide firming capacity for the Cooper Lake generating plant which consists of two 7,500-kilowatt units plus providing needed power on the Kenai Peninsula to meet the growing requirements of the member-consumers of this cooperative, the Homer Electric Association and the Matanuska Electric Association.
7. There are no transmission facilities included in this loan.
8. The borrowers do not plan to sell any of the power and energy from the proposed generation facilities to a nonmember, other than the possibility of sale of temporary surplus or economy energy to the city of Anchorage.
9. There are no transmission facilities included in this loan.
10. The feasibility of the loan for the proposed generation facilities is not dependent on the sale of power and energy to a nonmember.
11. The loan was made on the basis of condition A of Bulletin 20–6 dated May 31, 1961, where no other adequate and dependable source of power is available to meet the consumers' needs. The character and capacity of the facilities provided under this loan were determined upon the basis of the power needs of the consumer-members.
12. This borrower is not subject to the jurisdiction of a State utilities commission or comparable agency.

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1. Name: Copper Valley Electric Association, Inc.
2. City: Glennallen, Alaska.
3. Date application received: February 5, 1962.
4. Date loan made: May 7, 1962. Amount of loan: $691,000 (includes $474,160 for distribution facilities).
5. Amount of loan for transmission: None.
6. Amount of loan for generation: $216,840. For financing by Copper Valley of an additional 700-kilowatt diesel electric generating unit in the existing plant to provide continuity of firm power to serve its consumers. The existing plant has a capacity of 960 kilowatts prior to installation of this unit.
7. There are no transmission facilities included in this loan.
8. The borrower does not plan to sell any of the power and energy from the proposed generation to a nonmember.
9. There are no transmission facilities included in this loan.
10. The feasibility of the loan for the proposed generation facilities is not dependent on the sale of power and energy to a nonmember.

11. The loan was made on the basis of condition A of Bulletin 20–6 dated May 31, 1961, where no other adequate and dependable source of power is available to meet the consumers' needs. The character and capacity of the facilities provided under this loan were determined upon the basis of the power needs of the consumer-members.

12. This borrower is not subject to the jurisdiction of a State utilities commission or comparable agency.

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1. Name: Matanuska Electric Association, Inc.
2. City: Palmer, Alaska.
3. Date application received: June 11, 1962.
4. Date loan made: December 10, 1962. Amount of loan: $331,000 (includes $91,000 for distribution facilities).
5. Amount of loan for transmission: None.
6. Amount of loan for generation: $240,000. For financing the purchase and installation cost of a 300-kilowatt diesel electric unit to be installed in the town of Unalakleet, Alaska. This unit when added to the existing 60-kilowatt and 100-kilowatt Caterpillar units serving this area will provide 460 kilowatts of power which is the only source of power in this area.
7. There are no transmission facilities included in this loan.
8. The borrower does not plan to sell any of the power and energy from the proposed generation to a nonmember.
9. There are no transmission facilities included in this loan.
10. The feasibility of the loan for the proposed generation facilities is not dependent on the sale of power and energy to a nonmember.
11. The loan was made on the basis of condition A of Bulletin 20–6 dated May 31, 1961, where no other adequate and dependable source of power is available to meet the consumers' needs. The character and capacity of the facilities provided under this loan were determined upon the basis of the power needs of the consumer-members.
12. This borrower is not subject to the jurisdiction of a State utilities commission or comparable agency.

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1. Name: Metlakatla Indian Community.
2. City: Metlakatla, Alaska.
3. Date application received: September 12, 1960.
4. Date loan made: March 23, 1961. Amount of loan: $230,000 (includes $36,000 for construction of distribution facilities).
5. Amount of loan for transmission: None.
6. Amount of loan for generation: $194,000. For financing by Metlakatla of the purchase and installation cost of an additional 1,000-kilowatt hydroelectric unit in Metlakatla's existing plant at Purple Lake on Annette Island. This unit will provide the consumers of Metlakatla with firm power capacity until 1965.
7. There are no transmission facilities included in this loan.
8. The borrower does not plan to sell any of the power and energy from the proposed generation to a nonmember.
9. There are no transmission facilities included in this loan.
10. The feasibility of the loan for the proposed generation facilities is not dependent on the sale of power and energy to a nonmember.
11. The loan was made on the basis of condition A of Bulletin 20–6 dated May 31, 1961, where no other adequate and dependable source of power is available to meet the consumers' needs. The character and capacity of the facilities provided under this loan were determined upon the basis of the power needs of the consumer-members.
12. This borrower is not subject to the jurisdiction of a State utilities commission or comparable agency.

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1. Name of borrower: Florida Keys Electric Cooperative Association, Inc.
2. City: Tavernier, Fla.
3. Date application received: January 11, 1962.
4. Date loan made: June 15, 1962. Amount of loan: $2,333,000 (includes $877,572 for distribution facilities).
5. Amount of loan for transmission: $28,600. Funds are for switching facilities; 69-kilovolt deadend structure; minor alterations due to expansion of generating facilities. No new transmission lines to be provided.

6. Amount of loan for generation: $1,426,828. To provide for one 3,000 kilowatt generating unit; expansion at generating plant building to house this and three additional units required in the future; heavy fuel storage tank; step-up substation; and auxiliary equipment.
7. Borrower des not plan to lease any portion of its existing or proposed transmission facilities.
8. Borrower does not plan to sell any of the power and energy from the present or proposed generating facilities to a nonmember.
9. The feasibility of the loan for proposed or present transmission facilities is not dependent on nonmember use.
10. The feasibility of the loan for proposed or present generation facilities is not dependent on the sale of a portion of the power and energy to a nonmember.
11. The loan was made on the basis of condition (B) of REA Bulletin 20–6, dated May 31, 1961. The character and capacity of the facilities provided under this loan were determined upon the basis of the power needs of the consumer-members.
12. The borrower is not subject to the Florida Railroad and Public Utilities Commission.

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1. Grundy Electric Cooperative, Inc., Trenton, Mo.
2. Project designation: Missouri 44V Grundy.
3. Date approved: March 1, 1963.
4. Amount of loan: $1,147,000.
5. Amount of loan for transmission: None.
6. Amount of loan for generation: $362,000.
   Location: Princeton, Mo.
   Size: 1950 kilowatts.
   Type of generation: diesel.
   Fuel: Oil.

This is the only loan to the cooperative for generation facilities.
7. There are no transmission facilities included in this loan.
8. The borrower does not plan to sell any power or energy to nonmembers.
9. There are no transmission facilities included in this loan.
10. The feasibility of the loan for the generation facilities is not dependent on the sale of power and energy to a nonmember.
11. The generating plant is being obtained as part of an acquisition. The loan funds to acquire facilities of Consumers' Public Service Co. were made available because this company was not providing central station service in accordance with accepted utility standards. The owners of this company requested this borrower and two other cooperatives in the State of Missouri to consummate a sale of the facilities of this company. The generating plant was included in the overall facilities purchased and had to be purchased as part of the overall transaction.
12. The borrower is not subject to the jurisdiction of the Missouri Public Service Commission. However, approval must be secured from the commission to purchase the plant and distribution facilities, because the Consumers' Public Service Co., the selling company, has been under commission jurisdiction.

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1. Name of borrower: Cape Hatteras Electric Membership Corp.
2. City: Buxton, N.C.
3. Date application received: October 4, 1962.
4. Date loan made: March 14, 1963. Amount of loan: $322,000 (includes $76,000 plus $12,000 available from prior loans for distribution facilities).
5. Amount of loan for transmission: None.
6. Amount of loan for generation: $246,000. For an internal combustion unit (diesel) of 1,150-kilowatt capacity and related items. In addition to the unit provided by this loan, the borrower has six smaller units totaling 1,700-kilowatt installed capacity. It is intended that two of the existing 150 kilowatt units will be retired and the new unit installed in their place.
7. There are no transmission facilities included in this loan.
8. The borrower does not plan to sell any of the power and energy from the proposed generation facilities to a nonmember.
9. There are no transmission facilities included in this loan.

10. The feasibility of the loan for the proposed generation facilities is not dependent on the sale of a portion of the power and energy to a nonmember.
11. The loan was made on the basis of condition (A) of REA Bulletin 20–6, dated May 31, 1961, where there is no other source of power available on the island. The character and capacity of the facilities provided under this loan were determined upon the basis of the power needs of the consumer-members.
12. This borrower is not subject to the jurisdiction of a State utilities commission or comparable agency.

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1. Name of borrower: Ocracoke Electric Membership Corp.
2. City: Ocracoke, N.C.
3. Date application received: March 21, 1962.
4. Date loan made: June 19, 1962. Amount of loan: $125,000 (includes $16,941 plus $1,059 available from prior loans for distribution facilities).
5. Amount of loan for transmission: None.
6. Amount of loan for generation: $108,059 plus $1,941 available from prior loans. For an internal combustion unit (diesel) of 350-kilowatt capacity and related items to be added to the system's existing plant consisting of three smaller units totaling 345-kilowatt installed capacity.
7. There are no transmission facilities included in this loan.
8. The borrower does not plan to sell any of the power and energy from the proposed generation facilities to a nonmember.
9. There are no transmission facilities included in this loan.
10. The feasibility of the loan for the proposed generation facilities is not dependent on the sale of a portion of the power and energy to a nonmember.
11. The loan was made on the basis of condition A of REA Bulletin 20–6, dated May 31, 1961, where there is no other source of power available on the island. The character and capacity of the facilities provided under this loan were determined upon the basis of the power needs of the consumer-members.
12. The borrower is not subject to the jurisdiction of a State utilities commission or comparable agency.

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1. Name: Moon Lake Electric Association, Inc.
2. City: Vernal, Utah.
3. Date application received: March 24, 1961.
4. Date loan made: August 11, 1961. Amount of loan: $3,299,000 (includes $2,009,395 for distribution facilities—acquired and to be constructed).
5. Amount of loan for transmission: $65,305 to finance the construction of 11 miles of 69 kilovolt transmission line to serve the Duchesne Substation which will serve loads in the Strawberry Ridge area and part of the acquired Uintah system.
6. Amount of loan for generation: $1,224,300 for financing by Moon Lake of 1,200 kilowatt of acquired hydroelectric unit, 2,395 kilowatt of acquired diesel electric units and a 1,500 kilowatt new hydroelectric unit. Including these units, the Moon Lake Association, Inc., will have a total generating capacity of 22,609 kilowatts.
7. The borrower does not plan to lease any portion of the proposed transmission facilities to a nonmember.
8. The borrower does not plan to sell any of the power and energy of the proposed generation facilities to a nonmember.
9. The feasibility of the loan for the proposed transmission facilities is not dependent on nonmember use of a portion of such facilities.
10. The feasibility of the loan for the proposed generation facilities is not dependent on the sale of a portion of the power and energy to a nonmember.
11. The loan was made on the basis of condition B of Bulletin 20–6 dated May 31, 1961, where the rates offered by existing power sources would result in a higher cost of power for the consumers than the cost of facilities financed by REA. The character and capacity of the facilities provided under this loan were determined upon the basis of the power needs of the consumer members.
12. That portion of the system which is located in the State of Colorado is subject to the jurisdiction of the Public Utilities Commission of Colorado. The bulk of the system being located in Utah is not subject to the jurisdiction of the State utilities commission.

UPSHUR QUESTION

Senator ELLENDER. Regarding the Upshur loan:

Does the borrower plan to lease any portion of the proposed transmission facilities to a nonmember, including Federal power marketing agencies?

Your answer:

The borrower will lease to SPA the entire 190 miles of 138-kilovolt line for a term of 40 years.

Mr. CLAPP. This is correct.

Senator ELLENDER (reading):

SPA will make payments covering the annual cost of 120 miles of such line, and will operate and maintain the entire line. Upshur retains the first right of use of this line for standby capacity for the SPA pool and for other purposes.

FEASIBILITY OF LOAN

And my question No. 9:

Is the feasibility of the loan for the proposed transmission facility dependent on nonmember use of a portion of such facility?

Your answer:

The feasibility of this line reflects and is in part dependent on this lease arrangement. Excess capacity not required by Upshur is available to SPA to use however it pleases.

To members or nonmembers of REA.

Mr. CLAPP. The basic justification, Senator, is the benefits this arrangement provides for the beneficiaries of the Rural Electrification Act. This question was covered—it was involved in litigation back in the period that you mentioned, Senator. This goes back before my tenure as Administrator of REA.

CONGRESSIONAL HEARINGS

As you recall, there were extensive congressional hearings on these arrangements between the co-ops and SPA, and it was involved in the *Kansas City Power* case that went to court. It was the finding of the court after review of all of the evidence that even the arrangements as then existing between SPA and the co-ops, which were considerably more intimate from the standpoint of ownership than the present arrangements are—even those arrangements—were in the interest of the beneficiaries of the act and were not a violation of the authority conferred in the act.

Now, if I might just add, Senator, I think that the arrangement at that time involved the option to purchase some of these facilities, an option given to SPA. These present arrangements that we speak of—and certainly in the case of the Upshur loan—involve no such option to purchase. The co-ops retain the ownership of these facilities.

Senator ELLENDER. Mr. Chairman, I repeat, as far as I am personally concerned, I have never opposed the lending of money by REA to build generation and transmission facilities where they could not obtain the electricity cheap enough or where they were being held up by the private utilities. I think it is a good lever to have in the law, to more or less force the private utilities to be fair and to sell power at a reasonable rate.

Mr. CLAPP. I agree.

COMBINATION BETWEEN DEPARTMENTS

Senator ELLENDER. I don't object to that. But when we get a combination between the Department of Agriculture under which the REA acts, and the Interior Department under which SPA acts, why, we then have a combination of REA using 2-percent money to build plants, to firm the power for the Federal marketing agency. That is where I draw the line.

NUMBER OF LOANS INVOLVED IN REQUEST

Senator HOLLAND. Now, Mr. Clapp, how many of the questions have been answered?

Mr. CLAPP. I think the request that has come to us from the committee involves about 40 reports, 12 questions on each of about 40 borrowers.

Senator ELLENDER. That constitutes all of the loans you have made on generation and transmission facilities over a certain period, does it not?

Mr. CLAPP. Yes, that is right, Senator. And I want to say that we are working on those just as rapidly as we can. We will supply them just as soon as they are ready.

Senator HOLLAND. Did the House committee ask for this same information?

Mr. CLAPP. They have asked for reports on each of the generation and transmission loans covering the past 2 years but with slightly different information than requested on this.

Senator HOLLAND. Is there any reason why we can't receive responsive answers to the various questions which were submitted to you on these loans, at Senator Ellender's request from this committee?

Mr. CLAPP. Well, we want—You mean with the reports that we are preparing for the House?

Senator HOLLAND. With the report you are preparing for us.

REPORTS FOR COMMITTEE

Mr. CLAPP. We are planning on getting those reports in to the committee, and we are working on it just as rapidly as we can.

Senator HOLLAND. All answers that have been made now will be placed in the record as of now.

And, Mr. Clerk, you keep in touch with the REA and place in the record the other answers just as quickly as they come to the committee.

RELEASE OF INFORMATION ON POWER MATTERS

Senator ELLENDER. Now, Mr. Clapp, since all of these transactions are more or less of public nature—public funds are being used—why should the REA be so reticent in letting the people, who are interested in the proposed loan contracts, look into them to help you determine if they are sound and feasible? After all, I am sure you are interested in that; are you not?

Mr. CLAPP. Indeed we are.

Senator ELLENDER. That the loans are necessary, that they are well secured, and that they will be repaid?

Mr. CLAPP. Yes, sir.

Senator ELLENDER. Why would it not be feasible then for those who are presently serving the cooperatives to have a chance to look into the loans? They may be able to show that they will be able to furnish electricity, at as cheap or at a cheaper rate than it can be produced through the G. and T.?

Mr. CLAPP. Well, Senator, you referred a few moments ago to the value of the generation and transmission alternative as a bargaining lever in securing suitable contracts with the other potential power suppliers.

This is an extremely important element in the G. & T. program. We don't begin to have the funds available, and I am sure that the Congress could not see its way clear to provide the funds that would be necessary to supply the complete needs of the rural distribution systems that are borrowers from REA from their own power sources.

ALTERNATIVE AS LEVER IN NEGOTIATIONS

As a consequence, we place great stress upon the effect of the availability of this alternative as a lever on the negotiation of wholesale power contracts. The negotiation, we feel, in the proper use of this lever should come early in the game, before the borrowers have had to go to the expense and the great effort that is required to put together a G. & T. application.

Senator ELLENDER. Who is at fault for that not being done?

Mr. CLAPP. My point, Senator, is that if you will give the other power supplier the opportunity to come in at the last minute, after this relationship has gone the full route of attempted negotiation, engineering studies, G. & T. application, REA review, there will never be any negotiation that will amount to anything at the early stage where it ought to take place. The power supplier will always rely on its right to come to REA just before REA is prepared to make a loan, and then try to beat the application.

PROTECTION OF ENGINEERING STUDIES

There is in addition to this, I think, on the part of REA some obligation to these borrowers as independent, private business organizations, to protect the confidentiality of their stock in trade, so to speak, which is their engineering studies.

Senator ELLENDER. But I say why should that be. Because, as I said, your duty as I understand it as an Administrator of the REA is to see to it that the cooperatives are supplied electricity at a fair rate. And under the REA law, if perchance you see that that is not being done, then you are authorized to make these loans.

What disturbs me is that as we go along the REA is permitting more and more of the G. & T.'s to be constructed, and after a while you will find that you built a little empire, more or less, at public expense. Two percent money was never intended for such a purpose. It has been made available to assist farmers.

Now I bow to no one on this committee or to anyone in the Congress in my efforts to assist the farmer in obtaining cheap electricity.

The REA program has been his Godsend. But when the program has developed to the point where we are serving large cities and other people who are better able to pay more for their electricity than the farmer, again that is where I must draw the line. Oftentimes the only excuse that is being offered to construct these G. & T.'s is that you are broadening your base of distribution. You have more people on the line. The majority of them now, as I understand it, are not farmers. They are city people who are well able to pay more for their electricity.

Mr. CLAPP. They are rural people, sir.

Senator ELLENDER. Rural; that is what I meant to say. They are better able to pay for their power than the farmer is. Furthermore, it costs a great deal more to get it to the farmer.

NEGOTIATIONS FOR POWER SUPPLY

Mr. CLAPP. Well, Senator, we are not interested either in building empires for anybody, but the availability and the demonstrated availability of financing for G. & T. facilities is very important to our borrowers in their ability to bargain for proper and fair wholesale power contracts. There are two instances just within the past year that demonstrate this. One was a situation down in Texas where the Southwestern Public Service Co. negotiated a power contract with 17 cooperatives in that area, and the cooperatives that had been talking of coming into REA for financing on generation and transmission facilities abandoned its application before it ever came to us.

DELMARVA PENINSULA CASE

There is another case over on the Delmarva Peninsula, in which negotiations for a reduction in rates from the Delaware Power Co. and its subsidiaries had gotten nowhere until the co-ops began to talk of an engineering study and financing their own G. & T. facilities.

As a result of the availability of this alternative, the Delaware Power Co. reopened negotiations, made some substantial concessions on rates, and these co-ops found it was unnecessary to pursue the generation and transmission loan.

We are just interested, Senator, in keeping these negotiations in their proper time, which is before the G. & T. application is ever put together. We feel that in the long run this will conserve the REA funds and the taxpayers' resources to a greater extent than if we allow the negotiating period to become merged with the G. & T. studies.

If all of these power supply situations have to go the full route of engineering studies and G. & T. applications, we are just going to be deluged with applications.

Senator ELLENDER. Well, since you are interested in getting power contracts made so that the power companies will act as they should, I can't for the life of me see why it wouldn't be feasible, in order to assist you in making the determination, to have them come in and show the fallacies, if there be any, in the proposals made by the REA's. I just can't see that, particularly as I repeat, when you are using public funds at 2 percent. That is my point. That is the point I am making, and it strikes me that you ought to encourage that rather than shun it, because these people are interested; they are

taxpayers. And if you start cutting off the revenues of these taxpayers, that might decrease the income of the Government, and in time, cause us to get deeper and deeper in the red, and I know you don't want to do that; do you?

Mr. CLAPP. No. We want the Government in the best financial shape.

Senator ELLENDER. And that is my interest in it, as I said. At the same time, I don't want to deprive the REA of getting a square deal and getting the electricity at a fair rate. I would fight just as much for them in that respect as I would to prevent you from using a Government agency, in fact a combination between Interior and Agriculture to expand and build these facilities, and thereby create what I term a little empire. You will see how it will grow if you don't stop it.

Mr. Chairman, I have no other questions for the present.

FIRM COMMITMENT ON POWER SUPPLY AVAILABILITY

Senator HOLLAND. I would like to ask one question to firm up this particular discussion.

Mr. Clapp, prior to an acceptance of any application for a G. & T. loan do you now require in every case that the applicant make every effort to obtain a firm commitment from a private supplier of the terms and conditions under which the private source would supply energy requirements?

Mr. CLAPP. There are some cases, Senator, in which our borrowers are dependent not upon a private supplier but upon other Government sources for their power, and we insist that the borrower develop the best alternative source of supply, best alternative terms of supply, against which we compare the application for their own generation and transmission.

In the great percentage of cases this will involve a private supplier. In other instances it will involve their present arrangements with public power sources, in some cases the Federal Government, in some cases local public utility districts, or even municipalities.

Senator HOLLAND. Then, if I understand you, you are answering this question in the affirmative except in those cases where the applicant for a G. & T. loan at that time is getting the power from a public source of supply, and there you would require exactly the same effort to be made to get a firm commitment from that public supplier as to the terms and conditions under which that public source would supply the energy requirements.

Mr. CLAPP. That is correct, Mr. Chairman.

Senator HOLLAND. You would require that before you would accept an application for a G. & T. loan.

Mr. CLAPP. That is supposed to be part of the application, so that it would be certainly required before we would act upon any G. & T. application.

Senator HOLLAND. Senator Young?

Senator YOUNG. I have nothing.

Senator HOLLAND. Senator Case?

Senator CASE. Not at this time.

Senator HOLLAND. Senator Aiken?

ELECTRIFICATION LOAN PROGRAM

Senator AIKEN. I have two or three questions.

What is the total amount of loans outstanding to the REA for loans for rural electrification only?

Mr. CLAPP. It is $4 billion.

I take that back. It is $4.1 billion that have been advanced to the electric systems; and, of this, $1,200 million has been repaid.

Senator AIKEN. $1,200 million. That would leave $2,700 million now due under rural electrification.

Mr. CLAPP. $2,900 million.

ELECTRIC DELINQUENCIES

Senator AIKEN. How many of the borrowers are in arrears on principal and interest on this amount?

Mr. CLAPP. There are currently two borrowers that are delinquent. One is a borrower that has had some excessive expense due to litigation, and this delinquency we expect will be corrected in a matter of a few months.

The other is a borrower that has been delinquent for some time, but this delinquency is being corrected according to schedule and plan. The total amount is, delinquent principal, $115,809; delinquent interest, $69,929; a total of $185,738 as of February 28.

BENEFITS FROM THE REA PROGRAM

Senator AIKEN. Do you know what the total amount is of loans that have been made since the inception of the REA?

Mr. CLAPP. Total amount of dollars advanced in the electric program would be approximately $4 billion.

Senator AIKEN. $4 billion, yes.

What Federal benefits do the REA borrowers receive besides the 2-percent interest rate?

Mr. CLAPP. Well, we provide certain technical assistance, Senator, in the development of their systems.

Senator AIKEN. Yes, but that is just considered part of the administrative costs, is it not?

Mr. CLAPP. Yes, sir.

Senator AIKEN. Well, we do that for other people, too. We do it for Agriculture, the Department of Commerce, I believe, has a very substantial budget for that purpose.

But what other legal benefits—for instance, tax benefits—do you receive?

Mr. CLAPP. Well, those borrowers which are cooperatives and are nonprofit organizations under the Federal code—I can't quote the section right now—do not pay Federal income tax.

Senator AIKEN. Well, if they make a net income, don't they pay a Federal tax on it?

OPERATING MARGIN

Mr. CLAPP. This is not income, Senator. This is an operating margin which belongs to the members who are also the owners of these systems.

Senator AIKEN. Yes, but if they made an income like the corporation makes an income, wouldn't they then be required to pay a tax on it?

Mr. CLAPP. If they were organized as a profit corporation, they would be required to pay a tax.

Senator AIKEN. And, so far as you know, they pay State and local taxes?

Mr. CLAPP. There are variations among States, but, by and large, they do pay State and local property taxes and other taxes of similar nature.

THE REA INTEREST RATE

Senator AIKEN. Now it has been said that REA ought to pay the full rate of interest like other borrowers from the Federal Government. Assuming that is 4 percent, as I figure it hastily, on outstanding loans of $2,700 million, it would mean that they would be paying about $54 million a year more interest than they are today, if they paid at 4 percent instead of 2 percent.

Mr. CLAPP. It would double the figure.

Senator AIKEN. Isn't it a fact that a good percentage of these loans were made at a time when the Government was borrowing money for 2 percent or a little less?

Mr. CLAPP. This is correct.

Senator AIKEN. And that at the present time the money costs the Government about 3¼ roughly?

Mr. CLAPP. It depends on whether you take the average rate paid on all maturities or limit it to certain classes of maturities, but I am sure you are correct.

Senator AIKEN. Last fall we passed a tax bill. I voted for it with some misgivings. What benefit does the REA cooperative receive from that tax bill?

Mr. CLAPP. They are exempt from the application of the tax bill sections pertaining to cooperatives.

Senator AIKEN. What benefits do other utilities, either individual, partnership or corporations, receive from that tax bill?

Mr. CLAPP. The utilities were given—I am not sure that I am using the proper term, but it was a credit, an investment credit of 3 percent.

Senator AIKEN. Yes.

Mr. CLAPP. Which exempted that portion of their profits from tax.

Senator AIKEN. Credit on their investment; and you understand that to be 3 percent?

Mr. CLAPP. That is my recollection.

Senator AIKEN. I believe oil pipelines received a higher percentage, did they not?

Mr. CLAPP. I think that is so.

COMPARISON OF BENEFITS

Senator AIKEN. How do you think the interest benefits received by the REA would compare with the tax benefits which were granted to the utility corporations and the petroleum corporations last year?

Mr. CLAPP. I think it would be a drop in the bucket, Senator.

Senator AIKEN. It would possibly the utility interests might get 50 times the benefits which the REA receives from special interest rates?

Mr. CLAPP. I don't have any comparative figures.

Senator AIKEN. I don't either.

Mr. CLAPP. But I wouldn't be surprised.

Senator AIKEN. I am just hazarding a guess, that probably they receive 50. Have you heard any protest against granting the utility corporations or the petroleum interests these additional tax benefits?

Mr. CLAPP. I haven't heard any from them, Senator.

Senator AIKEN. I haven't either.

How do you think the interest benefits granted the REA would compare with the 27½-percent depletion allowance granted to the petroleum people?

Mr. CLAPP. I think it would be very small.

Senator AIKEN. Not more than 1 percent, would it? I am sure it wouldn't be much more than 1 percent.

TELEPHONE LOANS

Another thing. Now you also have a telephone business; you make loans for telephone companies. What percentage of the loans for improving rural telephone service has been made to individuals, partnerships, and corporations?

Mr. CLAPP. Of the 800 borrowers that we have in the telephone program, 214 are cooperatives. The rest are corporations that are owned and controlled by individual stockholders.

Senator AIKEN. In the Northeast, in my State, the telephone loans are 100 percent to existing private industry, aren't they?

Mr. CLAPP. I think that is correct.

Senator AIKEN. And do you make those loans at 2 percent, too?

Mr. CLAPP. Yes, sir.

SUBSIDY TO PRIVATE INDUSTRY

Senator AIKEN. Then that is a subsidy to private industry, partnerships, and corporations, not to cooperatives.

Mr. CLAPP. That is correct. They are not cooperatives.

Senator AIKEN. Do you have the same objection to that that you do to lending to rural electric cooperatives?

Mr. CLAPP. I haven't detected any opposition among those who are interested in these companies, to the 2-percent rate.

Senator AIKEN. Have you ever compared the benefits to the rural electric cooperatives from the 2-percent interest rate with the benefits which are granted the shipping industry of the United States?

Mr. CLAPP. I haven't made any direct comparisons, Senator.

Senator AIKEN. You would find some interesting figures if you did. It would be a very interesting comparison.

Mr. CLAPP. I am sure that it would be.

Senator AIKEN. So, if you got authorized to lend $350 million this year, and you lend every dollar of it at 2 percent, and servicing and all would amount to 4-percent cost to the Government, that means administrative costs, included with the cost of the money—the area cooperatives would have to pay $7 million more interest on this $350 million loan, would they not?

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Mr. CLAPP. Your arithmetic is correct, Senator.

Senator AIKEN. You still have some areas of the country that are not adequately served with electricity?

Mr. CLAPP. Indeed we have.

BENEFITS WHICH ELECTRIC SERVICE BRINGS TO AN AREA

Senator AIKEN. Has it been your experience that when the rural electric lines extend into an area which did not warrant private investment, that private investment follows those lines into that area?

Mr. CLAPP. This has been the pattern everywhere.

Senator AIKEN. And the private investment built up in those areas pays taxes, Federal taxes, local taxes, all kinds of taxes?

Mr. CLAPP. And they create markets for other commodities. It is estimated that just in the electrical appliance and machinery field alone, the investment of $1 in rural electrification produces a market of $4 for incidental appliances and equipment.

LOSSES ON ELECTRIC LOANS

Senator AIKEN. You said there were two electric cooperatives in arrears on either interest or principal out of what number? How many borrowers do you have in all for rural electric lines?

Mr. CLAPP. It is roughly 1,000.

Senator AIKEN. That is not 1 percent.

Mr. CLAPP. Two-tenths of 1 percent.

Senator AIKEN. You have had one or two go out of business, have you not?

Mr. CLAPP. Yes, we have had two borrowers that went out of business. One was a private company on Ocracoke Island off the coast of North Carolina. The system was destroyed by a storm, and the company decided not to rebuild. A co-op was formed, built a new system and is presently serving the island.

There was a second loss in the State of New York in the early days of the program. This was a cooperative that was formed to serve a rural area, got its loan, and then was spite-lined to death before it got the facilities constructed.

Senator AIKEN. What did you call that? How did it die?

SPITE LINES

Mr. CLAPP. I say it was spite-lined to death, Senator.

Senator AIKEN. Spite-lined?

Mr. CLAPP. Yes, sir.

Senator AIKEN. Well, where you have spite lines or not depends on State laws.

Mr. CLAPP. What happened was that the power company serving around that area built lines into it to the point where it was impossible for the co-op to construct a feasible system. What materials had been bought and delivered were salvaged to apply on the Government's loss, but there were still some costs that were not recoverable, and there was a loss on that particular project.

I think the total loss figure of the REA program from those two instances is $45,000.

Senator AIKEN. And you think there are still substantial areas of the country that will lag in development without the continuing provisions of the REA law as it now exists?

HANDICAPS OF THE REA BORROWERS

Mr. CLAPP. I am sure of it. And not only does this affect the areas of the country that still do not have service—and we have many of these areas, particularly in the West, some in New England, and some in the South—but it also is true of those areas that are being served by our borrowers because the problem is not just to build the facilities to these rural people. It is also the development of these facilities to the point where they can serve these rural people on terms that are comparable with the availability of service in urban areas. For instance, the density on the systems that are financed by REA amounts to only 3.3 consumers per mile of line. This compare with 33 consumers per mile of line on the class A and B utility systems.

These systems are isolated. They do not have access to large-scale generation that the commercial utility industry has. They do not have access to the pooling possibilities which we were discussing earlier here this morning.

It is extremely important to provide some equalizers to offset these handicaps, if it is going to be possible to bring electric service to rural people on terms that are comparable with the costs and conditions of service in urban areas. So, even in these areas, the continuation of the rural electrification program and the financing through REA is extremely important.

Senator AIKEN. That is all.

Senator HOLLAND. Senator Ellender?

NEGOTIATIONS WITH POWER COMPANIES WHERE GENERATION AND TRANSMISSION LOANS ARE PROPOSED

Senator ELLENDER. In connection with your secrecy policy that we discussed previously, Mr. Clapp, I note that your REA Bulletin No. 20–6 sets forth the criteria that you use to determine loan feasibilities. "A" would be when no adequate and dependable source of power is available; or "B" where the rates offered by existing power sources would result in higher costs of power than from self-generation; or "C" to assure the security and effectiveness of an REA financed system.

Now isn't it a fact that before you can reach any determination you, as Administrator, must look into the setup of the private power company that is furnishing electricity in the area?

Mr. CLAPP. We certainly have to look into the relationships between the power company and the borrower.

Senator ELLENDER. Well, I go back to the proposition that since this is more or less public or quasi-public, I just can't for the life of me see why it is that some kind of requirement should be made by you giving opportunity to those who differ with your views to come in and show that, and at the same time make available to them the data that you use. It strikes me that it would be not only in the public interest but it would be a better way to get these private concerns to act wisely and correctly toward the REA's.

NEGOTIATIONS

Mr. CLAPP. Senator, I understand your concern. And we are concerned about the best ways and means of getting the most productive type of negotiations to solve these power supply problems where they arise. We feel in the interest of the program and the full utilization of the G. & T. alternative and its impact upon negotiations that it would be unwise—and improper, I suppose, at least from the standpoint of the confidential relationship that ought to prevail with respect to the engineering studies that the applicant has bought and paid for—we feel that it's unwise to get into this negotiation at a time after the G. & T. application has been submitted.

We are seriously exploring the possibilities of trying to develop a more direct participation of REA in preapplication negotiations.

PERSONNEL

Now, this involves personnel, as you know. We have a very limited number of people on our staff that are qualified to participate in the technical phases of negotiations on power contracts. We are trying to emphasize negotiations as much as we can; part of our objective in seeking replacements for some of these vacancies in the engineering staff of REA is to pave the way toward more emphasis and more participation of REA in preapplication negotiations, if it is desired by the paries concerned.

Now, we would hope through this that we could iron out a lot of these power supply situations without having the borrowers face the problem of resorting to engineering studies and a full-fledged generation and transmission application.

Senator ELLENDER. Well, I know,and I am not advocating it be a full-blown public hearing, but it strikes me that a requirement that such data be made available to all interested parties at the Washington office of the REA and through its field representatives is not unreasonable.

Mr. CLAPP. Well, we have never avoided talking with or listening to any power supplier.

Senator ELLENDER. Well, I understand that, but just talking and listening to them is not enough. It strikes me that without giving out any secrets, much more information could be given to those who are opposed to what is now being done without causing any harm.

Mr. CLAPP. Well, Senator, our experience has been that when you get right down to it, what the power supplier wants when he talks about coming in and having access to our records is the engineering determination as to what the cost of power will be under the applicant's proposal.

Now this is a secret. To reveal it is like playing your game of cards with all of your cards turned up on the table, and this destroys, really, the full potential of your bargaining position.

ACCESSIBILITY OF RECORDS

Senator HOLLAND. Don't you have full access to the records of the public utility commission in the various States where the commercial companies have to have their rates fixed and approved, so that you

can see what they base their figures on? They are public records, are they not?

Mr. CLAPP. I think in most cases, as far as I know, they are, Senator.

Senator HOLLAND. Well, what is the difference between your having access to their figures, which you say are confidential, and their having access to yours, which are also created in the course of public business?

Mr. CLAPP. I think there are two distinctions. One is there's quite a difference in the position and strength of our borrowers, who are after all very small systems. We talk a great deal about the generation and transmission program of REA, but REA-financed facilities only supply 1 percent of the power produced in this country.

The second thing is that the public utilities in most States have protection for their territories, so that they are secure in the areas where they do business. The co-ops are not secure in the areas where they do business in most States.

HIGHER COST OF ENERGY

Senator AIKEN. Mr. Chairman, would you yield?

Senator HOLLAND. Well, has not it resulted in the case of the certificate of the co-ops in west Florida who are buying their power now from a generator in Alabama, there at Andalusia, that they are actually paying more for that power than are the same co-ops in the same area who are buying it from the Gulf Power Co., and that they have been forced into that position by the decision made here as to what their attitude shall be toward setting up generating systems?

Mr. CLAPP. I would be glad, Senator, to submit to you a detailed analysis of their comparison. Let me just say in summary that what——

Senator HOLLAND. Well, let me say it has not been long since one of the managers of one of these co-ops told me personally in here that he was having to pay more per unit for his power to the central co-op plant set up with REA money, at 2 percent, with income tax freedom, than other co-ops in that same area were paying the Gulf Power Co.

Now, why should that be?

ALABAMA ELECTRIC AREA

Mr. CLAPP. I'm not sure that I am speaking of the same co-op that you are referring to, but this is true of the Alabama electric area. The so-called rate that the Alabama Electric Co-op charges its members includes not only the cost of power, but it also includes the capital contributions, which are retained. They are the investment of the local member co-op. Then in many instances, the two rates do not cover comparable transmisison or transformation.

Senator HOLLAND. But the cost of the power is what the co-op who was using that power had to pay for it. As I understand it, they have to pay more now to the central co-op generating plant up at Andalusia, and they get the same power supply from the Gulf Power Co., and that to me just does not make any sense at all. It looks like poor management of the public money to invest it in a generating plant where the cost for energy is higher than it is available from the

private source. How do you justify that kind of a loan, and that kind of an investment?

Mr. CLAPP. Our record will show that the power cost of Alabama Electric is below the cost of power from the other utilities in that area.

Senator HOLLAND. You mean, the cost where it's delivered, or the cost where it's produced?

Mr. CLAPP. Well, the comparable cost of power, with delivery being at comparable voltages and including the same amount of transmission.

Senator HOLLAND. If your records do show that, that is different from the statement made to me by the co-op manager in the case that I mentioned.

Mr. CLAPP. We would be glad, Senator, to submit, if you would care to have us, a detailed analysis of this particular situation.

Senator HOLLAND. Well, I wish you would, and submit it to me for inclusion in the record.

Mr. CLAPP. We would be very happy to, sir.

(The data referred to follows:)

COMPARISON OF POWER COST TO THE CHOCTAWHATCHEE ELECTRIC COOPERATIVE, INC., FROM THE ALABAMA ELECTRIC COOPERATIVE, INC., AND THE GULF POWER CO.

In fiscal 1962 the Choctawhatchee Electric Cooperative, Inc., in Florida, purchased power from both Gulf Power Co. and the Alabama Electric Cooperative, Inc.

According to REA records for that year, the Florida Cooperative paid an average rate of 6.7 mills per kilowatt-hour to Gulf Power Co. and 8.2 mills per kilowatt-hour to the Alabama Electric Cooperative, Inc. However, this comparison does not reflect the true cost of power to this cooperative from each supplier. In order to obtain a true cost comparison, the terms of delivery must be known and considered.

The Alabama Electric Cooperative delivers power and energy to this Florida cooperative to the distribution load center and at distribution voltage. While the rate paid the Alabama Electric Cooperative during this year was 8.2 mills per kilowatt-hour, the actual power cost of the Alabama Electric Cooperative was 7.7 mills per kilowatt-hour.

On the other hand, the major portion of the power and energy purchased by this Florida cooperative from Gulf Power was purchased at 44 kilovolts, and had to be transmitted over approximately 43 miles of cooperative-owned transmission lines to several load centers. At these load centers the voltage had to be stepped down for use on the cooperative distribution lines. The added annual cost of these transmission lines, substations, line and transformation losses must be added to the purchased cost of power to obtain a comparable cost comparison with that of the cost of power purchased from Alabama Electric Cooperative.

In fiscal 1962 the Florida cooperative purchased 17,615,400 kilowatt-hours from Gulf Power Co. at a cost of $117,669. The annual cost of the facilities needed to transmit this power and step the voltage down to distribution voltage at load centers is $37,000. Approximately 3 percent of the power and energy purchased is lost in the transmission and transformation of such power and therefore approximately only 17,087,000 kilowatt-hours were delivered at the load centers for use.

When the annual cost of the transmission and transformation facilities are added to the cost of power purchased from Gulf Power Co. and considering losses, the actual average cost of power purchased in fiscal 1962 from Gulf Power Co. is 9.05 mills per kilowatt-hour. This cost is the true cost to the Florida cooperative from Gulf Power Co. and which should be compared with the 8.2 rate average or the actual cost of 7.7 mills of the Alabama Electric.

THE ALABAMA ELECTRIC COOPERATIVE

Senator HOLLAND. I understand that you are now moving toward the installation of additional power-generating facilities at this same place for this same central co-op, notwithstanding the existence of the situation that I have mentioned.

Mr. CLAPP. Well, Alabama Electric has a loan from us to construct a steamplant at Jackson, Ala., which is the same co-op, but at a different location.

Senator HOLLAND. In the same general area?

Mr. CLAPP. Yes.

Senator ELLENDER. Well, as I recall, that's one of the few in which no Government agencies, according to your questionnaire, intervenes to buy off the electricity. Am I correct in that?

Mr. CLAPP. Senator, the only——

Senator ELLENDER. I think it would be handled entirely by the cooperative.

Mr. CLAPP. I am just wondering. I think there is some power from Walter George Dam involved in the Alabama electric plant. And this, of course, is marketed through Southeastern Power Administration, which in turn has arrangements with the power companies in that area for transmission and resale.

SOUTHEASTERN POWER PURCHASES

Senator ELLENDER. Well, on the Alabama Power, then, am I to understand that also in that case, you have to use the Southeastern Power Administration to purchase off the excess electricity?

Mr. CLAPP. I do not know that there is any marketing of excess from this plant to Southeastern Power Administration.

Let me just check this.

Senator HOLLAND. In other words, the purchase of the power to be produced at the Walter F. George Dam, it is my understanding, or a part of that power.

Mr. CLAPP. They would use part of the hydropower in their operation.

Senator HOLLAND. This has not been a part of the history. When do you expect it to be available? Sometime very shortly, isn't it?

Mr. CLAPP. Mr. Wood tells me that Walter George is now producing power, but they are just testing and have not actually marketed any.

Senator HOLLAND. Well, my understanding is that they are about to open it up for actual production and distribution in the near future. The point I am making is that the situation in that area has not up to now involved any use of power from the Walter George Dam, because there has not been any to date.

Mr. CLAPP. That is correct, Senator.

Senator HOLLAND. And that the original generating plant that was built some years ago before any such power was available, and that your loan for the construction of an additional generating plant at Jackson was made some time ago, before the Walter F. George Dam power was available, and that neither of those projects have any connection with the Walter F. George Dam, except that some of the

Walter F. George power to be produced in the future is to be supplied to this same central co-op for distribution on its lines. Is that correct?

Mr. WOOD. It is coming into the system now, sir.

Senator HOLLAND. What's that?

Mr. WOOD. I say that power is starting to flow into the system now. They are testing and they are installing some of the final control equipment. This power from Walter George Dam becomes an integral part of this G. & T. power supply. It provides necessary backup, standby, and reserve for the steamplant which is necessary for all single-unit plants of this type.

Senator HOLLAND. It does not obviate at all your desire to go ahead and complete the loan for this second generating plant in the south Alabama area?

Mr. WOOD. No, sir.

LOAN TO SECOND GENERATING PLANT

Senator HOLLAND. In other words, you are going to furnish some power to them to back up the power that they generate, but it does not set aside at all your plan to make this loan for the second generating plant.

Mr. WOOD. No, sir; there is not enough power available from the hydro to take on the entire load.

Senator ELLENDER. Well, when the power from the Walter F. George project becomes available, will the electricity generated from this new facility that is going to be built be in excess?

Mr. CLAPP. Will there be excess in it?

Senator ELLENDER. Yes. Or will any of it be used for distribution to other than members of the Alabama Electric Cooperative?

Mr. CLAPP. The Alabama Electric Cooperative does not propose to sell any of the power or energy from it——

Senator ELLENDER. Except to members?

Mr. CLAPP. Except to members.

Senator ELLENDER. Well, that's a different case than the ones we have been talking about. But as Senator Holland asked you, when you produce more electricity through these G. & T.'s, and when the Walter F. George project produces to full capacity, will you then have electricity in excess of what is necessary to furnish the members of the cooperatives?

Mr. CLAPP. No, sir.

ACCESS TO POWER COMPANY DATA AND CO-OP DATA

Senator AIKEN. Mr. Chairman, I would like to revert once more to the question that was raised as to why rural electric cooperatives have access to data of the utility corporations, either through the State Public Service Commissions or Federal Power Commission, or otherwise, whereas the utility corporations can't have similar access to the books of the REA.

Isn't it a fact that the status of a rural electric cooperative is that of a person, and not a utility corporation? A cooperative is a person, a citizen, an individual, and certainly to give corporations the right to examine books of all individuals would be interesting, and probably a rather devastating innovation.

Mr. CLAPP. I think we follow the practice, Senator, that is followed by most if not all landing agencies, public lending agencies, of protecting the confidentiality of——

STATUS OF COOPERATIVE

Senator AIKEN. No, I go beyond that. The status of a cooperative is that of a person.

Mr. CLAPP. It is not legally a public utility.

Senator AIKEN. Not a public utility corporation, not a corporation of any kind. It is the status of a person. The REA cooperative does not have the right of eminent domain, unless under State law—I do not know of any State that gives it the right of eminent domain—do not have guaranteed returns on investment, and other things or other benefits which utility corporations receive in return for making their books available to authorized agencies of the Government.

Mr. CLAPP. And I think it might be pointed out, too, Senator, that the records that the public has access to, the records of the utility which the public has access to through the Commission are operating records, not planning studies.

Senator AIKEN. You have access to the books of the rural electric cooperatives not because they are rural electric cooperatives, but because they are borrowers, and you have the same access to these that a bank would have of a borrower.

Mr. CLAPP. That is right.

Senator AIKEN. And you cannot look at their books just because they are cooperatives.

Mr. CLAPP. That is correct.

Senator AIKEN. For instance, take the electric cooperative that has headquarters in New Castle, Ind. That would be the first one to pay back the money in full. Do you go over their books every year?

Mr. CLAPP. No, sir.

Senator AIKEN. Of course you don't; you can't; you have no right to, because they are an individual, a person.

Mr. CLAPP. The Senator is quite correct.

ADMINISTRATOR'S FORMAL STATEMENT

Senator HOLLAND. Well, now, proceed with your formal statement, Mr. Clapp, unless you wish to just place it in the record. You have covered most of it. I do not think we have covered it in the detail in which you have it here. It is short, and I wish you would proceed with it.

Mr. CLAPP. Well, I think, Senator, we have probably covered most of the figures with respect to the loan funds.

May I suggest that I just place this formal statement in the record, but I would like to read the paragraphs that refer to administrative funds, since we have not discussed that. Is that agreeable, Mr. Chairman, or would you like me to real the full statement?

Senator HOLLAND. We will place in the record any part that you do not want to read. I assume that you will want to read that paragraph, the third paragraph, that deals with administration. You can go ahead with that, and place the first two paragraphs in the record. Go ahead with the third.

(The statement referred to follows:)

STATEMENT OF NORMAN M. CLAPP, ADMINISTRATOR, RURAL ELECTRIFICATION ADMINISTRATION

The 1964 budget requests an increase of $25 million in loan authorization for the electrification program. The increase will provide for the continuation of the $350 million loan program anticipated in 1963 with $75 million in reserve for additional loans.

For the telephone program the budget requests a reduction of $10 million in new authorization, from $80 million in 1963 to $70 million in fiscal year 1964, which with carryover will provide for a program of $95 million, the same level as in 1963.

SALARIES AND EXPENSES

Mr. CLAPP. Thank you.

In administrative funds, we have requested an increase in the electrification program of $29,960 to strengthen the lending and management field activities and $206,325 to strengthen and increase engineering activities. The request for the telephone program is an increase of $23,600 to strengthen lending and management field activities and $80,175 for development and application of improved and more efficient engineering equipment and techniques and to strengthen engineering activities. There is provided a reduction of $12,000 to reflect the estimated savings due to the installation of a centralized data processing operation in the Department. The budget also reflects an increase of $551,940 for pay costs pursuant to Public Law 87–793 which provides full year costs of the first step of the pay increase and for costs of the additional increase effective in January 1964.

Mr. Chairman, during recent years we have been compelled to get along without increasing administrative expenses, while at the same time absorbing a portion of general pay increases and increases in travel and per diem rates. We have now reached a critically low level in administrative funds. In the 2 programs we have dropped from an average annual employment level of 1,201 in 1950 to 956 estimated for fiscal year 1963. The average employment per borrower has dropped from 1.11 in 1950 to 0.51 at the present time. Even with an intensive program of management improvement and more effective utilization of personnel we are finding it extremely difficult to meet our program responsibilities. With an increase of $328,060 for the administration of the two programs we can increase average employment by about 22 man-years to relieve the most difficult engineering shortages.

LIMITATION ON CONTINGENCY RESERVE AUTHORIZATION

Then in addition the loan authorization language, on page 323 of the explanatory notes, proposes a change which limits the contingency reserve authorization to the electric program. The telephone program estimate includes the amount estimated to be required for 1964; therefore, provision of a contingency reserve for the telephone program is not needed.

This is a very brief statement, Mr. Chairman, covering our budget needs for fiscal year 1964.

I have some further observations, Mr. Chairman, that I would like to make with respect to our program, if the time of the committee permits.

Senator HOLLAND. Well, we have 10 or 15 minutes more. Go right ahead.

HANDICAPS FACED BY RURAL ELECTRIC COOPERATIVES

Mr. CLAPP. We referred in some of the discussion earlier this morning to the handicaps that face these rural electric systems that borrow money from REA. I would just like to point out to the committee that the problem facing the program is really one of not only providing the physical connection to bring electric service to rural people, but also to provide the service or to make possible the service itself on terms that are comparable to the rates and conditions of electric service in urban areas.

In general, the rates of REA borrowers, as much progress as they have made since the inauguration of this program, are actually about 15 to 20 percent higher than the rates for electric service in the urban areas. In some cases, the difference is as great as 40 percent.

Now, these higher rates reflect the handicaps of serving the rural areas. They reflect the handicap of the low density, to which I referred. Our borrowers average only 3.3 consumers per mile of line as compared to an average of 32 to 33 consumers per mile of line on the class A and B utilities systems. These systems are isolated. They weer of necessity built to serve areas that had been overlooked and bypassed in the expansion of the commercial utility systems years ago. They lack diversity of load, which is a factor in increasing costs. REA borrowers have very few large loads and obtain 75 percent of their revenue from farm and residential consumers, while the commercial utility systems get only 35 percent of their revenue from residential sales. REA-financed generation plants have an overall load factor of about 38 percent, as compared with approximately 50 percent for the utilities.

There is a further difference, too, in their respective situations, arising out of the nature of REA financing. It's customary in the commercial utilities field to continually fund a certain percentage of the investment. REA financing does not permit refinancing of facilities.

In other words, if the life of a certain portion of plant is 35 years, which is the loan period, the consumers, the owners and members of these cooperative systems, must in that period pay enough through revenues to pay off the loan, and in addition, replace the plant because REA does not make loans for the purpose of replacing the plant once it is built. Our authority and our policy is restricted to making loans only for additions to plants, or the heavying up of plants, providing additional capacity.

Senator ELLENDER. Don't they use the cash flow from depreciation to keep it up?

Mr. CLAPP. Well, Senator, depreciation is to return the cost of the facilities, and if REA has made a hundred percent loan on the cost of those facilities, the depreciation will then pay off the loan, but it will not provide for the replacement of those facilities to carry on from that point.

Senator ELLENDER. Well, I thought the REA loans were repaid out of profits?

Mr. CLAPP. They are not profits, Senator; they are margins. But the consumer must in the course of that 35-year period pay not only enough to repay the loan, but also to provide whatever replacement is necessary, so that you have an operating facility at the end of that 35-year period. This is a little heavier obligation on the consumers of these rural electric systems than exists for the capital purposes of the conventional commercial utility operation.

The investment per dollar of revenue on our systems, the systems that we finance, despite these higher rates, runs at $5.39 of plant investment for each dollar of revenue as compared with $4.51 for the commercial utilities.

INTEREST RATE ON REA FINANCING

Now, as so frequently is the case, when we discuss the REA program we get to this question of the interest rate on REA financing, and the records will show that even at 2 percent, the REA-financed systems pay in 7.4 percent of their operating revenues for interest. This compares with a payment of 6.2 percent of operating revenue from the commercial utilities that goes to interest payments. So even at 2 percent, the impact of interest on REA-financed rural systems as a cost against revenues is greater percentagewise than is the case in the commercial utility industry at whatever rate they pay for their borrowed money.

Senator ELLENDER. That is because of greater volume, of course.

Mr. CLAPP. Because of greater volume, and this reflects the comparison in density and the load characteristics of the two different kinds of systems.

Senator ELLENDER. Now, would you have the same comparison with regard to taxes?

Mr. CLAPP. I do not have the same comparison, sir. Of course, the nonprofit character of the cooperatives is another one of the important equalizers that are necessary to overcome the cost differentials in rural service.

Senator ELLENDER. Well, you have worked out the figures on interest. I wonder if it would be difficult for you to work out the difference on taxes paid?

Mr. CLAPP. I think we could draw on some sources, Senator, that would provide that information.

Senator ELLENDER. Obtain it then and put that in the record.

(The information referred to follows:)

Taxes as percent of electric operating revenue, calendar year 1961

	Percent
REA borrowers (1)	3.3
Class A and B utilities (2):	
Income tax	13.0
Other taxes	9.8
Total	22.8

(1) REA 1961 Annual Statistical Report.

(2) FPC 1961 statistics of electric utilities in the United States—Privately owned.

Most REA borrowers are nonprofit corporations not subject to Federal income tax under the provisions of the Internal Revenue Code applicable to a number of different categories of cooperatives.

COST DIFFERENTIALS

Mr. CLAPP. So to overcome these cost differentials between rural service as compared to urban service, the favorable financing of REA is still extremely important, if we are going to get this job done, and provide the blessings of electricity in rural areas on terms anywhere near comparable to electric service in urban areas.

As I said, the nonprofit character of the distribution systems themselves is an important equalizer in overcoming these costs, and the availability of the REA financing for generation and transmission is an important equalizer, because the cost of power accounts for 43 percent of the distribution cooperative's cost of providing service. This is a very substantial factor in their cost picture. It accounts for about 35 percent of their revenues from their consumer members.

Further equalizers that are important from the longrun standpoint are the development of some territorial integrity for these systems, so that they will be able to hang on to whatever portions of their territory have experienced some population growth and the benefits of greater density.

Also, from the long-range standpoint it is important that these areas develop economically, because these systems are confined to serving rural areas and they will prosper and strengthen as the areas they serve prosper and strengthen. So territorial protection and rural area development or economic development of the rural areas that these borrowers serve are extremely important from the standpoint of eventually strengthening these systems to the point where they will be able to carry on without any special assistance.

CONCEPT OF TERRITORIAL PROTECTION

Senator HOLLAND. How would you propose to accomplish territorial protection?

Mr. CLAPP. This is something, Senator, that is basically a State problem, and the cooperatives are going to have to secure this protection through the form of State legislation.

Senator HOLLAND. What do you do at this level to try to protect their territorial integrity?

Mr. CLAPP. We attempt in some instances to provide generating and transmission facilities which will have the effect of giving some protection against invasion of their territories. This is part of the third criterion that has been mentioned here this morning.

LEGISLATION IN STATES

So far as the legislation is concerned, which must be enacted in the States to provide this protection, all we can do is suggest an approach. We have suggested a so-called model territorial integrity bill which has been made available to our borrowers for their judgment and action as they see fit.

Senator HOLLAND. Has it been passed by any States?

Mr. CLAPP. Not in exactly the form that it has been prepared as a model bill, but some of the legislation that has been adopted in the last 2 years has incorporated certain features of this proposed legislation.

Senator HOLLAND. You say that preserving territorial integrities is one of the prerequisites that you are working toward. Does that mean that if a new industrial enterprise comes into a territory where an REA operates that in your concept, they are entitled to service that new business?

Mr. CLAPP. Yes, indeed. Because unless these systems can develop the greater diversity which comes about through the inclusion of larger loads, different kinds of loads, as well as residential and farm loans in these territories, the systems are never going to be able to achieve the kind of efficiency they must achieve if they are going to do the best job for the rural consumer.

Senator HOLLAND. Does that mean that if a new town or subdivision is built in an area served by an REA, that in your concept, that new town or subdivision is supposed to be served by the REA?

RETENTION OF SERVICE TERRITORY

Mr. CLAPP. We feel that they should be able to retain those areas which they have developed as rural areas, even though there may be population growth in them, or in certain parts of them, and these areas may later become annexed to larger municipalities.

Senator HOLLAND. Under the laws under which they operate, do they have a right to serve municipalities, no matter how large they may get, or when they develop in areas which the coop formerly served when it was only a small village?

Mr. CLAPP. The areas do not lose their eligibility as rural areas under the law by virtue of annexation to a larger municipality.

Senator HOLLAND. Then under your concept, the more the country develops, whether populationwise, municipalitywise, industrywise, or the like, in areas that formerly were rural, the more the REA's cease to exist as rural suppliers of electricity, and become general suppliers of electricity? Is that your concept?

FUTURE NEED OF REA

Mr. CLAPP. This is correct, and I feel that this is important from the standpoint of the strengthening of these systems to the point where someday they can do without REA.

Senator HOLLAND. How will they be able to do without REA? How do you mean?

Mr. CLAPP. Well, as they develop the density and the diversity, and the access to large-scale generation, the access to pooling resources, and thus become economically strong, they will not need the equalizers that I referred to a minute ago.

Senator HOLLAND. You mean you expect them to then give up voluntarily their tax exemptions and their right to borrow at 2 percent, and their other benefits which the law gives them, so long as they remain cooperative member organizations?

Mr. CLAPP. Well, I think they will be able to give up some of these, and still do an effective, efficient job. But that day is not here yet, Senator.

Senator HOLLAND. Do you have any instance where that has occurred?

Mr. CLAPP. Well, we have some borrowers that have paid off their REA loans.

Senator HOLLAND. Do you have any borrowers that have given up their REA exemptions and their privileges and become private producers of power, commercial producers of power?

Mr. CLAPP. These cooperatives, Mr. Chairman, are private producers of power, private distributors of power. They are owned by these people that they serve. We don't—as you well know—own any of their facilities.

Senator HOLLAND. Well, do you have any case out of your 1,000 borrowers where the cooperatives have given up that cooperative status and became the same class as the commercial suppliers of power?

Mr. CLAPP. There have been in past years some instances in which cooperatives have sold out to other utilities, but I do not know the particulars of any case. There has been no case in my tenure as Administrator.

Senator HOLLAND. Yet some of them have grown very strong, have they not, and have large generating systems, and sizable industrial customers, and municipal and suburban customers greatly differing from the type of rural customers which they first served?

Mr. CLAPP. There have been some substantial changes in some of the areas served by cooperatives under this program, but by and large, they have a long ways to go before they are in the same category with the commercial utilities from the standpoint of economic strength or financial resources.

The average equity among our borrowers' systems is now 22 percent. This is what the members themselves have contributed in the way of capital, over the years, toward the ownership or toward the investment in these facilities. This is growing at the rate of about 1 percent a year.

Now, this is considerably short of the customary equity in the commercial utility field, which runs in the neighborhood of 40 percent.

ROLE OF REA BORROWERS IN THE FUTURE

Senator HOLLAND. The reason I have asked these questions is I think that the general public is more interested right now in the question of what is the logical end toward which you are working? What is the function that you see for the REA's in the future as they grow stronger and stronger in the areas which originally were rural but are now becoming highly developed, and in which, as you say, you wish them to preserve their territorial integrity so they can become stronger and stronger?

The question is, Which way are we going? I speak to a great many people, farmers, bankers, private power people, some of our own managers and others that have that question constantly in their minds. What do you have in mind? Where are you going? Are you trying to create a public power system, integrated in great grids all over the country, to be highly competitive with the private power system and with the advantages which the law has built in? Or what is your objective?

Mr. CLAPP. As I indicated before, Mr. Chairman, I think we have to make a choice here, and the choice that we make at REA is to encourage the growing strength of the cooperative systems. We look forward to the day when they will be strong enough—if they are protected in their territories, if they develop greater density, if they are able to serve the larger loads as well as the small ones, if they have access to large-scale generation and pooling of facilities—the day will come when they will not need the assistance which REA currently provides them in the form of financing and technical assistance.

Now, if we allow it to go the other way, and if as these territories develop certain portions that have greater density and become attractive to the commercial utilities, are allowed to be taken away, if we restrict the co-ops to serving only the small loads, if we confine them in their power supply arrangements to isolated and self-contained generation, then we are simply condemning these systems to an eternal future of high-cost operation, in which some kind of assistance, financial and otherwise, is going to be necessary perpetually, or they will cease to function.

SOURCES OF WHOLESALE POWER

Senator HOLLAND. What is the situation now in regard to REA generation versus other sources and your purchases of energy? Will you furnish for the record a table on this similar to the one supplied last year?

Mr. CLAPP. We would be happy to.

(The table referred to follows:)

Total energy purchased and generated by REA borrowers, fiscal years 1952–62

Fiscal year	Total kilowatt-hours (in millions)	Source and percentage			
		Power companies	Federal agencies	Other public agencies	REA generation
1952	11,413	50.4	28.1	7.9	13.6
1953	13,146	49.2	29.0	7.9	13.9
1954	15,109	46.0	30.7	8.1	15.2
1955	17,255	42.9	31.7	7.8	17.6
1956	19,933	40.4	34.4	7.6	17.6
1957	21,610	39.8	36.6	7.4	16.2
1958	23,278	39.1	39.1	7.4	14.4
1959	26,234	37.4	39.2	7.2	16.2
1960	29,266	37.8	39.3	7.3	15.6
1961	31,445	37.7	38.9	7.3	16.1
1962 [1]	33,915	38.6	38.1	7.3	16.0

[1] Preliminary.

EXCESS OF GENERAL FUNDS OVER ADEQUATE RESERVES

Senator HOLLAND. Last year, both committees requested you in the report accompanying the appropriation bill to review the reserve situation. That is, the excess of general funds over adequate reserves. What have you done on this, and what advance payments have you received as a result of this review? Do you have a report of that review to insert in the record?

Mr. CLAPP. Yes, and I would like to review it very briefly orally, if we have time, Mr. Chairman.

Senator HOLLAND. How long is your statement?

Mr. CLAPP. I can do it in less than 5 minutes.

Senator HOLLAND. All right, proceed.

REVIEW OF REPORT

Mr. CLAPP. As a result of the general funds policy which we inaugurated in 1962, a year ago, there has been a very substantial increase in the amount of advance payments received from our borrowers against debt service obligations.

During the period from February 1962 through December 31, 1962, amounts received from electric borrowers as advance payments was $36,700,000, which represents a net increase during the period of $25 million.

A comparison of this net increase from electric borrowers during the 8 months of the fiscal year ending February 28 shows that in fiscal year 1960, this increase amounted to $9,300,000. In fiscal year 1961, it amounted to $5,600,000. In fiscal year 1962, it amounted to $9 million. In fiscal year 1963, it amounted to $20,500,000. So you can see the increase is very substantial, and it is directly attributable to this policy.

Senator HOLLAND. In other words, the money was coming out of general fund status to go either into reserve fund or become advance payments on their obligations to REA. Was that right?

ADVANCE PAYMENTS TO REA

Mr. CLAPP. Now these particular sums were advance payments to REA.

Senator HOLLAND. And they came out of what had previously been held as general funds. Is that right?

Mr. CLAPP. General fund and current margins, I suppose, to some extent, but it is a result of the application of the general funds policy to their financial planning.

Now, in addition to this, there have been some notes paid off in full ahead of schedule. From February 1, 1962, through December 31, 1962, 167 of these notes, representing payments of approximately $18 million, were paid off ahead of schedule.

During the same period, we estimate that $33 million of general funds were invested in plant, and this, of course, had the effect of reducing the demand for loan funds. General funds took the place of loan funds for plant additions to this extent during this period.

RESULTS OF POLICY ON USE OF GENERAL FUNDS

As of June 30, 1962, there were 217 borrowers in the electric program with unadvanced loan funds and with general funds over 20 percent of plant. There are today 185 in this category, and this is a net reduction of 32. And we have indications from 65 borrowers that they are inaugurating policies which will reduce their general funds to bring them within the limits of the policy we have suggested. So we have made some very substantial progress in this field, and I might add, Mr. Chairman, that the progress which has been made has not only been the product of this policy, but also the wholehearted and enthusiastic response that we have had from the borrowers. I think it has been evident from our experience that they were looking for guidance as to what was expected of them, and once this policy was laid out in some detail, they responded voluntarily in magnificent fashion.

Senator HOLLAND. Do you have a formal report on this subject there which you would like to incorporate in the record at this time?

Mr. CLAPP. We would prepare a tabulation which would show all these figures, Mr. Chairman.

Senator HOLLAND. I wish you would do that.

(The information referred to follows:)

RESULTS OF NEW GENERAL FUNDS POLICY

A new general funds policy bulletin was issued February 12, 1962, setting forth Rural Electrification Administration recommendations with respect to general funds of REA borrowers. The response to the bulletin has been excellent.

From February 1, 1962, through December 31, 1962, $36.7 million was received from electric borrowers. Also, from February 1, 1962, through December 31, 1962, notes representing payments of $18 million were paid off ahead of schedule ($13 million in cash and $5 million transferred from cushion of advance payments). During the same period we estimate that about $33 million of general funds was invested in plant, thus relieving the demand for loan funds.

A comparison of 4 years' advance payment made by electric borrowers in the first 8 months of each fiscal year through February 28 follows:

NET INCREASE IN ADVANCE PAYMENTS HELD BY REA

[In millions of dollars]

Fiscal year 1960	9.3
Fiscal year 1961	5.6
Fiscal year 1962	9.0
Fiscal year 1963	20.5

We have been working intensively with borrowers who have unadvanced loan funds and reserves in excess of 20 percent of plant, in an effort to induce them to bring the reserves down to within our recommended levels. As of June 30, 1962, there were 217 borrowers having unadvanced funds with reserves greater than 20 percent of plant—now there are 185, a reduction of 32. Sixty-five more of these borrowers have arranged for reductions of reserve funds.

BORROWER'S INVESTMENTS

Senator HOLLAND. Senator Ellender.

Senator ELLENDER. Mr. Chairman, I have information here which indicates that as of December 31 of 1961, the excess or the total equity, let's put it, in the co-ops, was $779 million, of which the sum of $400 million was loaned out by the co-ops, and invested in different associations, and various securities. Could you give us the latest figures on the equity and how much of the excess is invested in securities?

Mr. CLAPP. Yes, we would be happy to do so, sir.

(The information requested follows:)

As of December 31, 1961, the equity of all electrification loan borrowers was $779,891,551. Of that amount $747,694,039 represents the equity of cooperative associations.

Breakdown of borrowers' investments, cash and special funds by types of investments [1] *as of Dec. 31, 1961*

	Percent	Amount
U.S. Government bonds	50.3	$296,571,000
Cash, checking, and demand deposits	21.3	125,429,000
Savings and loan associations	13.4	79,160,000
Savings accounts, certificates of deposits, and time deposits	6.1	35,678,000
Associated enterprises	5.4	31,687,000
All other	3.5	20,626,000
Total		589,151,000

[1] Distribution of the total among the various categories of investments (except investments in Associated Enterprises which came direct from the borrowers' reports) was made in accordance with percentages developed in 1959, when a complete study was made covering the audits of all borrowers. Subsequent checks, on a sample basis, have not shown any substantial change in these percentages.

Senator ELLENDER. That doubtless bears more interest than the co-ops have to pay on the loans, and I presume that's the reason why they do not pay more in advance the amount due the Government.

Mr. CLAPP. Senator, the position we——

Senator ELLENDER. Would you get that information?

Mr. CLAPP. Yes, we will supply it.

Senator ELLENDER. Proceed.

Mr. CLAPP. I just wanted to add this one thing: That within the limitations or within the levels that we feel are justifiable and desirable for the accumulation of general funds as operating capital, for renewal and replacement of facilities, and for contingencies, within those levels, we feel that it's only proper for the cooperative to exercise prudent management in the handling of its general funds and to handle them to the best advantage. But we do, in this general funds bulletin, insist that if you are to justify the possession of general funds for these purposes, they must be kept in a form, in the type of investment which make them available for those purposes, if the need arises. So we place heavy emphasis on safety and liquidity. With respect to safety, we recommend and in effect require that they be placed in forms that are guaranteed by the U.S. Government or its instrumentalities, and with respect to liquidity, we recommend that they shall be in such form and in such securities where they can be redeemed within 12 months without loss. We allow only a margin of tolerance of 1 percent of the total plant to deviate from that.

So we feel, Senator, that if they can invest their general funds in a form that meets these standards of safety and liquidity, and still make a little margin on the interest differential, this is not bad—this is prudent management. Since we have closed off the end of this general funds pipeline, any such gain in effect eventually relieves the pressure of need for future loan funds, because this becomes an internal resource, which tends to diminish the need to resort to external resources.

Senator ELLENDER. Well, it is just a question of time, if they continue to improve as they have, that they will be able to do without the Government, which would be a good thing.

POLICY OBJECTIVE

Mr. CLAPP. I don't know how soon it will be, Senator, but certainly this is our objective. I think the day will come when, as I said before, these systems will be able to get along without REA, and this is the end toward which our policy is directed. That day is not here yet.

Senator ELLENDER. Well, I am very hopeful, though, that you will encourage them to pay off their debts rather than accumulate funds for investment. Because as I said, Uncle Sam needs the money now very badly. As you know, he is borrowing plenty of money at 3½ and 4 percent.

Senator HOLLAND. Mr. Clapp, to go for a moment to the telephone program, what is the repayment situation now on telephone loans?

RURAL TELEPHONE PROGRAM

Mr. CLAPP. The total loans in the telephone program by the end of this fiscal year will amount to a billion dollars, and of this amount, $53,428,095 has been repaid on principal.

Senator HOLLAND. How much is now delinquent, and how many delinquencies do you have?

Mr. CLAPP. We have five borrowers delinquent for a total delinquency of $222,000 in principal, and $3,000 in interest.

Senator HOLLAND. How many borrowers are there under the rural telephone program?

Mr. CLAPP. 800.

TELEPHONE LOANS

Senator HOLLAND. I know you have reduced the requests for loan authorization from the RTA's from a total of $122.7 million for last year, including the carryover, to a total of $97.7 million for next year, including the carryover.

Mr. CLAPP. That's correct.

Senator HOLLAND. Does this mean that you are getting that program along toward the completion, or what is the situation?

Mr. CLAPP. Well, we still have a ways to go so far as the ultimate saturation is concerned. By the end of this fiscal year—well, let me say this: In 1950, the percentage of farms with telephone service was 38 percent, and this percentage has now increased to 74 percent. By the end of this fiscal year, about 1,500,000 consumers will be receiving service from REA borrowers, and loans will have been made to serve 1,900,000.

TELEPHONE LOANS BY TYPE OF BORROWER

Senator HOLLAND. How is that broken down between loans to existing small telephone companies or large, and to the new cooperatives?

Mr. CLAPP. The total loans approved to cooperatives as of the end of February was $323,088,595. The total amount of loans approved to commercial companies was $619,498,836.

Senator HOLLAND. Some of the cooperatives were already in existence, were they not? They were not created under this legislation, but were small cooperative independent telephone companies?

Mr. CLAPP. Yes, that's true, mutual telephone companies.

Senator HOLLAND. Do you have the figure for your cooperative borrowers broken down between those created to come under this law and those that have already existed as independent telephone cooperative exchanges?

Mr. CLAPP. I do not think that we have any figures making quite that division, Senator.

Senator HOLLAND. Please supply for us such figures as you can, making a three-way breakdown. First, the commercial, profitmaking telephone company, whether idependent or large, and most of it has been independent. Second, the associations, where you use rural electric association or set up one like it to function in this field, with the borrower set up. And third, where the cooperative telephone exchange already existed under State law, and you simply made a loan for the extension of their service, or the enlargement of it.

Mr. CLAPP. One of the problems that we will face in this, Senator, is that even with the new cooperatives in many instances they involved an acquisition of an existing exchange, because in most areas of the country there was some kind of telephone service in existence.

Senator HOLLAND. Give us the best breakdown that you can on this, because I will recall that in passing this legislation Congress

applied this mandate that loans to going concerns for the extension of service were to be preferred over the creation of new organizations. You recall that.

Mr. CLAPP. That is correct, sir.

Senator HOLLAND. I still follow that mandate, do you not?

Mr. CLAPP. We, of course, observe all mandates of the act.

(The information referred to follows:)

Cumulative telephone loans as of February 28, 1963, broken down into categories of borrowers, number of borrowers in each category, and amount

Type of borrower	Number	Amount
Commercial companies	586	$619,498,836
Cooperatives or mutual companies existing at time of first loan	48	26,297,569
Cooperatives or mutual companies formed at time of first loan	166	296,791,026
Total	800	942,587,431

COMMITTEE RECESS

Senator HOLLAND. All right, unless there are further questions, we will recess until 10 in the morning.

We thank you very much, Mr. Clapp, you and your associates.

Mr. CLAPP. Thank you, Mr. Chairman.

(Whereupon, at 12:27 p.m. Tuesday, April 2, 1963, the hearing was adjourned, to reconvene at 10 a.m., Thursday, April 4, 1963.)

DEPARTMENT OF AGRICULTURE AND RELATED AGENCIES APPROPRIATIONS, 1964

THURSDAY, APRIL 4, 1963

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 10 a.m., pursuant to call, in room S–128, the Capitol, Hon. Spessard L. Holland, chairman of the subcommittee, presiding.

Present: Senators Holland, Stennis, Young, Ellender, and Aiken.

RURAL ELECTRIFICATION ADMINISTRATION

NATIONAL REA TELEPHONE ASSOCIATION

STATEMENT OF DOUGLAS GLEASON, COUNSEL

PREPARED STATEMENT

Senator HOLLAND. The first witness is Mr. Douglas Gleason, counsel for the National REA Telephone Association.

Mr. Gleason, we are glad to have you here. I notice that your statement embodies a large number of statistics beginning at the bottom of page 2. Do you propose to read the whole statement, or request that it be inserted in the record and advise the committee as to the specific requirements as visualized by your association in reference to the amounts available from the REA for loan authorization.

Mr. GLEASON. Mr. Chairman, I propose to ask that this entire statement be made a part of the record in this proceeding and I will not read the entire statement.

(The statement referred to follows:)

Mr. Chairman, members of the committee, I thank you on behalf of the National REA Telephone Association and I extend my personal thanks to you for granting time for this privileged appearance and for receiving this prepared statement into the record of your proceedings. We sincerely hope the information we present will aid you in your determinations.

My name is Douglas Gleason and I live in Ottawa, Kans. I am senior partner in the law firm of Gleason, Gleason, Doty & Logan with offices in Ottawa and Topeka, Kans. For nearly 10½ years until the end of 1962 I served as secretary and counsel of the Kansas Telephone Association. I am a stockholder, director, and president of Caldwell Telephone Co., Inc., which serves three small cities

in Kansas and am a director and vice president of Northern Kansas Telephone Co. which serves 36 small cities, towns, and rural communities in Kansas. Until late last year I served as executive director of an informal organization of independent telephone companies and cooperatives called the National REA Telephone Borrowers Committee. I have been privileged to appear before you on behalf of that organization during your hearings in 1960 and 1961 and prepared information which was presented to you in 1962. That organization was dissolved late last year and was succeeded by National REA Telephone Association, a nonprofit corporation. I am a director of that association and represent it here today as counsel. Mr. Norman McFarlin serves as the association's executive director.

The telephone companies and cooperatives who make up the membership of the National REA Telephone Association provide telephone service for farms and rural communities in 40 States. All of them have borrowed money from the Rural Electrification Administration to build new rural telephone systems or to make improvements in existing systems. They have common problems on which they exchange views through the 30-member board of directors or the office of the executive director here in Washington.

One of the purposes of National REA Telephone Association has been to make studies to determine the extent of REA telephone loan fund requirements and report its findings to this subcommittee.

In making our studies of the requirements for fiscal 1964 we have followed the same practices and applied the same principles as were followed in loan requirement studies made by the National REA Telephone Borrowers Committee. The basic information we used was provided by telephone companies and cooperatives who have received loans from REA. All of these borrowers have had experience in determining the number of customers to be served in a new service area. All of them have had experience in building new telephone systems or improving existing systems. All are familiar with current costs and the trend of the costs.

It is never possible to persuade all telephone borrowers to provide the information required to complete a study. We have secured information from a large enough percentage of the borrowers to enable us to develop a sound estimate of total loan requirements. We forwarded questionnaires to each of 798 telephone borrowers. A total of 251 borrowers, 34.4 percent of the total number, returned completed questionnaires to us. These completed questionnaires showed what new or improved service the borrowers planned to provide during the 18 months beginning January 1, 1963, and ending on June 30, 1964, and the amount of loan funds which they would require to complete their plans.

For purposes of administration REA has divided all the States and possessions into five geographic areas. Loan activities in each area are administered by an area office under the direction of an area director. Because we believe it may be helpful to all concerned we have recognized the area divisions in our studies and in our reports.

A tabulation of the number of borrowers, the number of borrowers completing and returning questionnaires, the percentage of all borrowers reporting, the amount of loan requirements reported and the computed total loan requirements for each State and each REA administrative area is set forth in the body of this statement for convenience and reference.

Area and State	Number of borrowers	Borrowers reporting	Percentage reporting	Amount of loan requirements	Computed total loan requirements
NORTHEAST					
Indiana	27	9	33	$950,000	$2,850,000
Maine	10	7	70	1,540,000	2,200,000
Massachusetts	1	0	0	0	0
Michigan	15	5	33	198,000	594,000
New Hampshire	2	0	0	0	0
New Jersey	3	1	33	0	0
New York	11	6	54	2,163,000	4,005,555
North Carolina	17	5	29	1,715,000	5,913,793
Ohio	10	4	40	100,000	250,000
Pennsylvania	22	14	64	4,715,967	7,368,698
Vermont	2	0	0	0	0
Virginia	12	1	8	0	0
West Virginia	10	3	30	48,000	160,000
Total	142	55	39	11,429,967	23,142,046
SOUTHEAST					
Alabama	22	6	27	781,000	2,892,600
Florida	10	2	20	750,000	3,750,000
Georgia	38	8	21	1,135,500	5,407,100
Kentucky	17	8	47	3,235,000	6,883,900
Mississippi	15	3	20	1,927,000	9,635,000
South Carolina	16	4	25	125,000	500,000
Tennessee	22	6	27	1,750,000	6,444,400
Total	140	37	26	9,703,500	35,513,000
NORTH CENTRAL					
Illinois	27	13	48	819,317	1,706,900
Iowa	44	21	47	5,123,000	10,900,000
Minnesota	48	13	27	2,690,000	9,962,900
North Dakota	11	2	18	906,800	5,037,700
South Dakota	15	2	13	50,000	384,600
Wisconsin	58	20	34	4,230,000	12,441,100
Total	203	71	35	13,819,117	40,433,200
SOUTHWEST					
Arizona	2	2	100	2,250,000	2,250,000
Arkansas	19	4	21	1,580,000	7,523,800
Louisiana	20	4	20	558,000	2,790,000
Missouri	38	14	37	4,393,000	11,873,000
New Mexico	6	1	16	0	0
Oklahoma	22	1	4	0	0
Texas	64	11	17	365,000	2,147,000
Total	171	37	22	9,146,000	26,583,800
WESTERN					
Alaska	1	0	0	0	0
California	11	3	27	640,000	2,770,300
Colorado	9	4	44	485,000	1,102,300
Idaho	8	3	38	530,000	1,394,200
Kansas	38	12	32	1,942,118	6,069,100
Montana	9	4	44	722,150	1,641,200
Nebraska	15	5	33	1,201,000	3,603,000
Nevada	3	1	33	0	0
Oregon	20	11	55	740,600	1,346,500
Utah	7	1	14	400,000	2,857,100
Washington	14	7	50	430,000	860,000
Wyoming	7	0	0	0	0
Total	142	51	36	7,090,868	21,643,700

A summary by administrative areas of all the foregoing computed State loan requirements is as follows:

Area	Loan requirements reported	Loan requirements computed
Northeastern	$11,429,967	$23,142,046
Southeastern	9,703,500	35,513,000
North central	13,819,117	40,433,200
Southwestern	9,146,000	26,583,800
Western	7,090,868	21,643,700
Total	51,189,452	147,315,746

It will be noted that fewer than 25 percent of the borrowers in some of the States submitted reports. Also in one of the administrative areas, the Southwest, fewer than 25 percent of all the borrowers submitted reports. It is our belief, based upon some professional counseling, that loan requirement information from fewer than 25 percent of the borrowers in any given area cannot be regarded as an adequate basis for reliable computed total requirements. On this basis the reliability of the computed requirements for some of the States and for the Southwest area is subject to some doubt. We eliminate most of the doubt if we use for our study units, the five REA administrative areas. Only the computed requirements for the Southwest area are then subject to criticism by the statistical standards we have employed.

Area	Number of borrowers	Borrowers reporting	Percentage reporting	Amount of loan requirements	Computed total loan requirements
Northeastern	142	55	39.0	$11,429,967	$29,307,600
Southeastern	140	37	26.0	9,703,500	37,321,100
North central	203	71	35.0	13,819,117	39,483,200
Southwestern	171	37	22.0	9,146,000	42,342,100
Western	142	51	36.0	7,090,868	19,696,800
Total	798	251	31.0	51,189,452	168,150,800

While the computed loan requirements are more reliable on an area basis than on an individual State basis, this grouping of the State's requirements will not overcome all possibility of error. The final estimate of total loan requirements must necessarily include the effect of considerations given to requirements actually reported, to the computed requirements and to judgments based upon knowledge of the loan program and the history of its progress in the individual States.

Our total computed requirements, both those based upon reported requirements for administrative areas and for individual States, are for the 18-month period beginning January 1, 1963, and include loan funds already applied for. We can be most helpful to you by making the adjustments necessary to reflect loan fund requirements for the 12-month period beginning July 1, 1963. For this purpose it would appear reasonable simply to reduce the computed requirements shown above by one-third and to adjust the results to allow for the amount of loan funds already appropriated it is estimated will be on hand July 1, 1963. Two-thirds of the loan fund requirements computed by State equals $98,210,497. Two-thirds of the loan fund requirements computed by administrative areas equals $112,100,534. The total requirements for telephone loan funds should fall in the range of these two figures, that is from $98,210,497 to $112,100,534. We are informed that on July 1, 1963, there will probably be $27 million in loan funds already appropriated to apply to the requirements for the 12-month period beginning then. By reducing the upper and lower limits of the range of figures established above we foresee requirements for new loan fund appropriations of from $71,210,497 to $85,100,534.

The weaknesses that are inherent in our method of computing loan fund requirements are perhaps even more pronounced than those found in most statistical projections. The results of the computations are nevertheless of value. A range of new loan requirements of from $71 to $85 million appears

reasonable when viewed in light of past appropriations, the growth in the number of borrowers, the number of customers served and the changes occurring in the character of the demands for telephone service.

It is our best judgment that the amount of new loan funds for the REA telephone loan program for the fiscal year 1964 will be not less than $71 million and not more than $85 million. We recommend that the sum of at least $71 million be provided by regular appropriation and that an additional $14 million be set up in a contingency appropriation to be available if and as needed.

The administration has included the sum of $70 million in new telephone loan funds in its recommended budget for the fiscal year 1964. Our recommendation is consistent with the administration's request. We acknowledge that the information available to the administration is much more detailed than ours. The administration's computations are more a matter of totaling up the sums involved in loan applications filed and in the course of development in the field than of making mathematical projections from information supplied by borrowers. We do suggest that the information from which the administration's recommendations are derived does not provide the basis for giving full effect to the costs related to rapid changes in both telephone technology and the character of service demanded.

The congressional declaration of policy set forth in the 1949 legislation which created the telephone loan program reads as follows:

"It is declared to be the policy of the Congress that adequate telephone service be made generally available in rural areas through the improvement and expansion of existing telephone facilities and the construction and operation of such additional facilities as are required to assure the availability of adequate telephone service to the widest practicable number of rural users of such service."

Continued availability of adequate low-cost, long-term financing is essential if the declared policy of Congress is to be given full effect. The telephone companies and cooperatives who are REA borrowers have no other source of debt capital open to them. There are people who still have inadequate telephone service or no telephone service at all. Those who are still to be served were as much the intended beneficiaries of the congressional declaration of policy and the telephone loan program as those who have already received service through that program.

We urge you to continue this rural telephone loan program at a level which promises fulfillment of rural needs for adequate telephone service within a reasonable time. The amount we have recommended for telephone loan funds will enable the program to go forward at a pace which we believe will achieve that goal.

We all recognize that appropriations of loan funds must be accompanied by appropriations of funds for efficient administration of the loan program. The Administrator must have the means to measure the merits of applications for loan funds. He must have information upon which he can rely with confidence concerning the experience, reliability and other pertinent qualifications of the applicant, the needs for the telephone service which the applicant proposes to provide with the loan funds sought, the adequacy and dependability of the system designed by the applicant or his engineer to meet the needs for service, the costs of providing the proposed service and the adequacy of the bookkeeping and accounting practices of the applicant to reflect at all time his financial condition and the results of his operations. All this information, and more, which would be required by a private lending institution, should be gathered in greater detail and scrutinized even more carefully where the lender is the Government and the funds loaned belong to the public. Further the Administrator must be able to ascertain that loan funds advanced pursuant to an approved application have been expended only for authorized purposes, that the telephone system of the borrower has been built in accordance with the approved design and specifications on which the loan was based, that all the terms and conditions of the loan contract and mortgage are being complied with, that the telephone system is being operated and maintained in a manner consistent with good operating practices and that the books and records of the borrower accurately reflect his assets and liabilities and his revenues and costs.

All these things in the process of determining whether to make the loan in the first instance and in following up a loan already made are necessary to the sound administration of the loan program and the protection of the Government against loss or the deterioration of loan security. These necessary functions of the Administrator are more efficiently and meaningfully done if a relatively high

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degree of uniformity can be obtained in engineering, construction, operating, accounting and reporting standards and practices. Borrowers generally recognize the need for a rather high degree of uniformity in all these areas, but they have to have communicated to them what standards and practices are to be observed by all borrowers. Only if the Administration has sufficient trained personnel to inform and educate and assist borrowers can the desired degree of uniformity be achieved.

The budget recommendations for fiscal 1964 are for administrative funds in the amount of $11,344,000. This exceeds the fiscal 1963 appropriations for administrative funds by $1,320,000.

Adjusted compensation for personnel presently employed, in accordance with legislation already effective, makes nearly $1 million of this increase necessary. According to our information the recommended increase in administrative funds will make approximately $325,000 to $330,000 available for the employment of additional people. At least the 30 to 35 people this sum will permit to be employed are needed if each borrower is to receive the information and assistance he requires to make his standards and practices conform in effect to the standards and practices determined by the Administrator to be uniformly desirable.

We recommend that administrative funds in the amount set forth in the recommended budget be appropriated.

BUDGET RECOMMENDATIONS

Senator HOLLAND. We are very glad to put the statement in the record and then we will be glad to hear you on the amounts which you think should be made available for telephone loan authorization.

When the agency representatives were before the committee it was indicated that they requested new authorization for fiscal 1964 of $70 million, which is $10 million under the current 1963 authorization. They also were not requesting any contingency funds for the rural telephone program. It was further brought out that the anticipated carryover from 1963 to 1964 would be $27,701,000 plus, thereby making, with the $70 million request, over $97 million for new loans in 1964. Is this your understanding of the budget presentation of the Department, and, secondly, does your organization believe that the estimated $97.7 million will be adequate?

Mr. GLEASON. Mr. Chairman, that is our understanding of the budget recommendations. The studies which we have made and the results of those studies which are presented here in this report would indicate that to be a minimum requirement.

Our studies indicate that the requirements run from the $97 or $98 million up to as high as $114 million and we believe our studies support these figures and we would recommend that a firm appropriation of not less than $70 million be made with perhaps a contingency appropriation of $14 or $15 million to be available in case the need for such funds arises. That is the form in which we have made our recommendations in this report.

Senator HOLLAND. Mr. Gleason, do you represent only the co-ops, or all of the telephone organizations that are borrowers from the REA telephone setup?

ASSOCIATION MEMBERSHIPS

Mr. GLEASON. The National REA Telephone Association has within its members both commercial corporations and cooperatives. As a matter of fact, the bulk of the members of this association are commercial corporations.

Senator HOLLAND. The bulk of the number of borrowers by and large under this program are the commercial corporations.

Mr. GLEASON. That is true.

Senator HOLLAND. And the bulk of the lendings have gone to such borrowers.

Mr. GLEASON. That is correct.

Senator HOLLAND. This is in accord with the direction of Congress in passage of the legislation, is it not?

Mr. GLEASON. That is so. That is what we understand.

Senator HOLLAND. We are glad to have you. Is there anything else you would like to say?

REQUEST FOR INCREASES IN ADMINISTRATIVE FUNDS

Mr. GLEASON. I only want to suggest, if the Chairman please, that we appreciate the opportunity to present this statement and we appreciate, of course, the attitude of the Congress since the amendment of the law to provide for telephone loans. This program has gone consistently forward until now at least 74 percent of the farms in the United States have telephones. We believe that the recommendations that we have made here will permit the program to go forward at a pace which ultimately will reach all of these rural establishments and provide modern service for all who require it. In this particular budget I want to call attention to the fact that certain increases in administrative funds have been requested. We believe that these are supported by the need for such services.

While the general amounts of appropriations and the amounts of loans have declined, the numbers of loans themselves have not, and the department, of course, has to do about as much work in processing a small loan as it does in processing a large one basically, and the cost through wage increases, salary increases, and so forth, which are already matters of legislation we feel would require the additional administrative funds which have been requested, and additional personnel to speed up loans would be helpful.

Senator HOLLAND. The increase of $880,000 requested by the administrative agency you approve and support?

Mr. GLEASON. Yes, sir.

AUTHORIZING LEGISLATION

Senator HOLLAND. It happens that I was chairman of the subcommittee of the Committee on Agriculture that handled this authorizing legislation, and I recall well that we emphasized the lending to existing organizations and we found also at that time that there was a very great difference between this setup and the power setup in many respects. The more units you have in an organization of this kind, the greater the cost per unit, which is quite different from the power facts.

Mr. GLEASON. That is true.

Senator HOLLAND. Second, that there are a great many more, or were at that time a great many more, country people who did not avail themselves of the telephone service than there were with reference to power; third, that in the event of hard times the telephone service was much more apt to be discontinued than the power service. Have

those conclusions which we reached at that time from the facts then available to us been borne out by the record of the operation?

Mr. GLEASON. I think there is no question about it. I think certainly that is correct. I know from what the Senator has said that there is very little I could say to add to your knowledge of this subject, sir.

Senator HOLLAND. You could add a great deal to my knowledge, but what I was trying to get at was the question of whether or not the actual operation has borne out the facts which we had before us and our belief as to what would occur.

Mr. GLEASON. That is correct.

Senator HOLLAND. We thank you very much.

Senator Young or Senator Stennis, does either of you have questions?

Senator STENNIS. No, Mr. Chairman.

Senator HOLLAND. Thank you very much, Mr. Gleason.

Mr. GLEASON. You are welcome.

NATIONAL TELEPHONE COOPERATIVE ASSOCIATION

STATEMENTS OF JAMES L. BASS, PRESIDENT; AND DAVID C. FULLARTON, EXECUTIVE MANAGER

GENERAL STATEMENT

Senator HOLLAND. Next the committee will hear the presentation from representatives of the National Telephone Cooperative Association with headquarters in Washington, D.C. I am advised that Mr. James L. Bass, the president of the association, is here together with Mr. David C. Fullarton, executive manager. Will you gentlemen have seats.

We are pleased to have you both before the committee. Are you submitting statements for the record, or what is your pleasure?

Mr. FULLARTON. Mr. Chairman, I will summarize the prepared statement briefly if you would prefer.

Senator HOLLAND. Do you each have statements, or do you have a joint statement?

Mr. FULLARTON. I have a prepared statement. Mr. Bass has an informal statement.

Senator HOLLAND. Your prepared statement will be inserted in the record. Do you wish to supplement it by any résumé?

Mr. FULLARTON. Yes, sir. If you will hear Mr. Bass first I would appreciate it.

Senator HOLLAND. We would be glad to hear Mr. Bass.

BACKGROUND OF WITNESS

Mr. BASS. Mr. Chairman and members of the committee, my name is James L. Bass. I am president of the National Telephone Cooperative Association and I am also a member of a telephone cooperative that operates through financing obtained through the REA telephone loan program, and in previous years I did serve on the board of directors of that cooperative. I merely wish to say that I appreciate the opportunity to appear before this committee and that we of rural America who obtain our telephone service through loans

from the REA appreciate the opportunity to be here and we appreciate the good interest of this committee as well as the Congress in visualizing the needs of this program and making the funds available. Also, Mr. Chairman, we appreciate the great amount of work done by you and other members of the committee who were interested in passing the amendment to the Telephone Act last year that permitted financing in such areas as educational television and other related services. It might be of interest to the chairman to know that already one loan has been approved for that type service and others are being processed now in the REA. I merely wish to say that I do appreciate this opportunity to come to this committee and make these views known.

Mr. Fullarton will give you a more detailed statement concerning what we feel are the needs of the program for fiscal 1964, sir.

Thank you.

Senator HOLLAND. We thank you. You are from one of the Carolina's?

Mr. BASS. Tennessee, sir.

Senator HOLLAND. What is your home?

Mr. BASS. Carthage, Tenn., sir; if I may insert it in the record, the home of Senator Albert Gore and also the home of the former Secretary of State, the Honorable Cordell Hull.

Senator HOLLAND. And your home.

Mr. BASS. And my home.

Thank you, sir.

Mr. Chairman, I don't believe I have been back to Washington but once since the amendment passed and we of America appreciate the very great interest you as well as Senator Young and others displayed in this, and I personally appreciate the attention you gave me last year, sir, in hearing some of the reasons why we felt that this amendment should be passed.

Senator HOLLAND. Thank you, sir.

Senator YOUNG. Mr. Chairman, these farmers have memories like elephants.

Senator HOLLAND. He would use the elephant. I would say like a donkey.

Mr. Fullarton, you may testify.

Mr. FULLARTON. Thank you, Mr. Chairman.

I will be very brief.

PREPARED STATEMENT

Senator HOLLAND. We will place your statement in the record.

(The statement referred to follows:)

My name is David C. Fullarton. I am executive manager of the National Telephone Cooperative Association with offices here in Washington, D.C.

NTCA is the national service organization for telephone cooperatives throughout the United States. Our member systems are REA cooperative telephone borrowers operating under the REA telephone program.

Telephone cooperatives were, and are being, formed to augment the 1949 telephone amendment to the REA Act by providing adequate and reliable telephone service to rural America, through the upgrading and improvement of existant systems, and by extending telephone service to the unserved areas of the country.

The progress of the REA telephone program has been substantial and constant. For example, at the end of 1960 only 54.4 percent of occupied farms in the United States had what could be termed adequate and reliable telephone service. This percentage was increased to 59.6 percent by the end of 1961 and to 65.9

percent by the end of 1962. The percentage was increased through diligent and constant effort on the part of Congress, REA, and on the part of the telephone borrowers. We are grateful for the part you gentlemen have played in this important work, but the job is far from finished. This is why we appear before you here today. The yet unserved rural establishments, and there are many, are in the more remote, more sparsely populated areas making it all the more difficult to provide them with modern communications. But the needs of these areas and the desires of the people are none the less urgent or important for these conditions.

There was a time perhaps, in the history of our country, when efficient and reliable communications service was a luxury, but such is not the case today. Communications is as much a necessity in our way of life as any of the other utility services that we, who live in the more densely populated areas, take for granted.

In order to realistically and accurately estimate the amount of new loan authorizations necessary for continued progress in the REA telephone program through fiscal 1964, we have conducted a survey of all REA telephone borrowers to determine their requirements. The results of this survey, together with a projection of past needs into future needs, reveal that $70 million in new loan authorizations will be both necessary and sufficient for fiscal 1964. These funds will be used primarily for the extension of telephone service to presently unserved areas and for the improvement of services in areas where present telephone systems can by no means be termed adequate or reliable. We ask that this committee include the full $70 million for the REA telephone program in its recommendations to the Congress.

Administrative funds are as necessary for continuation of the REA programs as are loan funds, and this association supports the $11,344,000 budget request for administrative funds.

Telephone cooperatives have always taken the lead in extending telephone service to all of rural America. We are sure that they will continue to show this initiative and leadership and they have, in fact, expressed a dedication to this task. Much progress has been made—but there is much yet to be done. With the support of the administration and of Congress, we are convinced that the long-sought objective of modern and reliable telephone service for all Americans will soon be realized. Thank you.

GENERAL STATEMENT

Mr. FULLARTON. We think that the REA telephone program has made a tremendous amount of progress, with the help of Congress, REA, and through the efforts of telephone borrowers. We also think that there is quite a bit of work yet to be done in this area and the work that is left is most difficult since the presently unserved areas are the more remote, more sparsely populated, areas of the country, making economically feasible telephone service even more difficult to provide.

SUPPORT OF BUDGET RECOMMENDATIONS

We support the budget recommendations for the REA telephone program, new loan authorization of $70 million. We think this is both necessary and sufficient. As to administrative funds, we support the full amount also.

Senator HOLLAND. You are speaking now of the increase of $880,000?

Mr. FULLARTON. Yes, sir; that is right. It is very difficult for us to analyze the Agriculture or REA administrative budget. We occasionally find need for additional fieldmen or additional assistance, but

we are unable to document it sufficiently to ask for an increase, so we support the $880,000 increase over last year. The extension of service to rural America is a pretty big job. Cooperatives have always done more than their share. They utilize to great advantage the facilities made available by the REA. We are happy to report that three new telephone cooperatives have been formed this year, one in Indiana, one in Arizona, and one in New Mexico.

Senator HOLLAND. Are they based on REA power co-ops, or are they different territories and different groupings?

Mr. FULLARTON. To the best of my knowledge they are all of different groupings, although they serve in areas also served by REA electric cooperatives. This concludes my summary, Mr. Chairman.

We support the $70 million in new loan authorization.

Senator HOLLAND. Thank you very much. Senator Young.

Senator YOUNG. What percent of the farmers are not being served now by telephones?

Mr. FULLARTON. Senator, the statistics vary, for two reasons. The Department of Agriculture bases many of its statistics on occupied farms. Others are based on rural establishments, which we feel has more significance. The statistics I used in my formal statement here are these: At the end of calendar 1962, 65.9 percent of farms occupied had what we term adequate and reliable telephone service. There are some additional farms having telephone service which would raise the percentage slightly, but these are on the old magneto systems.

OLD MAGNETO SYSTEMS

Senator YOUNG. There are quite a few of these old systems that are not much good at all.

Mr. FULLARTON. That is correct. When these new cooperatives are formed, and we have three this year, many of them are formed on two bases. First, to rebuild the old magneto system and, second, to extend it to include many more establishments.

Senator YOUNG. These old magneto systems are about as good as nothing.

Mr. FULLARTON. We feel they are as good as nothing.

Senator HOLLAND. You are supporting the Department's request completely?

Mr. FULLARTON. That is correct, sir.

Senator HOLLAND. Senator Stennis?

Senator STENNIS. I want to ask one question. If I understand now, at the end of this past year you say 65.9 percent of all the rural families in America were served with telephones?

OCCUPIED FARMS WITH RELIABLE TELEPHONE SERVICE

Mr. FULLARTON. No, sir. The statement is that 65.9 percent of the occupied farms in this country are served by what we termed adequate and reliable telephone service. Rural establishments statistics are not presently available to us through Agriculture or anywhere else.

Senator STENNIS. You mean a farm that is occupied and really has someone living on it and working?

Mr. FULLARTON. That is correct.

Senator STENNIS. What percentage of those are through these co-ops and what are through private enterprise?

Mr. FULLARTON. Roughly one-third, sir.

Senator STENNIS. About one-third?

Mr. FULLARTON. One-third of REA telephone loan activity is through cooperatives. Bell and the large independents do serve a few rural areas.

Senator STENNIS. So some of it is a larger group, but then comes the independents and then the cooperatives?

Mr. FULLARTON. That is right, sir.

Senator STENNIS. This is tremendous progress that all the cooperatives together have made. I remember when the act was originally passed, and passed over some strong opposition. It is certainly encouraging and it has stimulated others, the independents and all the rest, to get in on the program, has it not?

Mr. FULLARTON. Yes, sir.

Senator STENNIS. That is all.

PERCENT OF TELEPHONE SERVICE

Senator HOLLAND. The 74-percent figure of service applies to rural homes and not to occupied farms, is that it?

Mr. FULLARTON. It is my understanding that the 74-percent figure applies to telephone service of any type, including the magneto systems. That is my understanding.

Senator HOLLAND. The figures you gave were limited, if I understood you, to occupied farms?

Mr. FULLARTON. That is correct.

Senator HOLLAND. My understanding is that these rural telephone systems serve many hundreds of thousands of rural homes which are not now occupied farms, but are homes outside of the cities. Is that correct?

Mr. FULLARTON. That is correct, sir.

Senator HOLLAND. Does the 74 percent cover the inclusion of them with the 65 percent roughly that you testified of occupied farms that are served adequately?

Mr. FULLARTON. Mr. Chairman, that is not my statistic so unfortunately I cannot answer yes or no.

Senator HOLLAND. We will get that for the record.

Thank you very much. We appreciate seeing you two gentlemen.

Mr. FULLARTON. Thank you.

Mr. BASS. Thank you very much.

(The information requested appears on p. 243.)

NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION

STATEMENTS OF CLARK T. McWHORTER, CHAIRMAN; CLYDE T. ELLIS, GENERAL MANAGER; AND ROBERT D. PARTRIDGE, LEGISLATIVE REPRESENTATIVE

GENERAL STATEMENT

Senator HOLLAND. The committee will now hear from representatives of the National Rural Electric Cooperative Association.

According to the list I have been furnished there are several people here from the legislative committee of the association together with Mr. Clyde T. Ellis, the general manager, who is well known to this committee. I am advised that Mr. Ellis has a statement for presentation to the committee as does Mr. Clark T. McWhorter, chairman of the Legislative Committee of NRECA.

Mr. Ellis, do you wish to proceed with your statement first, or what is the pleasure of you two gentlemen?

Mr. ELLIS. Mr. Chairman, if it is agreeable to the committee, Mr. McWhorter, who is chairman of the committee, will go first.

Senator HOLLAND. Mr. McWhorter, we are glad to have you, and you may proceed.

Mr. MCWHORTER. Mr. Chairman and gentlemen of the committee, my name is Clark T. McWhorter. I am chairman of the legislative committee of the National Rural Electric Cooperative Association. I am also a director on the board of the Southwest Rural Electric Association in Tipton, Okla., and I represent the State of Oklahoma on the board of directors of NRECA.

With me are other members of the NRECA legislative committee; Clyde T. Ellis, general manager of NRECA; and some members of the staff of NRECA.

Senator HOLLAND. You put their names in the record?

Mr. MCWHORTER. Yes.

At this point I would like to offer the names of those appearing with me for the record, please, sir.

Senator HOLLAND. We would like to have those names in the record.

(The list referred to follows:)

NRECA LEGISLATIVE COMMITTEE

Harry Nuttle, secretary-treasury, Choptank Electric Co-op, Denton, Md.
T. William Hunter, attorney, Newberry Electric Cooperative, Newberry, S.C.
John Sargent, president, Adams Electric Cooperative, Camp Point, Ill.
Oliver G. Rose, president, Butte Electric Cooperative, Inc., Nisland, S. Dak.
Clark T. McWhorter, director, Southwest Rural Electric Association, Inc., Box 266, Blair, Okla.
Eric A. Johnson, manager, Wasco Electric Co-op., Inc., 105 East Fourth Street, The Dalles, Oreg.
Milton T. Potts, manager, Sam Houston Electric Cooperative, Post Office Box 1121, Livington, Tex.

NRECA STAFF

Clyde T. Ellis, general manager.
Kermit Overby, director, legislation and research department.
Dr. Thomas M. Venables, legislative research coordinator.
Robert D. Partridge, legislative representative.
Lowell Endahl, agricultural engineer.

PROBLEM OF SUPPLY

Mr. McWHORTER. It is always a pleasure for us to meet with this committee which is so thoroughly familiar with the rural electrification program and to give the report for our systems.

I would like to review some of the progress and problems of the rural electric systems during the past year as a background for our recommendations for our program's future development. One of the most important problems facing our Nation and our cooperatives is power supply, and at this time I would like to call on Clyde T. Ellis, our General Manager, to speak on this subject, and then at the close of his remarks I would like to deal with some subjects that were covered by resolutions from our members at our annual meeting. At this point I would like to call on Clyde T. Ellis.

Senator HOLLAND. Mr. Ellis, you may proceed.

GENERAL STATEMENT OF CLYDE T. ELLIS

Mr. ELLIS. Thank you, Mr. Chairman, and gentlemen of the committee. The shifting of population in the country continues to plague us in the rural electric systems. While it is true that we continue to serve a few more people each year than we did the year before, the trek from the land to the cities continues and this is a very expensive process for us, because this 150,000 approximately per year net increase is not that at all. Actually we are losing tens of thousands from the land and we have to connect new people—we do in our service areas, but not outside our service areas—in order to break even. This is expensive. Often we connect the same person in an area closer to a town that we disconnected way out further somewhere. He has a job in town. He wants to live in the country, so he does.

Senator HOLLAND. A question there.

GAIN IN OUTLETS

Your net gain is about 150,000 a year in outlets, in people served; is that right?

Mr. ELLIS. Yes. It has been running about that for several years.

Senator HOLLAND. But your gross change in outlets is how great?

Mr. ELLIS. The gross change in outlets, Senator, I could not give you from memory but I will get it and supply it.

(The information referred to follows:)

Increase in consumers served (net)

1957	104,548
1958	129,826
1959	125,360
1960	104,172
1961	129,840

Gross connections not available. System reports show total consumers at the end of the year, but do not break them down into the total connected for the year less the total disconnected.

TOTAL FARM POPULATION

Senator HOLLAND. I wish you would supply that because I think that is a closer measure of the added expense in serving the areas.

Mr. ELLIS. Yes. I can give you this figure, and one which I am sure you know well: That there are now less than half as many people on the land making a living from the land as there were when the rural electrification program started in 1935. The best figure we can get, although there is some variation now in definition of "farm," as you know, by census, but this is not sufficient to make a substantial difference, is that in 1935 31 million people depended upon the farm for a living. In 1962, 14,800,000 depended upon the farm for a living. Another figure we can give you bearing upon this same point is that we now have on our systems something more than 500,000 empty homes to which we built lines which we have not taken down. We have taken down tens of thousands of lines over the years, but we still have a half million homes connected where no one lives. There is not much salvage value. Of course, we keep hoping that each one of those folks will return, and sometimes they do.

These connections to a half million empty homes cost us about a third of a billion dollars to build. The people who remain on the electric cooperatives, of course, have the burden not only of paying off the loans to serve themselves, but also of paying off that investment to serve those who are not there any more because the cooperative, as you know, is a corporation and must meet its obligations. This bears upon our power supply problem.

INCREASED USE OF ELECTRICITY

Senator ELLENDER. Before you go into that, Mr. Ellis, isn't it true that much more electricity is being used by the farmers who own your lines than in the past?

Mr. ELLIS. Yes, Senator Ellender, and that was my next point. This bears upon the problem because if it were not for the fact that our farm and other rural people are using substantially more electricity each year than the year before, the rural electric systems would have been broke and out of business. There just is not any question about that, because of this great shifting of population.

Senator HOLLAND. May I interrupt to ask you with respect to the figures of people on the farm which you gave for the two periods, are they Census Bureau figures?

Mr. ELLIS. Yes, they are.

INCREASE OF POWER

Now, the national figure on increase of power runs from 7 to 10 percent per year. That is the total industry. We believe that the electric power industry is the fastest growing major industry in America. All suppliers of power are having a constant struggle to provide the increased supply. Despite the fact that our rural electrics are not sharing in their proportionate part of the population increase, the growth of usage on the rural electric cooperatives is still a little more than the average for the Nation. Our usage is doubling about every 7 years as compared with the 7- to 10-year growth of the total industry, which includes ours, too. We are buying about 39 percent of our power from TVA, and the Department of the Interior, and other Federal wholesale power agencies.

Senator HOLLAND. Yes, sir.

PURCHASE OF POWER

Mr. ELLIS. We are purchasing about 39 percent of our power from the Federal wholesale power marketing agencies.

Senator ELLENDER. What is your average price on that; do you know?

Mr. ELLIS. No. It is substantially less than any other that we are purchasing or that we are generating generally and I will get you that and supply it for the record. I believe that we are paying an average price for the power that we purchase from the commercial companies of 7-point-something mills.

Senator ELLENDER. Could you give it by area, Mr. Ellis?

Mr. ELLIS. Yes.

(The information referred to follows:)

REA estimates of the cost of energy purchased by REA borrowers during 1962, by type of supplier, appear below:

All suppliers	$0.67
Power companies	[1].77
Federal agencies	.49
Other public agencies	.71
Cooperative G. & T. systems	[2].88

[1] This does not include the expenses incurred by the rural electric systems for transmission, transformation and other expenses which must be added to determine the total cost of power.

[2] This is a gross cost which includes net margins returnable to consumers. It includes the cost of services which are not generally rendered by other types of supplier, viz., delivery to designated load centers, ownership, operation and maintenance of transmission and transformation facilities, and other technical services. These services, in toto, have value which bring the real cost of service by cooperative G. &. T.'s down to or below the average for all suppliers.

A comparable regional breakdown is not available. The charts on pages 91 and 92 show wholesale power costs from all sources to rural electrics in 1961, by REA areas and by areas having identical power costs.

Since 1957, the average price of power purchased by all REA borrowers has declined approximately four hundredths of a cent per kilowatt-hours; by regions, the relationship expressed by the chart on page 92 has not changed appreciably.

POWER COST

Senator ELLENDER. I would imagine you could get power much cheaper in the Northwest.

Mr. ELLIS. We do.

Senator ELLENDER. As compared to the South?

Mr. ELLIS. Than TVA, I believe.

Senator ELLENDER. As well as other southern areas.

Mr. ELLIS. Yes, sir, right.

Senator HOLLAND. You mean about 39 percent of your entire purchase comes from such Government agenices as TVA, Bonneville, and Southwestern and Southeastern Power Administrations?

Mr. ELLIS. And the Bureau of Reclamation. That is it. Our legislative representative, Bob Partridge, I think could give you some of these averages now, if you want them at this time, from the records.

Senator HOLLAND. The record of last year, page 13, of the Senate hearings shows the compilation covering the years 1952 to 1961, breaking down the source between power companies, Federal agencies, other public agencies, such as public utility districts and the like, and REA generation. I wonder if you would bring that up to date for the purpose of informing the committee as to any change in the situation.

In other words, include this compilation already in last year's record on page 13, and bring it up to date by at least one additional year. If you can add the second year, so much the better.

Mr. ELLIS. We will do that, sir.

(The information referred to follows:)

Total energy purchased and generated by rural electric systems, fiscal years 1952–62

Fiscal year	Total kilowatt-hours (in millions)	Source—Percentage			
		Power companies	Federal agencies	Other public agencies	REA generation
1952	11,413	50.4	28.1	7.9	13.6
1953	13,146	49.2	29.0	7.9	13.9
1954	15,109	46.0	30.7	8.1	15.2
1955	17,255	42.9	31.7	7.8	17.6
1956	19,933	40.4	34.4	7.6	17.6
1957	21,610	39.8	36.6	7.4	16.2
1958	23,278	39.1	39.1	7.4	14.4
1959	26,234	37.4	39.2	7.2	16.2
1960	29,226	37.8	39.3	7.3	15.6
1961	31,445	37.7	38.9	7.3	16.1
1962 [1]	33,915	38.6	38.1	7.3	16.0

[1] Preliminary.

FUND IN OVERALL COST

Senator ELLENDER. I understood Mr. Partridge had the information I just asked for available there.

Mr. PARTRIDGE. Senator Ellender, this does not break it down by regions of the country. It simply shows the trend in the overall cost and the price paid by distribution-type systems.

Senator HOLLAND. The compilation I have mentioned and which you say you will bring up to date does not break it down by regions either and I will appreciate it if you will, in accordance with the suggestion of Senator Ellender, supply likewise the figures of regional cost.

Mr. PARTRIDGE. Yes, sir.

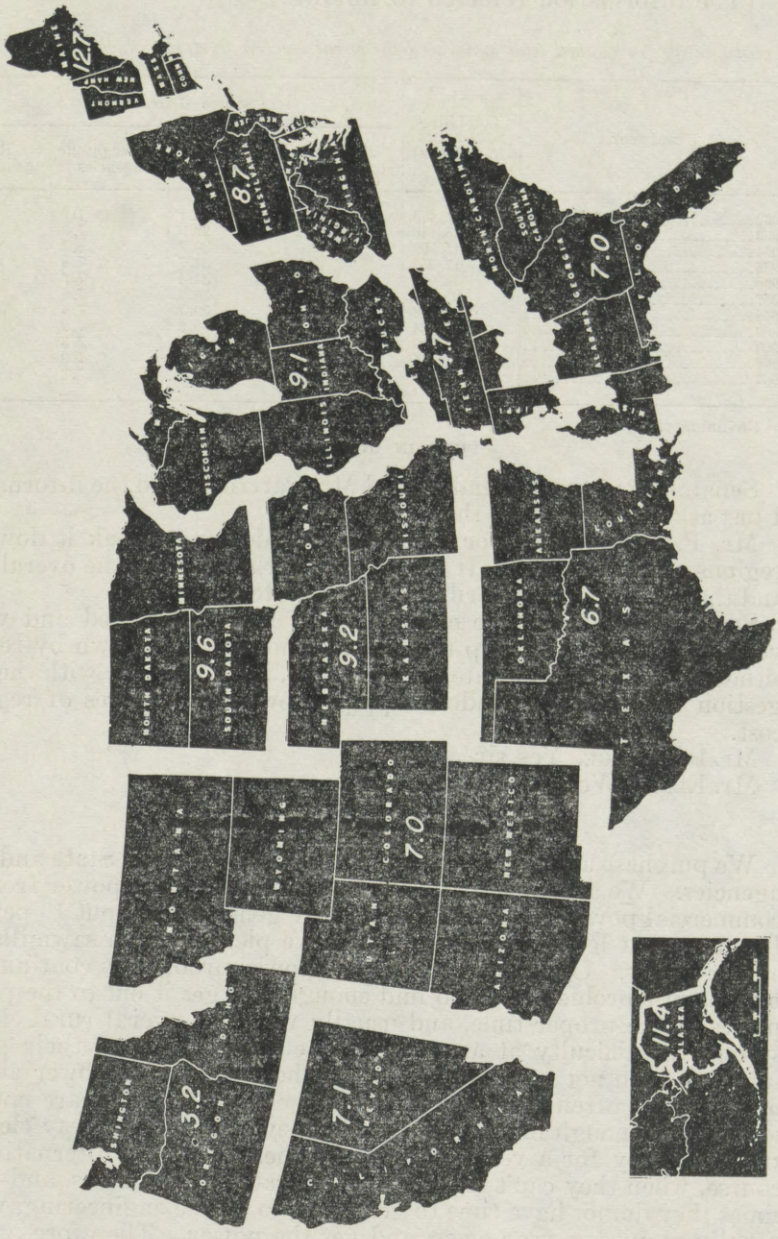
Mr. ELLIS. We shall do that.

WHOLESALE SUPPLY POWER PROBLEM

We purchase about 7 percent of our own power from State and local agencies. We are purchasing about 37 percent of our power from the commercial power companies and we are generating about 16 percent. I believe that leaves just a little that we pick up from sawmills and other sources. Our wholesale supply power problem is continuously our biggest problem, how to find enough and get it out to the proper places at the proper time, and usually we have several rural electric systems in difficulty at any given time of the year on their power supply. I do not mean by that that they are out of power at that moment, but often their voltages are low and often they are not able to plan far enough in advance so that they can see their way clear on power supply for a very long period ahead, and the alternative, of course, when they can't is to try to generate it themselves, and many times they do not have time to get loans, to do the engineering, which usually requires a year or so, and get the power. Therefore, we are in a constant bargaining situation with the commercial companies, with the Federal Government, and with whatever sources are available to us.

(The information referred to follows.)

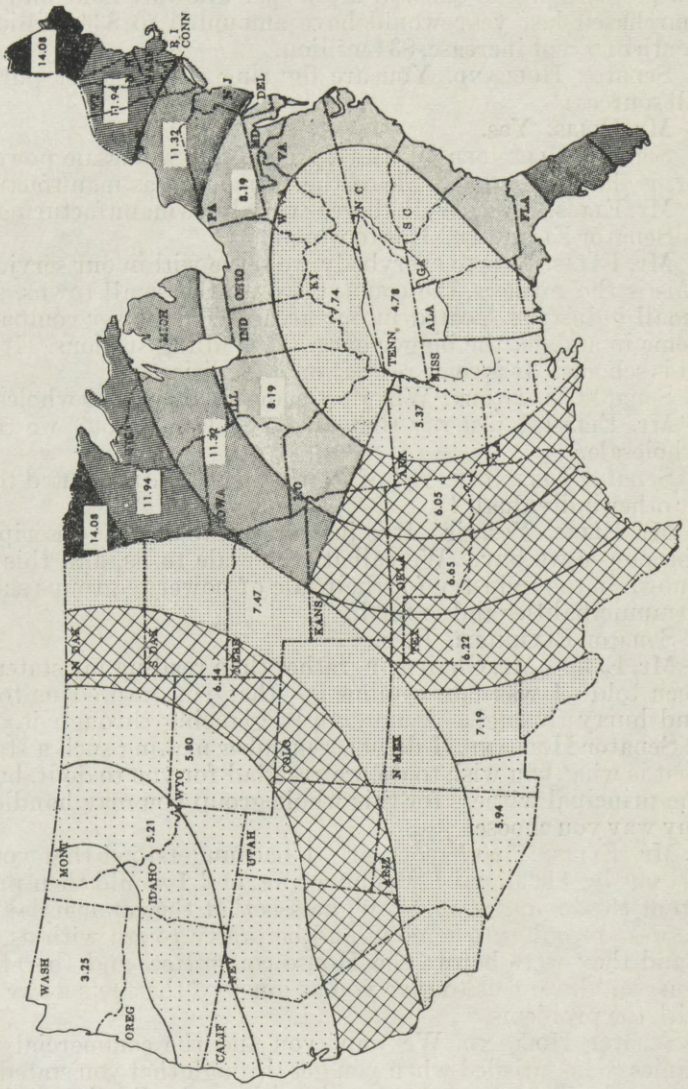
WHOLESALE POWER COSTS OF REA BORROWERS BY CERTAIN AREAS (Mills per KWH)



AVERAGE PRICE OF POWER PURCHASED BY REA BORROWERS

Mills per kilowatt hour

Fiscal Year 1957



Our wholesale power bill is a high percentage of our total cost of operation. As you know, it is expensive to maintain the lines and to constantly build them larger, but our power cost runs about on an average 35 percent of our total revenues.

To give you an idea of how vitally important this power cost is to us, an increase of one-tenth of a cent per kilowatt hour on the power we purchased last year would have amounted to $34 million, just one-tenth of a cent increase, $34 million.

Senator HOLLAND. You are figuring that against purchases from all sources?

Mr. ELLIS. Yes.

Senator ELLENDER. With respect to this wholesale power you speak of, is that to users outside of the farm, such as manufacturers?

Mr. ELLIS. Yes. Well, there is very little manufacturing, Senator.

Senator ELLENDER. It is to whom?

Mr. ELLIS. It is to everybody we serve within our service areas, and this is the farmers, the country stores, the small towns, such usually small industries located in our areas. The power companies usually come in and get the bigger ones. It is filling stations. It is churches. It is schools. It is some recreational facilities.

Senator ELLENDER. Why do you designate that as wholesale?

Mr. ELLIS. I just say that all the power we buy we refer to it as wholesale.

Senator ELLENDER. All of it, whether it is distributed to the farmer or other individuals?

Mr. ELLIS. Yes, sir. It is just a term we use, the descriptive term of the power we buy. We call it wholesale to us, and this is the term known in the industry for their sale of power to groups such as us and to municipalities and so forth.

Senator ELLENDER. I see.

Mr. ELLIS. Mr. Chairman, rather than reading my statement, I have been told—I was late coming in—that you wanted us to summarize and hurry through. I am simply glancing through it.

Senator HOLLAND. I do not remember making such a statement. If that is what you wish to do, we are glad for you to do it, but if you are the principal witness for this whole group you may handle the matter any way you choose.

Mr. ELLIS. Thank you, sir. I had understood that you wanted to get out by 11:30 and I was hurrying, and I would then prefer to pick up at this point because my guess is that the commercial power companies are going to come in and be pretty rough with us, as I understand they were before the House committee, and therefore I think you would want us to give you as much of the facts as we can dealing with the problems.

Senator HOLLAND. We want you and the commercial power companies to be satisfied when you get through that you stated your whole case and we want you to state it without duplication and without reiteration, but to state it fully, and you are very welcome to state it fully.

PROBLEMS WITH COMMERCIAL POWER SUPPLIERS

Mr. ELLIS. Equally important to us are the terms and the conditions under which our power supply can be purchased, where we purchase it, and it is in this area, that area of the terms and conditions, even

sometimes outside of the cost, in which we are having our most difficult problems with the commercial power suppliers. Let me say at this point we wish we had no problems, and I think that the noise some of them are making is somewhat like the single coyote on the plains who sounds like a pack, because with most of the commercial suppliers we are getting along without any open friction. In terms of our negotiations I am speaking of. But some of them are doing a lot of howling.

In the early years of the program the power companies seemed quite sure that the rural electrification program would fail, and some of them openly said so, and it seems to us that some of the companies are still doing their best to make their prediction come true, because they not only give us great difficulty—I say some of the companies—on power supply, on the cost, on the delivery points, and on the terms and conditions under which we purchase it, and by constantly pirating our service areas and taking away from us our larger users, and by inserting, if they can, new contracts with provisions that they serve the large users in our area; also by the insertion of what we call and what the trade knows as dual rates in the contracts, which say that for our larger users they will charge us a higher rate than they charge for the rest of the power, which seems to us to run contra to the free enterprise system of greater usage, lower pice, for they raise the price as we serve the larger users.

DUAL RATES CLAUSE

Senator ELLENDER. Mr. Ellis, is it not a fact that in recent years, because of the fact that the REA's have been insistent on striking this clause of dual rates out of the contract, many of the companies have abided by that?

Mr. ELLIS. That is true, Senator, and we appreciate the fact that many have.

Senator ELLENDER. If you remember, I was instrumental in Louisiana in doing that, and I think it is wrong for the companies to put in this dual rate in any contract.

Mr. ELLIS. We are grateful for that. We would like to see the senior Senator from Louisiana extend his jurisdiction in that respect over the whole country.

Senator ELLENDER. As far as I am concerned I would do all I can to effect that because I do not think it is right for them to use that as a lever to get into this territory.

Mr. ELLIS. If the same companies come before this committee as went before the House committee the day before yesterday I think if you will probe their contracts with us you will find that several of them still have this dual rate requirement.

Senator ELLENDER. Will you give me their names as they come up?

Mr. ELLIS. Yes, sir.

(The names were subsequently presented to the subcommittee by Mr. Partridge as follows: Mississippi Power Co., Southwestern Electric Power Co., Georgia Power Co., Public Service Co. of Indiana, Gulf Power Co., Central Illinois Public Service Co.)

Senator ELLENDER. I am perfectly frank in saying that I think it is wrong to put dual rates in contracts.

AGITATION FOR SALE OF COOPERATIVES

Mr. ELLIS. Very good. Also, a number of the companies continue to agitate our people to sell out their cooperatives to them or to someone, and this is a constant harassment that costs us money and time. I say this all to say again that many of the companies still seem bent upon making their prediction that the rural electric cooperatives would fail come true. I believe if these same companies come before you that you may be able to detect in their attitude something more than just a matter of desire to sell us wholesale power or more than the usual arm's-length negotiations.

Senator HOLLAND. On that point, why is it that you feel that the private power companies should not attempt to buy the distribution system and the whole stock and trade of an REA setup that has become pretty prosperous and well developed?

Is there any reason why that should not be?

Mr. ELLIS. Yes, sir, I believe so, Senator Holland. If I may give you an example well known to all of us of something that happened in American industry in another utility area, it will be to the point that in my opinion in time they will sluff off the areas that do not show a profit. We believe that even in the electric cooperatives, more or less, half the people we serve under area coverage where we agree to serve everybody—this is in our contracts—actually do not pay their own way today. There are whole areas like this in the co-ops we serve and there are getting to be still more areas in the so-called marginal areas of the country where there may have been a line built, let us say, to serve six people out maybe 6 miles and maybe all the people have moved away, but one or two, and we still have to maintain that line. This is a constant difficulty, a very difficult situation.

I grew up on a mutual telephone line. Perhaps some of you did. It is out of business. The farm on which I grew up has no phone today. This is a problem not only with the mutuals, but with the commercial companies. The little independents have had a continuing same problem and over the years the bigger telephone companies, both Bell and the independents, have purchased both the mutuals and the little independents, but they have either not served all of the area that was once served by the system which they purchased, or having purchased the system, they sell off part of it to some poor fellow who thinks he can make a living operating that portion which the Bell system or the independent did not want; sold it off, and the person or mutual group or some group simply are not able to make a go of it, and so they end up without telephone service.

We believe the same thing is bound to happen with the commercial power companies if and when they purchase our systems. We believe it is bound to happen simply because the power companies do and have a right to make a profit on the areas they serve. The very reason that they would not serve our areas in the first place is still the reason they will find ways to not serve those parts of the areas that do not show a profit. I know you might raise the question, Well, what about an area that is small enough and densely settle enough that the whole area could show a profit? Our attitude as the association of the cooperatives must, of course, be the attitude of our people in a particular cooperative, and in the cooperatives as a whole. Our people believe they get better service in the rural areas from the elec-

tric cooperatives than they would get from commercial power companies, and we believe we can document this. For instance, when our generation and transmission cooperative application was before the Virginia Commission, and we finally lost—we were denied by the commission the right to build the cooperative—an official of the Virginia Electric & Power Co. testified that we were doing things in the electric cooperatives which were not necessary. He referred specifically to our use of the two-way radio to keep service up in the rural areas. This has become universal with us. I do not know of any co-op today that does not have two-way radio communication, a station at its office in constant communication with the trucks. We have gone a step further since the Virginia official testified against this procedure.

TRUCK-TO-TRUCK COMMUNICATION

We now have truck-to-truck commuication, and this is necessary in order to get that rural service restored quickly. As the farms become geared and rural establishments other than farmers turn more and more to the use of electricity, as they use more, there is greater need for them having continuity of service. When you get a sleet storm over a big area that tears the lines down, well, we have lost as high as 70 percent. We have had all lines down in some cases, but in one Kansas co-op we had as much as 70-percent plant loss. The total plant loss was 70 percent in one sleet and wind storm.

When the lines go down over vast areas as they sometimes do, for instance, on the east coast here, the commercial power companies are of course, going to restore service in the towns first.

DISASTER PROBLEMS OF THE AREAS

When we have catastrophes, such as we had in the greater hurricanes along the Louisiana coast, and wind and tornado damage, we have arrangements worked out in most of the country where the cooperatives automatically are called in from far and near to help restore service in a given cooperative area.

Senator ELLENDER. Is that by way of furnishing money and supplies?

SERVICE AND COST OF COMMERCIAL POWER

Mr. ELLIS. No. Usually our arrangement calls only for them to send in crews and the cooperative that is damaged pays just their out-of-pocket expenses, or it may pay the salaries for the time, but the big point is to get service restored very quickly. Then there is something else. We believe that the service—I think this is very important to this committee and to the farm people of America, rural people—which is now provided by the commercial power companies in the rural areas is both better and at less cost than it would be except from us. Most of the rural areas they would not serve at all until the rural electric program came along, and then they put on great campaigns to cream-skim the areas. Their prices were double generally what they are now in the rural areas if you counted what they charged to build the lines out to farmers. They required them to pay cash and then they continued to serve them at a high price, so we believe that if it were not for the competition, and competition by example it really is,

because we do not certainly compete for anything they serve—we never take a user away from them—the commercial companies would drastically raise their rates and probably not serve as cheaply.

PUBLIC UTILITY COMMISSIONS

Senator ELLENDER. Mr. Ellis, in that connection, is it not true that most of the companies that you refer to are under the jurisdiction of the public utility commission which actually fixes the rate and provides for a fair return on investment? How would they bypass that? How could they?

Mr. ELLIS. Senator, it is true that commissions exist in most States. In some they do not, but in most States they do. We think we get along better in the States that do not have any commissions than in those that do, and we do not see any material difference in the way the folks get along in Texas, and Minnesota, and other States that do not have commissions as compared with those who do.

I don't want to indict the commissions, but we believe that the commissions tend to approve whatever rates the power companies file. We can give you a documentation and I would like to do it for the record.

Senator ELLENDER. I do not think you will find that in my State.

Mr. ELLIS. We would like to give you for the record a showing of how many applications for increases the power companies filed in a several-year period and show you also the number which were approved, and most of the applications or increase requests which were filed, some of them affecting us, were approved. Nearly all of them were approved by the commissions.

(The information referred to follows:)

Following is documentation for the statement NRECA made at the REA appropriation hearings relative to the power company rate increases approved by State commissions in recent years:

"From 1946 through the first 11 months of 1961, according to tabulations of EEI, there were 617 applications for rate increases, involving 232 companies. Of these 617 applications, 553 were granted, 23 are pending, 14 were withdrawn, and 27 were denied. The 1961 record now shows 19 actions. Nine increases were granted, one was denied, and nine are still pending."

Source: Edison Electric Institute Bulletin, January 1962, p. 6.

SURVEY OF POWER COMPANY COST STRUCTURE

Senator ELLENDER. Did not they give good reasons why it should be? For instance, the high cost of labor, the high cost of material. These are factors which affect our railroads. The railroads are similarly overseen by certain Government agencies and it is only when they can show their increase in cost by virtue of higher labor and higher costs of material that they can impose higher rates.

Mr. ELLIS. Many commissioners state to us, Senator Ellender, that they really do not have the staffs to thoroughly explore the power company cost structure. They state to us that because most of the power companies are interstate in operation, and in many cases the holding company or other books are not kept within their jurisdiction, they do not have adequate means for regulating rates. In many cases the laws are not sufficient for them to have adequate controls over the companies. We even have situations like this. This is an extreme

case, but just a few years ago when we were trying to get a loan approved to build some of our own generation in Indiana, the Indiana Commission came down to Washington and lobbied against us getting a loan to build our own generating plant. This is an indication of the extreme to which some commissions go to do what the power companies want done.

Senator, again I do not want to indict the commissions.

Senator ELLENDER. Well, you should if they did what you said a while ago in Indiana. I would get on the treetops and raise heck about it if this is true. I think you ought to.

Mr. ELLIS. I am happy to report that two of the members are not on the commission any longer.

Senator ELLENDER. It is such exposés as that that would get rid of such types.

Mr. ELLIS. I appreciate that.

PURCHASE AND SALE OF CO-OP ASSETS

Senator HOLLAND. The thing that began this part of the discussion was my question based on something you just said as to why it should be a matter of concern to you or to your association when a private power company seeks to buy and acquire the assets of a co-op. It seems to me that under every rule of private industry if the ones who own the co-op want to sell and the people in the power company want to buy, there should not be any sound reason why that sale could not be accomplished. I know of no such contemplated sale in my area of the country, but from what you said in your prepared statement apparently you have been confronted with this proposition and you feel it is one that requires you to combat it, and I do not understand why, because it seems to me that that should be a question left exclusively to the owners of the co-op and to the private utility.

CASE OF VERDE ELECTRIC COOPERATIVE, COTTONWOOD, ARIZ.

Mr. ELLIS. All right, Senator. Let me bear upon that just a little further. In the case of Verde Electric Cooperative of Cottonwood, Ariz., the power companies started to buy that several years ago. They started sending people into the area to call the cooperative socialistic, by implication un-American, and we can supply you with tremendous literature, copies of it, which they put out in the area. They got on the radio and the TV, and for years this went on. This is what happens. It is hard for us to live with. I was present twice when the people of that cooperative voted not to sell, but the power company continued. Then a four-lane highway was built into Cottonwood from Phoenix. Cottonwood is near the Verde Valley area, the Oak Canyon area, in which lots of movies are made, but there are few permanent settlers there. The movie companies move in fast and make the picture and move out, but further on up—it is some distance to Flagstaff, but it is in that direction—many summer homes have been built, people from Phoenix who come up there, whose families come up there and live in the summer. Also there is one retired people's area that has built up, a promotion scheme.

The company worked on these people and worked on them in Phoenix and got some of them, presumably they did. I was there at the third meeting where the president of the company and I both talked,

and I was there at the request of the board of directors and of the manager on the third try, and this had been going on for years now and had had publicity in the Phoenix papers and all over the State and did great harm to our public relations. The people there voted to sell and they did sell that cooperative to Arizona Public Service Co. The Idaho power companies killed six of our cooperatives.

Senator HOLLAND. Let's come back there. I do not want to burden the record with this, but if the people who owned it wanted to sell and somebody else wanted to buy, what good sound reason is there for preventing that? That is what I have not been able to see.

TACTICS USED

Mr. ELLIS. Senator, if at a given instance of time they can make up their mind they want to sell this is certainly their right and their privilege. What I am talking about here is this invasion of the power companies, in my opinion, using un-American tactics to destroy us because they imply that we are un-American, and this is a vicious campaign. It has gone on many times.

Just this past year I attended what we call a sellout, an effort to get the cooperative to sell out at Malta, Idaho, conducted by the Idaho Power Co. The Idaho Power Co. has bought out, and we say killed off, six of our cooperatives in the area which they serve in Idaho and Oregon.

COMPARISON OF RATES

Senator ELLENDER. With what results? Did the consumers of electricity get as fair a rate under the new setup as they did under the cooperative?

Mr. ELLIS. Our last check indicated that this is true so far, but it is our opinion that when the Idaho Power Co. decides that it has purchased all the cooperatives it can the situation which I mentioned earlier will again prevail.

Senator ELLENDER. Mr. Chairman, it is my belief that Mr. Ellis there has raised a dangerous point. I well recall when I was city attorney of the city of Houma efforts were being made to purchase our municipally owned powerplant. The private companies did purchase the powerplants from various cities around us and our city was the only one that refused. Today this plant has grown to the point where it is not only giving the cheapest electricity in that area, but it is making enough money to operate its own generating facilities.

COMPARISON WITH FARMERS HOME ADMINISTRATION

Senator HOLLAND. Of course, we have numerous situations comparable to that in my own State, in my own hometown, in which we have maintained our powerplant, but are buying the power and distributing it ourselves. We have that situation. It is not that question that I am addressing myself to. I see no reason whatever why the same principle that applies in FHA, for instance, could not apply here. The Farmers Home Administration testified before us the other day with some pride that they graduated out some 13,000, as I remember, of their borrowers last year who had become so credit worthy that they could get credit now from the traditional credit institutions. I re-

member that the Administrator of the REA the other day, when I asked him the question as to what was the real objective, what were they looking to in the long run, said that they were hoping that members of this family of borrowers would become so well developed and so prosperous that they could join the group who obtained credit from private sources and that he hoped that would be the case, so I was a little surprised when you reached that point in your statement because it seems to me so clearly axiomatic.

I am not talking about the means that he used, but when a majority of the people who are in the REA co-op think that they have developed to the stage where they can safely trust their future in this field to a private utility and when they are offered a price which they think is fair and will relieve them of the responsibility, I think they should have a clear right to sell, and I think that the private utility should have the clear right to buy. That was the reason for my question.

As I have already said, we have none of the REA's in my own State which has as yet, as far as I know, been approached on this kind of basis. Maybe they are not sufficiently developed, but if they were and if they want to sell, I should certainly support their right to sell and the right of the private utility to buy.

I think it is the American way that that philosophy should prevail. I am not going to belabor the question.

USE OF FEDERAL MONEY IN COMPETITION WITH PRIVATE ENTERPRISE

Senator ELLENDER. Mr. Chairman, that brings on the point that I was trying to make with Mr. Clapp when he was before us earlier this week. I do not believe it is fair to our private enterprise system for Federal Government money to be used to compete with private enterprise. The thing that irks me a lot, and I presume Mr. Ellis will cover it as he goes along, is that some of these REA's seek loans to build G. & T. plants that more or less compete with private enterprise and that are more or less dependent on the purchase of some of that power by another Government agency in order to pay its loans. I believe you will find that to be the situation in the *Upshur* case, where the amount of electricity that is normally used in that area is about 11,000 kilowatts and they are constructing one that will produce 33,000 kilowatts, but in order to enable this REA to pay on this loan, SPA comes in and buys off the actual electricity.

We had that out before this very committee back in 1947, again in 1948, and again in 1950, and none of us is opposed—I know I am not opposed—to the construction by any REA of a facility that they need where they cannot get the electricity as cheaply from a private concern and on reasonable terms. But when they seek to do indirectly what we prevented them from doing directly, that is where I draw the line. It will be remembered that SPA was on the way to constructing a lot of steamplants in order to firm power developed from falling water. They had no authority to do that, but here I fear that the trend is that the REA's are obtaining some loans and they are using these Government authorities under either Agriculture or Interior to dispose of this electricity. This makes it possible for the loans that are made to be paid that could not be paid otherwise. That is what I

have been saying is not right and it is not in line, as I understand it, with our program of rural electrification.

Mr. ELLIS. I will discuss Upshur a little later, if I may.

Senator HOLLAND. You may proceed with your statement unless either of you gentlemen have other questions.

Senator ELLENDER. No, I don't. But I expect Mr. Ellis to discuss this *Upshur* case later on.

PROBLEM OF STATE COMMISSIONS DEALING WITH UTILITY COMPANIES

Mr. ELLIS. Yes, I will. One more word with respect to the matter of the problem of State commissions in dealing with these evergrowing and evermore complex general electric utility companies. I have been handed here a UPI article, from the Cullman (Ala.) Times Democrat, which quotes a staff member of the Alabama Public Service Commission and I read the paragraph:

> C. C. Whatley, chief of the PSC's utility division, said the Commission had not made a complete study of power company rates and costs since the 1930's and that any overcharge claims at this time would be something "we just have to get into and see about."

I do not know whether that is the prevailing situation or not, but it is our belief that the State commissions are not, as indicated by this quote, doing extensive cost studies of the power companies, and I know it to be a fact, too, that there have been occasions when more funds have been sought for more staff for the public utilities commissions, the power companies were all over the place lobbying against the commissions having more funds with which to investigate the power companies.

SOURCE OF MONEY

With respect to where the money comes from in the rural electric systems, initially, of course, nearly all comes through this committee, comes from the Federal Government, but I thought you would be interested in this, that I think is not generally known. Our systems have invested out of their general funds in plant, and these general funds are accumulated, as you know, by charging the members something more than the cost of service and so some surplus builds up; so it is their money, and they have put $300 million of that back into their own plant.

Senator ELLENDER. I pointed that out the day before yesterday.

Mr. ELLIS. Very good. Here is the significant thing about that. Contrary to most kinds of investment, these people get no return whatever on this $300 million except as it may be reflected in their electric rates. In other words, they are not getting any dividend. They are not getting any interest. They are putting their money in interest free.

Senator ELLENDER. Is that in the form of a higher charge, Mr. Ellis? It is not assessment, is it?

Mr. ELLIS. No.

HIGHER RATE

Senator ELLENDER. Higher rate?

Mr. ELLIS. Yes. It builds up this way. Let us say the rate to members, assuming an average rate for the purpose of the example, had been X mills, just X mills, in order to break even. We can't quite

do that because we always need reserves for the hurricanes and whatever. The rate may have been X plus, let's say, half a mill or X plus a mill. Out of that mill then there builds up a surplus. Then the cooperatives take that surplus and put it back into the plant. Everybody knows they are doing that. They do it designedly. They are trying to do that. They would do more of it, most of them, I am sure, if they could.

CHARGE FOR ELECTRICITY

Senator ELLENDER. Are you not supposed to charge a sufficient sum for this electricity so as to not only retire your loan, but to keep up the facility? If you do that you are doing what the law says you ought to do.

Mr. ELLIS. The power companies have said over many years, and this is one thing we believe them on, that an electrical utility requires such a great amount of capital in relation to the amount of income that it cannot be a bootstrap operation. They have to finance not out of accumulations of capital, but out of additional borrowings, and out of additional equity investment. We believe this is true of the electric cooperatives, too, generally, although we are trying.

We believe that generally the electric cooperatives do not lend themselves to the accumulation of enough capital to take care of the tremendous growth which they are still experiencing in terms of the need to build lines larger in order to get this power out, transformers larger, more substations, and where they have to generate their own power to do that

REPAYMENTS TO FEDERAL GOVERNMENT

The systems, as you know, have repaid to the Federal Government $956 million in principal. Some of this, and a substantial amount of it, is not a figure just to cover systems used up, that is, it is not all used up by depreciation. Some of this is accumulation over and above the cost of providing the service up to this time. In other words, they have put some of their own money not only into the repayment, but some of that is actually capital accumulations.

Senator HOLLAND. What is the total of advance payments? Is it very sizable?

Mr. ELLIS. Yes. They have prepaid and we think it is right they have prepaid, and we think this is unique in Government lending, certainly where it is at a low rate. Most borrowers we think do not tend to repay substantial amounts ahead of schedule, but our people have repaid an amount that now stands at $203 million paid ahead of schedule. And the amount is constantly increasing.

Senator ELLENDER. That is what I pointed out the other day before the committee, and I also pointed out that about $400 million of accumulated funds are now being loaned out by some of these cooperatives at a greater rate of interest than they are now paying.

Mr. ELLIS. Yes; most of it to the Federal Government.

Senator ELLENDER. Yes. I made the point that I thought they should pay the Government, because the Government is certainly in need of it now.

Mr. ELLIS. Senator, I know you recognize this problem, and they are paying these amounts which you just mentioned to the Government.

Senator ELLENDER. I know.

Mr. ELLIS. But we are tormented with some conflicts here and we wish we were not. We would like to do exactly what would suit everybody, but we have the problem of prudent investment laws, prudent investment practices, commission requests and requirements, on the one hand. The prudent investment practice says this as we interpret it: If you hold money in trust for anyone you are bound to invest it prudently. Our people usually hold that to invest it prudently is to—well, about half they have prepaid against their debts—invest it in Government bonds at the highest rate they can get. That is what they feel generally to be a prudent investment. Here is what they are tormented with.

AMOUNT OF SURPLUS INVESTED

Senator HOLLAND. You said about half of what they are using. Do you mean the amount they have invested is close to the $203 million which they have prepaid?

Mr. ELLIS. No, it is more than that. I had mentioned more than the prepaid. There is the fact that they plowed back $300 million and that some of this $900 million is also advance capital which they paid in. Also, I shall mention now that they have bought about $26 million of these 2-percent bonds which were issued especially for the rural electrification to purchase. Nobody else buys them. Certainly the commercial telephone companies that are borrowing more money, in the last check I made, from REA than the telephone cooperatives are. They are not buying these 2-percent bonds, but we are. It is fairly new. These were issued about 3 years ago.

Senator HOLLAND. You have already shown the $203 million of prepayment, for which I certainly commend you, and you have already shown the $300 million has been plowed back in the business of building facilities of one type or another, for which I commend you.

Will you also show in the record the total of investments which you have out of your earnings over and above those two figures?

Mr. ELLIS. Yes. We will show an estimate of it.

(The information to be supplied follows:)

REA's 1961 Annual Statistical Report (p. XIV) shows assets of all REA borrowers at $31,686,976 invested in associated organizations and $371,114,293 in other property and investments.

All of these prepayments, investments in electric plant, and other investments were made with general funds which came from operating revenues of the systems, not from REA loan funds.

Senator HOLLAND. What do you have in mind?

Senator ELLENDER. It is over $400 million.

Mr. ELLIS. I believe the Senator was talking about something a little different. If I understood, Senator Holland, what you meant was how much of this $900-and-some million which we have repaid in principal has not been used up in depreciation.

Senator HOLLAND. No, no. No; I meant how much of the surplus which you have accumulated, surplus of reserves and earnings, or whatever you call it, has been invested on behalf of your people.

Mr. ELLIS. Oh, yes. We can give you that now, I believe.

Senator ELLENDER. It is my recollection that in round figures through 1961 you had invested $400 million.

Mr. PARTRIDGE. Yes, Senator; that is approximately correct. It is somewhere around $400 million. Those funds are held for specific reserve purposes, such as replacement of plant to meet storm damage needs from whatever cause, ice, sleet, hurricanes, et cetera; as reserves for the payments of REA notes coming due, the principal and interest payments, as these come due; and for replacements of plant and for working cash. I believe these are the principal reserve purposes for which they hold these funds. I believe you are approximately correct. It is somewhere in the neighborhood of $400 million.

Senator HOLLAND. A prudent business would want to have substantial reserves on hand, and that, of course, is understandable.

Proceed, Mr. Ellis.

Mr. ELLIS. Thank you, Senator.

INVESTMENT IN SYSTEMS

To add up some of these figures, that means that people have invested in their systems out of their own pockets a total of $1.165 billion. The prepayments as I have already mentioned, draw 2 percent and the Treasury bonds 2 percent. I mentioned that our people got no interest on their own capital that goes into the system.

The real point I wanted to make here is that the payments that our people have made on schedule, totaling $936 million, and the general funds invested directly, totaling $300 million, total $1,236 million.

From the clamor raised by the power companies about the generation and transmission program one might assume I think that the rural electrics are generating virtually all of their power. The fact is, and, gentlemen, I think this is significant, that only about one-sixth of the total energy requirements of the rural electric systems is being provided by the REA-financed facilities. Here is another thing that I think is significant. This is true regardless of who was administrator or regardless of what political party was in power. If you chart the percentage of increase of our own generation over the years you see that it moves up or down very slightly from 16 percent, 17 percent. It stays about the same.

If we are to maintain our level of bargaining power it is my opinion this is going to have to continue at about that percent, up or down a little. Depending upon the attitude of the companies, it may be less, and we would like to see it less, or it may be more, if necessary. The installed capacity of rural electric generating plants in service in the country is only about 2 million kilowatts, a relatively small amount. This amounts to less than 1 percent of the installed capacity of the United States.

POWER COMPANY OBJECTIONS TO REA GENERATION-TRANSMISSION LOANS

We are just insignificant in the amount of power we generate. The power companies' objection to the REA generation-transmission loans

stems, I think, from several factors. In the first place, they do not want to lose the market—that is natural—which we constitute, and not even any of it.

Secondly, but more important, they do not want to lose, in my opinion, their absolute monopoly control over the rural electric systems. As long as we have to buy power from them we are at their mercy, and they like it that way.

Thirdly, the power companies fear this "competition by example." They fear our building larger plants than we had been building because we tend to get up into the more efficient sizes, so that we can produce power maybe as cheaply in these plants for ourselves as, say, some of their smaller plants or some of their older plants. These co-op plants provide an evaluation—I think this is worth something to the State commissions too—of the cost of producing and transporting electric energy, but I do not think the companies welcome this example, which the commissions might use. We believe the companies have been able to disguise their generating costs as a result of their multiple bookkeeping systems, as a result of the complexity and the size of their operations, and the fact that they are often interstate. If it were possible for us to examine their costs—when they talk about secrecy they never mention, of course, that their books are completely secret from us, we have no opportunity to examine them even though we are bargaining. They want to look at our books in bargaining, but they don't want us to look at theirs.

SUBMISSION OF RECORDS

Senator ELLENDER. Mr. Ellis, is it not a fact that when they appear before these commissions the commissions can make them submit all of their records before any action is taken as to rates, and you have access to that?

Mr. ELLIS. No, we don't have access to it. We are not permitted to see them.

Senator ELLENDER. It is a public matter, though before these commissions, as I understand.

Mr. ELLIS. No. Senator, I think in practice what happens is that the commissions send crews in there to examine their books at their offices. Not all of the books are brought before the Commission and we never could see their books.

Senator ELLENDER. But such data that may be presented to justify an increase in the rate must be justified by them by presenting evidence to substantiate their contention. Am I not right?

Mr. ELLIS. Yes, "by some evidence." We think it is very limited.

Senator ELLENDER. Of course, I know you do not think that they are fair and square. I can see that from you attitude. It strikes me that you do have access to that information and, of course, I have advocated that this should be the case on both sides. You should have access to their information. They should have to yours—maybe more so in your case because you are using public funds. That was my attitude and I still believe that, and I repeat what I said before. I have certainly been one of the best friends REA has ever had.

Mr. ELLIS. You have been a fine friend.

Senator ELLENDER. All right. I want to still remain that way. I want to go along and develop REA's to the point where they will give electricity at a fair rate to all farm people all over the Nation. But what I oppose, and I hope that you reach that point, is for the REA Administrators to do things indirectly that Congress said they could not do directly. That is the nub of the whole situation.

Mr. ELLIS. I shall come to that.

Senator ELLENDER. I am sure with the information that I have obtained and that is going to be in this record you are going to find mighty few cases in which some Government agency did not have to come in to purchase this extra electricity in order to make it possible for the REA's who contracted for the G. & T. to be able to pay out. I shall come to that very shortly.

FIRMING UP HYDROELECTRIC POWER

Senator YOUNG. Mr. Ellis, I would like to comment at this point. As you know, I have never been opposed to firming up hydroelectric power. I voted for steam plants for TVA. I think REA is entitled to build generating plants to firm up hydroelectric power that they use. There was a case in my area last year where I think the REA Administrator went too far. He was using REA loan money to do what we in Congress used to do by appropriation in firming up power. He went so far that he divided the REA co-ops in our area. There were probably more against him for a while than there were for him. At the present time they are divided about 50–50. When he goes so far that REA people themselves are opposed to this kind of a deal, I think he has gone too far. What he was doing was getting around the law, using 2-percent money, using loan money to do what Congress used to do by appropriations for firming up power. We in the farming business always have to take the heat for this 2-percent money.

APPROPRIATION FOR AGRICULTURE

We believe the program is justified, but, if we go too far, we are going to have too many people against us. You hear all these stories about this $6 billion or $7 billion appropriation for agriculture. The average person now thinks that farmers are actually getting a subsidy check for this amount. About $1,400 million of this is for foreign countries, for food that we give to people throughout the world, but it is charged to agriculture as are the funds for famine relief, school lunch, all these REA loans and FHA loans, and RTA, all of which have nearly a 100-percent repayment record. Unfortunately this all appears as a part of the budget of Agriculture and people think that farmers are getting a check for all this money. This is the sad part of it.

I think we do have to try and keep our skirts clean. Otherwise we may get hurt. There are fewer farmers each year and their influence in Congress is decreasing each year.

ABIDING BY PHILOSOPHY OF THE REA ACT

Senator HOLLAND. Supplementing that, everyone of us knows that the urban populations of the Nation are growing at a very rapid rate and every one of us knows that, under the decision of the Supreme

Court in the *Tennessee* case for reapportionment, that reapportionments are taking place in many, many States now which give the urban populations vastly more influence both in Congress and particularly in the State legislature, so I want to add my voice to what you just said, Senator Young. I think it is becoming increasingly necessary that the REA's should be very sure that they abide by the philosophy of the act, and by the intent of Congress, and work very closely with people here who, by supplying this money year after year, by setting up the arrangement originally, and I thought it was good, have helped them become established in their various States. I was in the State Senate at that time.

RESERVES

Mr. Ellis, I approve of your setting up appropriate reserves. I think any cautious, prudent business must do that. I think that that same kind of caution should be reflected in the program to which you address yourself and that more and more we must realize that developments are such as I have indicated. That means there is even greater necessity than heretofore to closely adhere to the philosophy of the REA Act.

You may proceed.

Mr. ELLIS. Thank you, Mr. Chairman. We appreciate very deeply the position stated by each of you. We are daily conscious of these problems. We have done much work on them. For instance, we initiated and carried out most of the reserves fund project. We got help from REA to try to establish some rule of thumb—I believe the idea came out of this committee—as to how much reserves, some yardstick or some formula for determining the amount of reserves that systems might safely accumulate and with the idea that the rest of the money would be prepaid to REA or would be returned to the members under the cooperative principle of capital credits refund. We are aware of these problems and we are aware of your situation with your constituency and we know too that it is not made any easier by these slick page ads constantly run by the power companies making statements which at least we don't believe are always true.

RELATIONS OF POWER COMPANIES AND REA IN FLORIDA

Senator HOLLAND. I am sure that is the case. However, in my own State, if I understand the situation correctly, the relations are very cordial between the two largest power companies and the some 12 or whatever it is number of the REA's which they supply, and the relations are not cordial only with reference to the smallest companies, that is, in its production and sale to REA's. I think that the record would have to show that there are many instances of that throughout the country. Certainly that is the case in my State because, talking to the managers of the REA's and to their presidents and directors and officers, I find that a most cordial feeling exists between the REA's and the two larger companies, which between them supply, as I recall, either part or all of the power to 12 of the REA's out of the 17.

Senator ELLENDER. I wish I could say the same thing for my State, Senator Holland.

Senator HOLLAND. If there is any debate about what I said here, I would like to hear it, but I believe that to be the case. I think the

relations are very cordial and that is what I get from our own REA managers throughout the State.

Mr. ELLIS. That bears out what I said earlier, that in most of the country we are not having trouble. If all the power companies in the country from which we buy power were here as these 13 companies are, there would not be room in this end of the Capitol for them, if they came in such great numbers as they apparently came before the House committee.

Senator HOLLAND. It is not for me to say where the blame is when a situation exists in the case of three or four REA's that are affected by hostile relations with their power supplier, but it is for me to comment on the fact that the picture in Florida is harmonious and friendly and the REA's, as I understand it, have decided uniformly that they are getting a better deal than by manufacturing their own power.

CAMPAIGN BY POWER COMPANIES

Mr. ELLIS. Yes. The principal discordant note with the power companies generally is this campaign they have put on constantly to hold us up to ridicule in the public eye.

Senator HOLLAND. You mean that some of them put on.

Mr. ELLIS. All right. Most of them do, though. We get the lists. Their ads say that if you write in you can get the list, and from time to time we do. We would be glad to put one of them in the record if you are interested.

Senator HOLLAND. I will leave that to you.

Mr. ELLIS. All right, I would like to put it in. We will give you the most recent one we have showing which companies do this.

(The information to be supplied follows:)

LIST OF MEMBER COMPANIES IN THE ELECTRIC COMPANIES ADVERTISING PROGRAM

Alabama Power Co., Birmingham, Ala.
Arizona Public Service Co., Phoenix, Ariz.
Arkansas Power & Light Co., Little Rock, Ark.
Baltimore Gas & Electric Co., Baltimore, Md.
Blackstone Valley Gas & Electric Co., Pawtucket, R.I.
Boston Edison Co., Boston, Mass.
Brockton Edison Co., Brockton, Mass.
Cambridge Electric Light Co., Cambridge, Mass.
Carolina Power & Light Co., Raleigh, N.C.
Central Hudson Gas & Electric Corp., Poughkeepsie, N.Y.
Central Illinois Electric & Gas Co., Rockford, Ill.
Central Illinois Public Service Co., Springfield, Ill.
Central Louisiana Electric Co., Inc., Lafayette, La.
Central Power & Light Co., Corpus Christi, Tex.
Cleveland Electric Illuminating Co., Cleveland, Ohio
The Connecticut Light & Power Co., Berlin, Conn.
Conowingo Power Co., Elkton, Md.
Consumers Power Co., Jackson, Mich.
Dallas Power & Light Co., Dallas, Tex.
The Dayton Power & Light Co., Dayton, Ohio
Delaware Power & Light Co., Wilmington, Del.
The Detroit Edison Co., Detroit, Mich.
Duquesne Light Co., Pittsburgh, Pa.
Edison Sault Electric Co., Sault Ste. Marie, Mich.
El Paso Electric Co., El Paso, Tex.
Empire District Electric Co., Joplin, Mo.
Fitchburg Gas & Electric Light Co., Fitchburg, Mass.

Florida Power & Light Co., Miami, Fla.
Georgia Power Co., Atlanta, Ga.
Gulf Power Co., Pensacola, Fla.
Gulf States Utilities Co., Beaumont, Tex.
The Hartford Electric Light Co., Wethersfield, Conn.
Holyoke Water Power Co., Holyoke, Mass.
Houston Lighting & Power Co., Houston, Tex.
Idaho Power Co., Boise, Idaho
Indianapolis Power & Light Co., Indianapolis, Ind.
Interstate Power Co., Dubuque, Iowa
Iowa Electric Light & Power Co., Cedar Rapids, Iowa
Iowa-Illinois Gas & Electric Co., Davenport, Iowa
Iowa Power & Light Co., Des Moines, Iowa
Iowa Public Service Co., Sioux City, Iowa
Kansas Gas & Electric Co., Wichita, Kans.
Louisiana Power & Light Co., New Orleans, La.
Marietta Electric Co., Marietta, Ohio
Massachusetts Electric Co., Worcester, Mass.
Merrimack-Essex Electric Co., Lawrence, Mass.
Merrimack-Essex Electric Co., Lowell, Mass.
Metropolitan Edison Co., Reading, Pa.
Minnesota Power & Light Co., Duluth, Minn.
Mississippi Power Co., Gulfport, Miss.
Mississippi Power & Light Co., Jackson, Miss.
Missouri Edison Co., Louisana, Mo.
Missouri Power & Light Co., Jefferson City, Mo.
Monongahela Power Co., Fairmont, W. Va.
The Montana Power Co., Butte, Mont.
Monterey Utilities Corp., Monterey, Va.
The Narragansett Electric Co., Providence, R.I.
New Orleans Public Service, Inc., New Orleans, La.
New York State Electric & Gas Corp, Binghamton, N.Y.
Niagara Mohawk Power Corp., Syracuse, N.Y.
Northern States Power Co. of Wisconsin, Eau Claire, Wis.
Northern States Power Co. of Minnesota, Minneapolis, Minn.
Northern Virginia Power Co., Winchester, Va.
Ohio Edison Co., Akron, Ohio
Oklahoma Gas & Electric Co., Oklahoma City, Okla.
Orange & Rockland Utilities, Inc., Nyack, N.Y.
Pacific Gas & Electric Co., San Francisco, Calif.
Pennsylvania Power Co., New Castle, Pa.
Pennsylvania Power & Light Co., Allentown, Pa.
Philadelphia Electric Co., Philadelphia, Pa.
The Potomac Edison Co., Hagerstown, Md.
Potomac Light & Power Co., Martinsburg, W. Va.
Public Service Co. of Indiana, Inc., Plainfield, Ind.
Puget Sound Power & Light Co., Seattle, Wash.
Rochester Gas & Electric Corp., Rochester, N.Y.
Rockland Electric Co., Closter, N.J.
Savannah Electric & Power Co., Savannah, Ga.
South Carolina Electric & Gas Co., Columbia, S.C.
South Penn Power Co., Waynesboro, Pa.
Southern Indiana Gas & Electric Co., Evansville, Ind.
Southwestern Electric Power Co., Shreveport, La.
Southwestern Public Service Co., Amarillo, Tex.
Suburban Electric Co., Malden, Mass.
Superior Water, Light & Power Co., Superior, Wis.
Tampa Electric Co., Tampa, Fla.
Texas Electric Service Co., Fort Worth, Tex.
Texas Power & Light Co., Dallas, Tex.
The Toledo Edison Co., Toledo, Ohio
Union Electric Co., St. Louis, Mo.
The United Illuminating Co., New Haven, Conn.
Utah Power & Light Co., Salt Lake City, Utah
Virginia Electric & Power Co., Richmond, Va.
The Washington Water Power Co., Spokane, Wash.

West Maryland Power Co., Oakland, Md.
West Penn Power Co., Greensburg, Pa.
West Texas Utilities Co., Abilene, Tex.
Western Massachusetts Electric Co., Greenfield, Mass.
Wisconsin Electric Power Co., Milwaukee, Wis.
Wisconsin Michigan Power Co., Appleton, Wis.
Wisconsin Power & Light Co., Madison, Wis.
Wisconsin Public Service Corp., Milwaukee, Wis.

FEAR OF FARMERS

Senator YOUNG. I think the farmers are justified in their fear that, if some of the power companies get a monopoly on the supply of power to farmers and bought the lines and whatnot, they would then up the rates.

Mr. ELLIS. There is no question about it.

Senator YOUNG. I think they are justified in that.

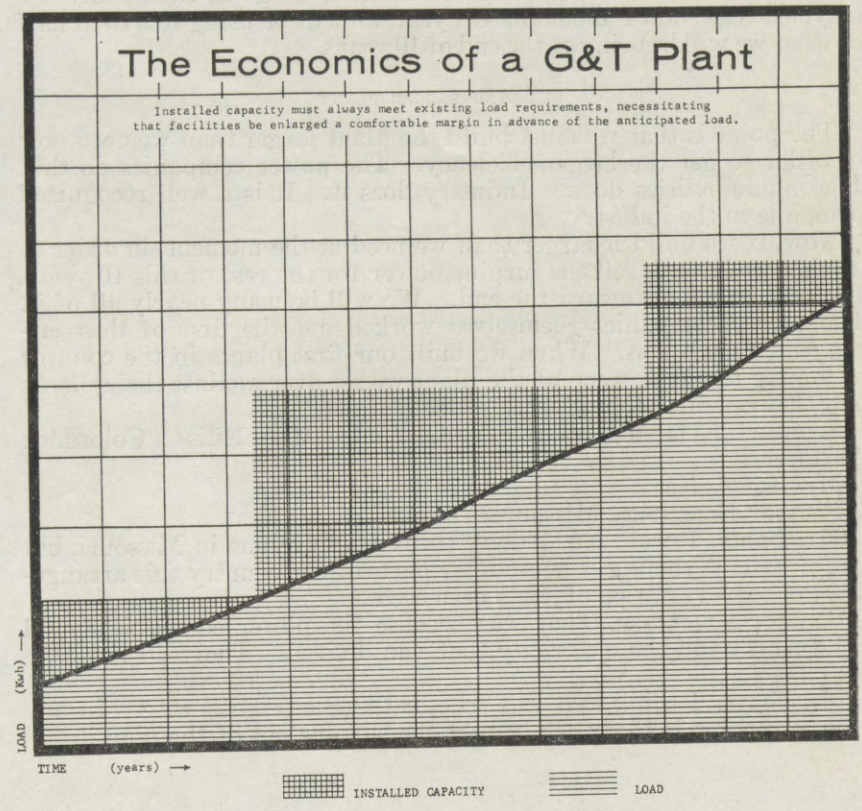
Mr. ELLIS. Since we have talked a bit about this matter of the new generation loan being used to build plants to develop power, part of which is sold to someone else, let me attempt to give you a picture here on an imaginary chart. Let's assume that this line is the years and the total is 10.

Senator HOLLAND. This won't be understandable in the record.

Mr. ELLIS. We will put one in the record if we may.

Senator HOLLAND. All right.

(The information referred to follows:)



Power load for a G. & T. plant grows gradually and in small increments; the installed capacity grows in large increments. It is standard practice in the electric industry to install new capacity 5 to 10 years before it is needed. This requires, for economic operation of the system, that such capacity as is not presently needed be sold. Whatever portion of the crosshatched area cannot be sold represents unused power capacity and a loss of revenue to the G. & T.

EXPLANATION OF CHART

Mr. ELLIS. The bottom line on the chart is years and total is 10. The lefthand side vertical line on the chart is kilowatt-hours of need of the cooperative or cooperatives which build their own generating plant. Remember that the plant has a life expectancy of 35, 40 years. REA requires us to justify this plant that we build in the first 10 years. That is, at the end of 10 years we must be using the amount of power which they will lend us money to build. That is, if it is a 100,000-kilowatt plant, they require us to be using 100,000 at the end of 10 years, not at the end of 35, or not at the middle. A logical rationale, we think, would be at the middle. They are conservative with us on that point. This is tradition. It has always been so. It may have been a good policy. I don't quarrel with it. But I think it is interesting that they have fixed the figure at 10 years.

When we first start, of course, we will be using only what we are using at the present time and, since we are going to double about every 7 years, we will be using less than half at this line on the chart, this horizontal line being our kilowatt-hour usage in each year. So maybe at the end of about the 4th year we will be using less than half of what we will be using at the end of 10 years.

BUILDING LARGER PLANT

The point is that we must build the plant larger than we need now in order to get the larger efficiency. The power companies do this. The municipalities do it. Industry does it. It is a well recognized principle in the industry.

Now, if we build it larger than we need at the moment, in order to do that we have to sell the surplus power for the rest of this 10 years. It won't be much toward the end. We will be using nearly all of it. The power companies themselves worked out the first of these arrangements with us. When we built our first plants in the country or among the first, some of the plant we set over against their plants and they operated them for us.

Senator ELLENDER. Where was that, Mr. Ellis? Colorado? Arkansas?

Mr. ELLIS. No.

Senator ELLENDER. Missouri?

Mr. ELLIS. Iowa. No, I don't think we have one in Missouri, but in Iowa, in Wyoming, and in other parts of the country this arrangement or some variation of it has been used.

Senator ELLENDER. That was because the power companies could not furnish you the electricity that you desired. They did not have the capacity.

Mr. ELLIS. I think that was true in the Black Hills case. In any case, my point is that they bought the surplus out of the plant.

Senator ELLENDER. If you recall, when you built them in Missouri, and as I remember, and Arkansas——

Mr. ELLIS (interrupting). Right.

Senator ELLENDER (continuing). Something was done there which the Congress approved. The SPA was permitted to purchase that electricity—as it is now doing—in order to pay off those bonds. As I understand, they are still buying that amount. They rent the transmission lines with which the REA loan is to be repaid through the sale, through a Government authority, of this extra electricity. It will take 40 years to do it.

SELLING SURPLUS ON A DIMINISHING BASIS

Mr. ELLIS. Senator, they are all following this principle of selling surplus on a diminishing basis. Where they do sell it to the Federal Government, I believe in every case they are following the principle of following a diminishing amount.

Senator ELLENDER. When that happens, in my opinion, it is a violation of the law. Let us take the plant that you are constructing in Texas. I put in the record earlier the questions that I propounded to Mr. Clapp.

Senator HOLLAND. Speaking of the Upshur.

Senator ELLENDER. Upshur, that is right. In that instance electricity will have to be sold to consumers other than co-ops.

SALE TO COOPERATIVES

Mr. ELLIS. Yes, sir, but only in this initial period.

Senator ELLENDER. I know, but that is not permissive, as I see it. It ought to be sold to cooperatives because they are the ones that have made the application and they are the ones for whose benefit this has been constructed.

Mr. ELLIS. We would love to sell it to cooperatives if we had the transmission facilities available to us.

Senator ELLENDER. Of course. If that practice were not stopped in some way, if you were permitted to do that, why, within the next 2 years you would have put up a nationwide grid system. That would make it possible for Federal money to be used to build these steamplants and put a lot of private companies out of business.

Mr. ELLIS. We do not think the economics would permit us to do that, but let me tell you what we propose, and we propose it right now to the power company men sitting all around this room.

Where we have some surplus, and we are always going to have some surplus if we generate our own, we propose that we be permitted to put our power into their lines and take it out somewhere else either by actual wheeling or by a displacement.

Senator ELLENDER. You would want this even though they do show you that they could sell it to you as cheaply as you could manufacture it?

COMMON CARRIER PRINCIPLE

Mr. ELLIS. If they could do that we won't manufacture it. However, my point is this: If we had the common carrier principle applied to power company lines, which is now applied to every other kind of

transport in America but the power companies, all transport—it's common carrier or has common carrier in it—if we were permitted to use excess capacity and excess capacity is all I am talking about, that exists in the power company lines today which are strung across the country by virtue of their right of eminent domain to put them where they will, so that we could transport power among ourselves over their lines we could achieve great efficiency. The whole economy could achieve great efficiency. Western Europe has come into this very rapidly. We could do this without disturbing the ownership of these lines, and this we would like to do very much.

Senator ELLENDER. This has been accomplished, has not it, to some extent?

Mr. ELLIS. In the Pacific Northwest.

Senator ELLENDER. And here in Arkansas and in Missouri.

Mr. ELLIS. No.

Senator ELLENDER. Arkansas Power Co., as I remember, agreed to wheel.

Mr. ELLIS. Oh, yes, we get those wheeling agreements.

Senator ELLENDER. That is what you mean, isn't it?

Mr. ELLIS. No. I mean true common carrier, so that for a predetermined price if the capacity exists in the line and it is standing idle we could put power in and take it out. We are negotiating deals like this. In the Pacific Northwest we have the common pool. Wherever the Government is biggest in the area they are quite willing to have a pool.

Senator ELLENDER. That is a different proposal because in the Northwest most of the electricity generated is through Government plants or municipal plants. Isn't that true?

Mr. ELLIS. Right.

UTILIZATION OF FACILITIES IN STEAMPLANTS

Senator ELLENDER. That is why, but what I am talking about now is utilization of those same facilities in steam plants.

Mr. ELLIS. Yes.

Senator ELLENDER. And these steamplants were constructed with 2-percent Government money. That is where the difference is between your example of Northwest United States and what you are trying to do with Upshur and other plants in the country. You get the difference, don't you?

Mr. ELLIS. I get the difference. There is something else involved here and you are the distinguished chairman of the Public Works Committee that has this matter constantly before you that we think is vital, too. This is a part of this picture. For several years the Corps of Engineers and the power companies, and we have gone along with this, have advocated that, as in the case of Beaver Dam which sits at the spot where I grew up—it is under construction now—the Government installation in Beaver Dam, not the kind of generators that would produce the maximum firm power that is obtainable from the waters of that river, but much larger units and more units than are necessary to capture the firm power in order that on the peak flows of the river this power can be put into the systems that are steam based, which means the big power companies in the Southwest. It is

worth more to the power companies than it is anybody else because they use it to obviate the use of coal or other fuels in the production of electricity.

Senator HOLLAND. Whenever you have power that is not firm it is not worth anything much to anybody except somebody in the business of maintaining a heavy supply which is more general than just in the community.

Mr. ELLIS. That is true.

Senator ELLENDER. I doubt that you remember this, Senator, but when I was on the Appropriations Committee in 1948 and 1949, I opposed the construction of steamplants except to firm the power in TVA. But when they went beyond the firming stage, that's when I drew the line. Today the TVA is selling electricity. Of the 100 percent produced both by steam and from falling water, 77 percent of it is steam.

TVA

Mr. ELLIS. And TVA is doing something with the power companies they won't do with us.

Senator ELLENDER. In other words, it shows you the extent to which it has extended itself in TVA here, which I think is wrong. I don't think it is fair to use Florida money, North Dakota money, and South Dakota money, to build up a big operation where you have cheap electricity in the TVA. It was all right to use the falling water that will produce electricity and firm it with steam, but it is wrong for them to have extended in to the point where in that great area 77 percent—it might be more now—of the electricity produced is generated from steam. It just shows you that Government money has been used in the past to do this at a great disadvantage to other sections of our country.

Mr. ELLIS. The power companies are rapidly extending TVA out over other States. They are doing it, in my opinion, in violation in one case of the law which the Congress passed fixing a sort of wall around TVA.

Senator ELLENDER. Congress did that. We fixed the limits of TVA.

Mr. ELLIS. Yes.

Senator ELLENDER. We did it.

Mr. ELLIS. That is right.

Senator ELLENDER. I thought you said the power companies did. We did it.

Mr. ELLIS. That Congress fixed the limits.

Senator ELLENDER. I am familiar with that.

MISSISSIPPI POWER CO.

Mr. ELLIS. Mississippi Power Co., because it had an agreement, was permitted to make deals with TVA because it had an interchange agreement. Now it is hooked up with companies in my State and your State and other States far beyond what was being done then with Mississippi Power. In other words, Mississippi Power Co. has joined these other companies, Mississippi Power & Light——

Senator ELLENDER. You mean private concerns?

Mr. ELLIS. That is right. And they are now extending the benefits of TVA as a result of this interchange and purchase arrangement on that.

Senator ELLENDER. On an exchange basis.

Mr. ELLIS. On an exchange basis, into other States. This is actually the same principle that Upshur and these other co-ops are entering into with——

Senator ELLENDER. No, it is not. You do not have anything to firm in Upshur. You are simply building your facility there with Federal funds and far beyond your capacity. You are using another Government agency to transmit that power, and I say you are doing indirectly what we stopped you from doing directly in 1947. You are familiar with the case in 1947?

Mr. ELLIS. Oh, yes. I sat in these rooms right across the hall. I remember the power companies saying to what would now be the Public Works Appropriations Committee that the SPA should not be permitted to build these steamplants. SPA was proposing steamplants at that time.

Senator ELLENDER. Right.

Mr. ELLIS. "Let the co-ops build their own steamplants," the companies said.

Senator ELLENDER. If they can build them cheaper than they can be furnished electricity.

Mr. ELLIS. Yes.

Senator ELLENDER. I am for that. I am for that.

Senator HOLLAND. Just a moment. We are getting pretty close to the limit here, Mr. Ellis. We have this afternoon set for another group. We are running overtime, but I think we can stay here the next 15 or 20 minutes.

Mr. ELLIS. I will hurry. I am sorry.

Senator ELLENDER. I won't break in any more.

Senator HOLLAND. I was far from holding down my colleague because he has a much finer grasp of this subject matter than I have. All right.

RESTRICTIVE CLAUSES IN CONTRACTS

Mr. ELLIS. The power companies' contracts with us often contain restrictive clauses and fine print which damage us more in our opinion than the sometimes high rates which they have in those contracts. The adequacy of REA loan funds and administration of the rural electrification program in accordance with the Rural Electrification Act of 1936, as amended, we believe are absolutely vital to the continued success of the rural electrification program. The requests which we are making in our testimony today are for the purpose of carrying this program just through 1 more year, as you know. The necessary elements in this program are at least a half dozen in number. Power is the most important. The power companies are holding up our generation of power in loans made from funds which you have approved in many States through dilatory, in my opinion, actions before the commissions—in many cases they are such—and by taking us into court and delaying us for endless years.

We don't carry on this kind of tactics against the power companies, but they harass us constantly. As of this hour 800,000 kilowatts of power ought to be under construction that are not, from loans which have been made. The funds have not been paid over to us. They are being held up on stop order because of the harassment tactics of the power companies, many of whom are represented in this room.

Many of the loans about which these complain they are holding up by these tactics now in the courts.

Let me give you just a few cases, as briefly as I can.

Senator HOLLAND. I have gone over the statement and I have seen those cases. I think we know about them. We certainly will have them in the record. I would suggest that you just put those in the record and proceed with the rest of your statement because we can certainly have access to those facts and I think that in each case this committee has already heard of those situations from other sources.

We are perfectly willing and happy to have your statement of the case.

CASES IN LITIGATION

Mr. ELLIS. Mr. Chairman, I shall do that, of course. May I say about one or two sentences about each of these and one of these sentences is one that does not appear in the statement which has been handed in.

Senator HOLLAND. Certainly.

Mr. ELLIS. In Alabama the power company is delaying a loan to serve our own people only and insofar as we know we have no remedy, no adequate remedy, against this tactic of holding up before the State authorities and apparently now they are about to take us into court.

In Mississippi they have delayed us for 7 years before the State commission and in the courts and we anticipate they are now going into court. We have won the case before the State commission and we have no remedy insofar as I know against the great losses we have sustained both in fighting the case and because of the loss of savings we would have had on the power. In Kentucky they are holding us up before the State commission, protesting our building of a plant, and again we have no remedy insofar as I know or our lawyers know. In Indiana they delayed for years the making of a loan and, once it was made, they have delayed our construction and they now have it in the courts and we know of no remedy. We expect the same tactics in the *Upshur* case. Certainly the power company that operates in the area has been using harassing tactics against those cooperatives for several years, and we have no remedy insofar as we know.

In Colorado, where the Ute Electric loan is made, the power companies are and have been holding us up before the State commission and in the courts and we have no remedy. In all of these cases I understand, too, they are complaining about not having had notice that the loans were going to be made.

Mr. Chairman, we are prepared to document in each case that the power companies did have notice, often negotiated with us, carried on correspondence with us in anticipation of a loan, and in the Colorado case negotiated before the loan was made to carry the power to be developed from the loan. If the power companies are to be permitted here to say that, as I believe they said before the House committee, these loans were made in secret, then, Mr. Chairman, we ask permission that our people, representing these generation and transmission cooperatives, most of whom are here in this room, be permitted to follow the power companies just to answer the charges made.

Senator HOLLAND. Let's say this. Any charge that is made by either side that the other side wants to answer can be answered in writing and will appear in the record. I don't know that we can string out the hearings any further.

Mr. ELLIS. Mr. Chairman, I won't quarrel with that, but I want to point out to you the dilemma that we are in. On the House side——

REBUTTAL

Senator HOLLAND. You can make one rebuttal and you can place it in the record. If you have statements from a number of people, you can put them in.

Mr. ELLIS. We can make one rebuttal and submit it, very fine.

Senator HOLLAND. But to just open up the hearings in general, we just can't do that because we have to get along with the public business.

REPLIES TO CHARGES

Mr. ELLIS. Very fine. I have contained in my statement here replies, defensive replies to other charges which the power companies are making about taxes and other things. We believe that generally by any reasonable formula we are paying more taxes than they are, except on income and on profit. We do not make profits so we do not pay the profits taxes. But if you base it on miles of line or upon investment or on any other reasonable measure that I know, we believe our taxes are less equitable.

INTEREST RATES

Senator ELLENDER. How about on the interest rates? Have you anything in that to offset the contentions of private power?

Mr. ELLIS. Yes.

Senator ELLENDER. As to how much more they must pay than you?

Mr. ELLIS. Yes.

Senator ELLENDER. That might be very appropriate to add at this time.

Mr. ELLIS. Yes; we have something in the statement, but there is one more statement I would like to add on that and we will supply you the figure on it. The interest charge as a cost of power to our people comes out at a higher figure than the interest charge of the power companies. This has to be explained because of course they pay a higher interest upon the money which they borrow in the commercial market than we pay from REA. But there are many factors that bear upon this cost of money in terms of investment as paid by the consumers and the percentage cost in ours runs more than that of the commercial power companies. I shall submit that with the explanation from our economist if I may for the record.

Senator HOLLAND. We will be glad to have it.

(The information referred to follows:)

COST OF INTEREST—CONSUMERS PER MILE

An analysis made in Texas and based on consumers per mile of line shows that co-op consumers pay a larger interest bill than power company customers pay. Here are the figures:

"It costs $2,200 today to build a mile of line to serve 2.4 consumers—which is the average density of Texas' rural electric systems. When the same mile of line serves more than 2.4 consumers, the only added cost is for transformers, service loops, etc.

"The utility in Texas with the largest number of rural consumers, claims an average of eight consumers per mile. To build this line today to serve eight consumers costs approximately $3,000 per mile.

"The interest at 2 percent on the co-op's mile of line costing $2,200 is $44 annually. Dividing the $44 by 2.4 (consumers per mile), the interest each co-op consumer pays is $18.33.

"The interest at 4 percent on the power company's mile of line costing $3,000 is $120 annually. Dividing the $120 by eight (consumers per mile), the interest each power company rural consumer pays is only $15 per year.

"It's as simple as that: The supposedly favorable co-op financing is actually not so favorable as it appears."

REA Administrator, Norman M. Clapp, recently called long-term low interest loans a key factor in the great achievement of rural electrification. He said: "In an industry requiring heavy capital investment 2 percent interest loans have been an indispensable 'equalizer' for the special handicaps which have confronted the rural electric systems."

COST OF INTEREST AS A PERCENT OF REVENUES

He continued:

"One point which is often overlooked in discussions of rural electrification is that even at the low rate of 2 percent, interest payments constitute a heavy assessment on the revenues of the rural electric systems. In 1960, for example, interest on long-term debt absorbed 7.7 percent of our borrowers' total operating revenues. In contrast, this took only 6.1 percent of the total operating revenues of the class A and B electric utilities.

"So long as the rural systems labor under extreme handicaps in low density, lack of diversity, and low load factor—they will have to have this equalizer if they are to provide service and rates comparable with those of urban areas. We look to the day when it will no longer be necessary. But that day is not yet and will not arrive until the rural systems are able to participate more fully in the great technical and economic advantages of the industry."

RESOLVING PROBLEMS

Mr. ELLIS. Mr. Chairman, in closing, let me thank you very much for this fair hearing which you have given me this morning—Mr. McWhorter has not finished—on behalf of the rural electric systems and for your permitting us to further reply to charges that may be made. All we ask is the same fair consideration, and I know you will give it to us, that this fine committee, this great committee, has given us in the past. We do not want to do anything that is not right and we want to resolve these problems that exist wherever they exist insofar as we can. We would ask your help if you can prevail upon the commercial power companies to not spend the tremendous moneys which they do, which we have to help pay for in part, to hurt our good name in the public mind. We believe they are doing this. We admit that they are doing it. We would like to see that diminished.

(Mr. Ellis' statement follows:)

Mr. Chairman and members of the committee: My name is Clyde T. Ellis. I am general manager of the National Rural Electric Cooperative Association.

We in the rural electrification program are always glad to appear before this committee. In the 28 years since the rural electrification program began, much of its strength and progress has come from actions by this committee and the full appropriations committee of the other House. The job of electrifying rural America could never have been accomplished without the Federal landing program and the REA agency to administer the program, made possible by the work of this fine committee. We have always been grateful for

your counsel and advice, and we consider it a privilege to appear before you today.

Until as recently as 5 years ago, the emphasis of our testimony before your committee centered on the problems of getting electricity to unserved rural people. Today, most of the initial connections have been made; those relatively few rural residences and other establishments without electricity are the very toughest to reach in terms of financial feasibility, the miles of line required to reach them, and other impediments. Rural electrics are still working toward finishing this job of initial connections. We believe that in time—and it will take some time to accomplish—every rural person who wants electricity will have it. But the initial connections are only the beginning.

In the past 5 years, rural electrics everywhere have faced an entirely new kind of problem. With most of the initial connections made, they have intensified their efforts on the problems of providing dependable and adequate power to their customers at reasonable rates. The rural consumer is using more power for more things than he, or we, or anyone ever dreamed he would. His use of electricity is doubling about every 7 years. This phenomenal increase in electric usage is likely to continue, for we have barely scratched the surface in applying electricity to the needs of modern-day farming and rural family living.

Rural electrics must increase the capacity of their distribution systems to meet these growing loads, and the job must be done ahead of demand. There is no more dissatisfied consumer than one who has less power than he needs, or who has low voltage. The rural electric systems must, day in and day out, go ahead with their rephasing operations, with increasing transformer capacities, and with all of the other work of serving a load which never stops growing.

This is no small task, and it means that the investment in electric distribution plant continually increases. The funds for financing this expansion of plant must come primarily from REA, because there is not enough "cream" in rural service areas to permit charging rates which will cover the cost of service, repay the REA loan, and in addition provide any substantial amount of capital to finance plant expansion.

I have cited these facts to indicate to the committee the reason that it is necessary that REA funds be available to meet the requirements of a growing distribution plant. Some critics of the rural electrification program have tried to fool the public into believing that the REA program is finished. Nothing could be further from the truth. Rural electrics are facing the same expansion and growing capital needs experienced by every utility, and there is no diminution of this growth in sight.

And this growth in use of energy is good, because first, it increases the efficiency and the standard of farm operations and of farm-family living. Secondly, it has saved the electrical cooperatives from insolvency as people have continued to move from the land to the cities. By U.S. census figures 31,801,000 people depended upon the land in 1935 for their living, 14,803,000 people did in 1962. Half of the people are gone. We have taken down the lines to the homes of literally hundreds of thousands of farm people who left their houses vacant. We still have lines connected to over half of a million farm homes where no one lives. The lines have little salvage value. The rest of the people remaining as members of the electrical cooperatives have to repay to the Govrnment, not only the cost of serving themselves, but the cost also of building the lines to what are now empty houses.

It is true that the rural electrics serve some more consumers each year than the year before, due to the shifting of population, but the shift itself is expensive, for, in effect, we abandon one service and build an entirely new one—sometimes to serve the same family.

So much for the matter of the plant which carries the power to the rural consumer. But what about the question of power supply?

Last fiscal year, the rural electrics had a total energy input into their systems exceeding 34 billion kilowatt-hours. Ten years before that, in 1952, the input into the rural electrics' systems was 11 billion kilowatt-hours. In the next 10 years, the energy requirement of the rural electrics will approach 100 billion kilowatt-hours annually.

We get our power from several sources. We buy about 38 percent of it from the power companies—we are, in fact, the power companies' largest single customer. We buy about 39 percent of our power from Federal wholesale power marketing

agencies. We buy about 7 percent of our power from State and local agencies. The rural electrics generate about 16 percent of their power in plants which they own. The percentage is not increasing—or very little, if any.

The cost of power and the terms and conditions attached to it are matters of life or death to rural electrics. Power cost accounts for between a third and a half of the operating expense for the rural electric systems. The wholesale power bill takes 35 cents of each dollar of revenue received. To give you a better idea of the importance of the cost of wholesale power, let me say that one-tenth of a cent per kilowatt-hour on the power input of the rural electric systems last year amounts to more than $34 million.

The cost of power is, therefore, crucially important to rural electric systems. Equally important are the terms and conditions under which power can be bought, and it is in this area that we are having our most difficult problems with our power company suppliers.

In the early years of the program, the power companies were quite sure that the rural electrics would all fail. The companies did, and are still doing, their best to assure this by spitelining, "skimming the cream" off the rural areas before we could complete our construction; by refusing to sell us power under reasonable terms and conditions in many cases; by pirating away consumers even after our construction to make the fledgling co-ops financially unsound; by even later building lines into the heart of co-op territory; and by agitating the co-op members to sell out and disband. And they have succeeded, to some extent, in doing all these things.

Then, just to be sure that the whole rural electrification effort would fall on its face, the power companies insisted on exorbitant rates for wholesale power, limited their wholesale power service to the co-ops in many ways, and devised a variety of contract gimmicks which they were able to enforce on the rural electrics by virtue of their usually complete monopoly position in the wholesale power market. In some cases they flatly refused to sell the co-ops power to serve particular loads which the companies wanted for themselves. In other instances, the contracts on power supply were written in such a way that the co-op could serve the little loads way out in the country, but if any worthwhile load developed in the co-op's area, the power company charged such a high rate on the power for it that the co-op couldn't afford to serve it. These practices are still widespread.

There are many variations in this power company device, but the objective is always the same: to hurt the co-ops and to assure that the company and the company alone will get to serve any profitable loads within the co-op service area. The ultimate outcome of this is predictable with certainty. The rural electrics' service areas are thin enough, even with a few good loads in them. We are still serving less than 4 consumers per mile as compared to the power companies' 35 to the mile.

When these large loads are stripped out and served by the power company, the rural electric is left with nothing but the most difficult and most expensive loads to serve.

On the whole, our experience in buying power from the power companies has been a sad one. In the first place, the power has been expensive, much higher than it needed to be. When we have been able to turn to other alternative sources of power, the power companies suddenly find that their "rockbottom contract rate" is no longer rockbottom; they somehow find that they can make a better rate than what they said was the very best they could give us. In far too many cases, in order to get a decent rate, one which would let us provide member-consumers with dependable low-cost electric service, we have had to accept a status as second-class citizens in the utility industry. The fact is that when you must buy the only thing you have to sell from a sworn enemy, you are in a very untenable position. Every conceivable advantage will be taken of you. You come hat in hand to ask the price, the terms, and the conditions upon which you will obtain power.

Faced with these facts of life, the rural electrics have been forced to examine other alternatives to the intolerable conditions which surround their power supply relationships with the power companies. Not only have the rural electric loads grown greatly in the last 10 years but the quality of the load, its diversity and its load factor, has improved to such a degree that it is sometimes feasible now for a few cooperatives to form a federation and develop their own power supply. Where they can achieve a saving by doing this, or where the terms dic-

tated by their power company supplier are completely unsatisfactory, good business practice dictates that they should proceed with meeting their own needs.

These are the reasons that more than 55 percent of the money loaned by REA last year went to finance generation and transmission plant. During the current fiscal year, the percentage of total loan dollars going to generation and transmission will probably be larger than it was in fiscal year 1962. We estimate that approximately $225 million of the $350 million electric loan program needed for fiscal year 1964 will be for generation and transmission. The power companies object to this but they can change it any time they want to—only by stopping fighting us and selling us power at decent prices and under decent other terms.

Let me point out that the members of the rural electric systems also are investing heavily of their own funds every year—and more heavily each succeeding year—in their own plant. For instance, REA estimates that the rural electric systems have invested of their own funds, directly in plant, more than $300 million. They have repaid to REA more than $936 million in principal. And even if we deduct from this the depreciation, the amount is still substantial.

Our own systems have made prepayments to REA, that is before due date, in amounts that now aggregate over $203 million. Our REA systems have also purchased REA Treasury bonds as of December 31, in the amount of $26 million.

This means that in total our people have invested in their systems, out of their own pockets a total of $1.165 billion. The prepayments to REA are, of course, in effect, drawing 2 percent. In passing let me ask what other industry in America prepays Uncle Sam on what it owes and what industry in America but the rural electric systems purchases U.S. Treasury bonds—not short-term bonds, mind you—at 2 percent? The hundreds of millions of dollars repaid in advance to REA provides money for the Government on which the Government pays no interest.

But the real point I want to make here is that the payments made on schedule totaling $936 million and the general funds invested directly in the systems totaling over $300 million—and which in the aggregate total $1.236 billion—actually draw no interest whatever. So the members of the rural electric systems have invested over a billion dollars of their own on which they get no interest at all.

From the clamor raised by the power companies about the G. & T. loans program, one might assume that the rural electrics are generating virtually all of their power. The fact is, of course, that only about one-sixth of the total energy requirements of the rural electrics is being provided by REA-financed generating facilities and this has been true for the past 10 years or more. The installed capacity of rural electric generating plants in service is only about 2 million kilowatts. This amounts to less than 1 percent of the installed capacity in the United States.

The power companies' objection to the REA G. & T. loans program stems from several factors. In the first place, they don't want to lose the power market we constitute—not even a small part of it. Secondly, and more important, they don't want to lose their absolute monopoly control over us. As long as we have to buy power from them, we are at their mercy, and they like it that way. Third, the power companies fear the "competition by example" of larger size, more efficient generating plants such as some of the rural electrics are capable of building and operating today—but never as large or efficient as they build. These co-op plants afford an evaluation of the cost of producing and transporting electric energy—facts which power companies have been able to disguise without difficulty in their multiple bookkeeping systems and their cost-plus and overcharge operations.

The importance to the rural electrification program of having possible effective power supply alternative in dealing with the power companies cannot be overemphasized. We are grateful to the Congress that it has wisely refused to listen to the pleas of the enemies of rural electrification that the rural electric jugular vein ought to be cut. Let me assure this committee that rural electrics are interested in the lowest cost power that they can obtain, whether this be from their own plant or whether they buy it from a power company. But cost is not always measured by the quoted rate in the contract; the real cost may be in the "fine print" of the terms and conditions the power companies want to impose on us.

Adequacy of REA loan funds and administration of the rural electrification program in accordance with the Rural Electrification Act of 1936 as amended

are absolutely vital to the continued success of the rural electrification program. The requests which we are making in our testimony here today will assure these conditions through fiscal year 1964. However, I must point out to you that while these are vitally necessary elements in rural electrification's continued progress and success, they do not assure that the rural electrification program will proceed in an orderly and expeditious manner. The power companies are doing their utmost to hamstring rural electrics in State commission proceedings and in court cases, particularly in those States in which new generation and transmission systems have been formed in recent years. Almost 800,000 kilowatts of generating capacity which is desperately needed by rural electrics and which ought to be in construction now to meet the tremendous load growth, is being held up pending the outcome of procedings instigated by the power companies before State regulatory bodies and in the courts. I will summarize the situation in some of the States where these battles are going on.

In Alabama the Alabama Electric Cooperative, which is a federated G. & T. system serving distribution cooperatives in Alabama and Florida, has had to fight an almost unbelievably savage attack by the Alabama Power Co. before the Alabama Department of Finance and in the courts. The battle was begun by the Alabama Power Co., not by the co-op. An official of the Alabama Power Co. is reliably reported to have said early in the hostilities, "Frankly, we're out to gut you." We've had no reason to doubt that he meant it. Later, in hearings before the Alabama Department of Finance, the Alabama Power Co. stated that it considers the entire State of Alabama its service area. In other words, there is no room for anyone else in Alabama, so far as the power company is concerned. Alabama Electric Co-op won its case before the department of finance recently, but Alabama Power Co. took the matter into circuit court and obtained a restraining order on the cooperative. Alabama Electric Cooperative has already been delayed months beyond the time that it should have been proceeding with its plans. The Alabama Power Co. gives every indication that it intends to take this case through every court available to it. The proceedings may stretch into years.

In Mississippi, the Mississippi Electric Power Association obtained its first G. & T. loan from REA in 1952 after the distribution co-ops had experienced dual-rate contracts (higher rates for larger use), invasion of their territory, power company refusal to supply them power for heavy loads, and high wholesale power rates from the Mississippi Power Co. and the Mississippi Power & Light Co. Nine years after the REA loan was made the G. & T. co-op has still not built its plant, and it may not be able to build for several more years. The power companies opposed the co-op before the State commission. After South Mississippi Electric Power Association won the case before the commission, where the power companies fought them for years, the power companies then petitioned for a rehearing; they, finally having lost, have given all indications that they plan to now pursue the matter through all the courts available to them.

In Kentucky, the Big Rivers Electric Cooperative is a new G. & T. co-op which obtained a loan from REA in 1962. The co-op estimated that its generating plant would save the member systems approximately $4 million over a 10-year period. The loan was immediately opposed before the Kentucky commission by the Kentucky Utilities Co., the Louisville Gas & Electric Co., and the Owensboro municipal system. The commission has not yet rendered a decision. This case will undoubtedly go the full route through the courts before it is finally settled.

In Indiana, the Hoosier G. & T. Co-op obtained a loan from REA early in 1960, after years of unsatisfactory experience with the Public Service Co. of Indiana. Before and since the loan was made, the Public Service Co. of Indiana and all other power companies serving in the State have waged a propaganda war against the cooperatives, a planned campaign of vilification which would shock anyone who knows the facts. The former Indiana Public Service Commission came to Washington and lobbied against REA making the Hoosier loan. I am glad to say that that commission no longer is in office. The power companies have succeeded in dragging Hoosier G. & T. into court, too, delaying its construction, and this case also may be in court for years. The plant ought to be under construction now.

In Texas, Upshur Electric Cooperative, has obtained a generation and transmission loan. The two distribution co-ops who will get their power from this G. & T. have been subjected to all kinds of harassment and duplication of facilities by the Southwestern Electric Power Co. Right now, the power company

has crews out working in the co-op area trying to stir up trouble. Southwestern Electric Power Co. has put out a brochure, agitating people with their version of the facts, to write to the President, the Congress, and REA in opposition to the Upshur loan. They have succeeded in getting approximately 700 letters written to REA, echoing the propaganda in their brochure. There is no power company regulatory commission in Texas, so the Southwestern Electric Power Co. will have to rely on other means to stop the co-op. We have heard that they are attempting to bring legal action through the Attorney General's Office and possibly through the courts. This loan is particularly important because the power company is responding by using its power supply prerogatives to harass the cooperatives and to take advantage of them by building duplicating lines into co-op service areas.

In Colorado, the Colorado-Ute Electric Association is a going concern. More than a year ago, it obtained an additional loan from REA to build the Hayden steamplant. The Public Service Co. of Colorado took the matter before the State commission. There was long delay. The commission recently announced its decision in favor of the co-op. The power company then took the matter into the district court, which dismissed the case. We may reasonably expect that the case will be carried through every court available to the power company. This plan is important to the co-ops in Colorado and to one in Utah, and it has an integral role in the power marketing plan for the Bureau of Reclamation Colorado River storage project. Because of the power company's tactics, the Hayden plant cannot now be placed on the line when it will be needed in June 1964. A large number of contracts and options have been adversely affected by the delay. There is no way of predicting how much longer construction may be delayed nor the great damage which power company obstruction tactics is doing to us.

In other States, too, we face similar problems too numerous to mention here. Suffice it to say that there are many other cases which could be cited, for the power companies have declared war on the co-ops in at least two dozen States. However, this will be sufficient to indicate to you the problem which the rural electrics are having with power companies on wholesale power. In each of these cases, the decision to build their own G. & T. was made by co-op boards only because of high rates and unsatisfactory terms and conditions in dealing with power companies. In each of these cases, having their own generating plant will save rural electrics' consumer-members a substantial amount of money. In each instance the generating plant is being built by the co-ops to serve themselves, and we maintain that they must have that right if they are to survive. In every case, the delays brought about by the power companies are costing co-op consumers money. These delaying tactics are also costing the consumers of the power companies, for they pay the bills for whatever legal, engineering, accounting propaganda and lobbying expenses the power companies incur in fighting the G. & T.'s.

Several of the companies attacking us before the State commissions and in the courts appeared before this committee last year in opposition to the REA loan funds. We assume that these, and perhaps others, will be back this year to resume the attack. I wish to deal very briefly with the principal charges which the companies always make.

Power companies say that the rural electrics are subsidized, because of their 2-percent interest rate. Even with the 2-percent REA rate, the rural electric consumer pays in his power bill at least 1 percent more on capital funds borrowed than does the customer of a power company on much larger Federal funds. For many years we paid a higher rate of interest than it cost the Government to borrow its money. Everyone knows that the Government has not always operated at a deficit—much of the REA program has been financed during years when there was no net Treasury borrowing; presumably the money we borrowed then cost the Government nothing if we follow through on the power company line of reasoning.

Furthermore, we have always paid the Government for the use of its money, and we are repaying our loans to REA ahead of due dates. And there are no losses. We find it difficult to accept in good grace the claims by power companies that we are subsized, when they are, in fact, the most petted, pampered, and subsidized industry in the United States today.

The power companies complain that we do not pay taxes, which is false, because the fact is that we pay all of the taxes which we owe. In most States the rural electrics are subject to the same taxes as other utilities, except income taxes—because we don't make profits—and taking into account the revenue-

producing capabilities of the properties, we think the rural electrics bear a pretty heavy tax load—usually heavier than the power companies. Most rural electrics, but not all, are not subject to Federal income tax, because they are, in fact, nonprofit and are exempt under section 501–C–12 of the Internal Revenue Code.

On the matter of taxes, it is, of course, the consumer who hears the incidence of taxes which the power companies boast of paying. These taxes are taken into account in setting their rates and they are allowed to charge a sufficient amount to meet all expenses, including taxes, and to earn a good return on their investment over and above taxes.

We submit that the power companies are expensive tax collectors; they have collected from their customers—and mind you, we are their largest single customer—$1.5 billion of taxes which they have not paid to the U.S. Treasury. Furthermore, there is no reason to think that these taxes will ever be paid to the Government; they have, in fact, paid out more than a half billion dollars in tax-free dividends to their stockholders from these moneys. We maintain that this slick power company cash register tax operation ought to be ended.

The power companies are attempting to persuade all who will listen that the rural electrics are a threat to their continued existence, that we are going to put them out of business. Nothing could be sillier. Let me repeat that our installed generating capacity amounts to less than 1 percent of the industry. The power companies own about 76 percent of the Nation's generating capacity.

Manufacturing companies and heavy industrial power users who provide their own power supply own about 7 percent of the generating capacity in the country, yet we have never heard the power companies maintaining that these organizations are also about to put them out of business. Our rural electric systems serve only about 8 percent of the total electric consumers in the United States—and they are fantastically scattered. One has only to look at the phenomenal rate of growth and the fabulous rise in profits of the power companies to realize how absurd their charges are. Certainly their projected plans for the growth of their industry do not reflect an expectation of being put out of business.

Some of the power companies have accused us of invading cities and stealing industrial loads. This is another phony. The fact is that we don't do that, and can't do it, but the power companies regularly invade our service areas, build duplicate facilities into the areas we pioneered to take away any good customers we have, and lay claim to any of our service areas annexed into towns which they decide they want to serve. This is like the criminal who has committed a particular crime calling the police and saying someone else did it.

Three-fourths of the revenue of the rural electrics is from rural residential consumers; commercial, industrial, and other kinds of consumers account for about 25 percent of the rural electrics' revenues.

In 1959, at the request of the Senate Appropriations Committee, REA looked into the extent to which rural electrics were serving consumers in towns having populations exceeding 1,500 persons. They reported that rural electrics were serving approximately 135,000 consumers, out of 5 million, in towns exceeding 1,500, mostly as the result of towns extending their boundaries, and increasing their populations after they were initially served. This is less than 3 percent of the 5 million consumers served by rural electrics. There has probably been very little change in this situation since 1959. By no stretch of the imagination can it be said that the rural electrics are rapidly becoming urban utilities. It is true that the face of rural America, where we serve, is changing, as I have noted earlier, but not always to our advantage.

Last year the power companies said that the REA program was being operated under a "veil of secrecy" and that the Congress ought to require public hearings to be held by REA. If there are any operations which are conducted in a clearer goldfish bowl, under public scrutiny than the rural electrification program, we don't know of them. As to the operations of Government agencies, we submit that no agency makes more information available than does REA about its loans and/or borrowers. When the tactics of the power companies before the State commissions and the courts are recalled, it becomes clear that the power companies' real purpose in seeking public hearings before REA is to delay and harass us.

The power companies say and imply that out of the goodness of their hearts they are ready, willing, and able to provide all of the power which the rural electrics need, at reasonable terms and rates. Their statements are largely

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false. They speak of rates at which they are willing to supply power, rates which become available, strangely enough, only after REA makes a loan for generation and transmission. In nearly all cases it happens only after REA is able and willing to make generation and transmission loans.

The power companies have accused us of many things which we were not doing, but of which they themselves are guilty. For example, as I have mentioned they accuse us of invading their service areas, which we are not doing, but they are invading our service areas at every opportunity and by every conceivable means. As another example, they accuse us of being subsidized, of being a burden to the taxpayer, and they have collected $1.5 billion of taxes from their customers which they have not paid into the Federal Treasury. May I suggest to the members of this committee than when the power companies appear before you this year, you bear in mind the skill with which these companies employ this brazen and misleading technique.

We know that this committee believes, as we do, that rural electrification is good for all Americans. We respectfully urge you to look through the power companies' smokescreen and search out the facts concerning their motives and their actions. Having done this, we are confident that you will find that the rural electrification program and the Rural Electrification Administration merits on a continuing basis the strong support which you have given it in the past.

PREPARED STATEMENT

Senator HOLLAND. All right, Mr. McWhorter.

We will be glad to hear you, sir. I see you have quite a statement here. We will place that in the record in full and you may state the highlights of it as you may wish.

(The statement referred to follows:)

Mr. Chairman and gentlemen of the committee, my name is Clark T. McWhorter. I am chairman of the legislative committee of the National Rural Electric Cooperative Association. I am also a director on the board of the Southwest Rural Electric Association in Tipton, Okla., and I represent the State of Oklahoma on the board of directors of NRECA.

With me are other members of the NRECA Legislative Committee; Clyde T. Ellis, general manager of NRECA; and some members of the staff of NRECA. I offer for insertion into the record at this point a list of the names of those accompanying me.

It is always a pleasure for us to meet with this committee which is so thoroughly familiar with the rural electrification program and to give the report for our systems.

I would like to review some of the progress and problems of the rural electric systems during the past year as a background for our recommendations for our program's future development.

In response to guidance from this committee and a general desire to improve the management of their systems, our membership requested NRECA to study system policies and to make recommendations on the handling of reserve funds. We had some preliminary results of that survey when we appeared before this committee last year. Soon after that appearance the full report was published and distributed to our membership for their guidance. We gave copies of that report to members of this committee. It contains recommendations which support REA's guidelines on general funds which also were adopted about a year ago. It provides our system a checklist for nonprofit operation and it contains much information as to how the rural electric systems of the country are managing their financial affairs.

Among many other things, our survey shows that one-third of all rural electric systems reduced their electric rates during the past 5 years. Nearly half—45 percent—reported they reduced their rates because they felt they had reached an adequate level of general funds on hand to protect the interests of their consumers and the Government.

During the past year, largely because of better financial policies, the rural electric systems have stepped up the investment of internally generated funds in their plants. We are told that during the past 18 months the systems, after paying amortization charges, invested about $50 million in their plants, bringing the total of such investments to approximately $300 million.

But not everything is on the plus side. The drift from the land goes on in many localities. Our systems now have more than 500,000 idle services. These abandonments represent large investments which consumers remaining on the line must pay for in their rate schedules.

The people who manage and operate the rural electric systems are solid farmers and rural businessmen who are the respected leaders of their rural communities. I mention this because of the implication some people make in trying to discredit REA and the rural electric systems.

We are making a survey of all managers and system directors to learn more about them—their age, their education, their participation in community affairs, their land tenure and the like.

The results of the survey have not all been tabulated as yet, but we are finding out that our managers and directors are the rural community leaders of the country.

Most are members or officers of their churches, school boards, farm and business organizations, community drives and welfare associations. A high percentage are landowners in their communities with their roots in the soil. These men, like those around this room, are taxpayers, deeply concerned with community affairs, with schools for their children, with better water supplies, sewage systems, recreational areas—in short, with all community affairs. In this connection, they are interested in broadening and improving the tax base.

This points out why the managers, directors, and members of our systems are interested in area development. It is not because they are employees of a company wanting more business from the community, but because they are the community. As operators of going businesses in their communities they are, of course, interested in developing a better power market. But this consideration does not override their concern for the improvement of the environmental factors and opportunities in their home communities.

During the past year charges made before this and other committees of Congress by electric power company witnesses have rankled in the breasts of our members. It has been a year of soul searching.

We know of no secrecy in our operations as charged by these companies. During the past year REA issued a statement outlining what information is available to the public and to interested parties during the processing of a loan application from a cooperative through to its final signing. All information is freely available to Members of the Congress and all information pertaining to REA's handling of loan funds and the security thereof is available to the public.

Testimony of the power company witnesses stated or implied that the cooperatives no longer want to deal with them but prefer to go it alone in power supply matters. The record shows that we do deal with the power companies as we have always done.

In 1961, half of the power purchased by our distribution systems was purchased from private power companies. Data are not yet available for 1962, but we anticipate no significant change. The record also shows that not one generation and transmission loan has ever been made without our systems exhausting every possibility of purchasing power from existing suppliers in quantities required at reasonable, fair rates and terms. When negotiations break down there is no recourse other than to go into generation ourselves.

The record also shows that many generation and transmission loan applications have been withdrawn by our systems after they received offers of power at reasonable rates and on fair terms. A former Administrator of REA, Mr. John Carmody, once said, "Some of the best results of REA's generation and transmission program have come from loans that did not have to be made."

This was expressed more positively by the former chairman of this committee, Senator Russell, who has likened the right to make power and generation loans to having a shotgun behind the door. Sort of a persuader that has been useful in getting reasonable power contracts.

Since we last met with this committee, our association has held two national meetings in which our members adopted resolutions which state for the first time, or reaffirm, their position on matters which are of direct concern to this committee. With your permission I would like to take up briefly the substance of the pertinent resolutions at this time. The full text of these resolutions is attached which we would like to offer for insertion in the record.

RESOLUTIONS

Farm electrification research.—NRECA membership at the 1963 annual meeting again expressed concern over the unmet needs of agriculture in the field of development and application of electric energy to farm problems involving insect pest control, cutting costs, and improving quality in crop and livestock production. The resolution lists a number of research problems which, if solved, would "guarantee consumers a continuous supply of high-quality farm products at reasonable prices."

Our membership recognizes the significant contributions being made by the Farm Electrification Branch of Agricultural Engineering Division of ARS which carries out about three-fourths of its research in direct cooperation with 13 State agricultural experiment stations. A member of our NRECA staff has with him today pictures which illustrate some of the recent achievements and show the importance of this research. NRECA membership urges that more attention be given to this research and that appropriations be increased to $950,000 to fulfill the urgent need.

A second resolution on research deals with the needs for adequate housing space, equipment, and facilities. This is the fifth consecutive year that our membership has gone on record at regional and national meetings urging the construction of a farm electrification center or laboratory.

Last year the Senate Subcommittee on Appropriations received a special report which had been requested on the proposed National Farm Electrification Research Center.

As you know, our organization does not stand alone on this request. Recently several USDA advisory committees have also indicated this need in their 1963 reports.

The Farm Equipment and Structures Research Advisory Committee report says, "An adequate facility should be established to provide greater opportunity for research on farm electrification."

The Dairy Research and Marketing Advisory Committee report says, "There is a real need for a farm electrification research center and it should be given some priority."

The Livestock Research and Marketing Advisory Committee in a March 13, 1963, report says, "One of the most probable means of reducing the costs of producing livestock appears to be in the development and application of labor-saving devices on the farm."

We urge you to give serious consideration to an appropriation for a farm electrification research center this year.

Rural area development and section 5 loans.—Three resolutions were passed dealing with the problems of rural housing, rural development and the use of section 5 loans by REA in furthering the rural area development program. Congress and the administration are urged to continue the Farmers Home Administration housing programs on a basis that will adequately meet the requirements of rural people for home financing. Our membership reaffirmed its endorsement of the rural areas development programs now being carried on in cooperation with Government agencies. In a third related resolution it is pointed out that the rural electric systems are vitally concerned and heavily engaged in efforts to renew employment opportunities in rural America. REA is urged to use section 5 loan funds when such loans are essential and will effectively contribute to development in the rural electric service area.

Generation and transmission loans.—The resolution adopted by NRECA members relative to generation and transmission loans points out the dependence of our systems upon dependable low-cost wholesale energy to carry out their responsibilities. When a system faces dual rates, escalator clauses and opposition from power suppliers, generation loans from REA are the only means the systems have to secure a dependable and adequate supply of low-cost energy. Our members, who come from 46 States, urge Congress to oppose any amendments to the REA Act which will require any change in the present established policy of the Administrator to make generation and transmission loans. Congress is further urged to appropriate funds for generation and transmission as well as for distribution to meet rural America's needs for electric power. Mr. Ellis, our general manager, will speak to the question of power supply in his testimony.

REA authorizations and appropriations.—And finally, the membership adopted a resolution urging the Congress to authorize REA loan funds for fiscal year 1964 commensurate with the borrowing requirements of rural electric systems as reflected by the NRECA survey and other available information.

It was further resolved that Congress should provide REA with sufficient administrative funds for the orderly and expeditious administration of the agency during fiscal 1964. In the interest of continuing an effective program, opposition was expressed to any limitations which might be put upon the REA Administrator in the exercise of his duties under the Rural Electrification Act of 1936, as amended.

LOAN FUNDS

The NRECA survey of the loan needs of the rural electric systems was completed this week. Questionnaires were returned by 82 percent of all systems. Our survey has proven to be accurate in the past and the record should be improved by this fine return. Because of our confidence in the survey and the work our staff has done since it was tabulated, we believe our recommendations to this committee are soundly based.

We recommend that you approve the budget request amounting to $350 million for fiscal year 1964 and that, in addition, you establish a contingency fund of $75 million, a total of $425 million for the electric program. Your committee has utilized the contingency fund in the past as a means of assuring our systems that unforeseen needs can be met promptly within the authorities provided by the Congress. This has been a very effective method of assuring that REA will not have to curtail or delay processing loan applications that are urgently needed to provide for the development of the program.

We believe that in view of the volume of applications there will be, as indicated by our survey and as estimated by REA, the amount we request plus the contingency fund will assure the financing of the electric program will be adequate during the coming fiscal year.

ADMINISTRATIVE FUNDS

The President's budget request includes $11,344,000 for salaries and expenses for all REA activities for fiscal 1964. We support the budget request for "Administrative funds" for fiscal year 1964. Considering the improvements in REA organization and the need for additional funds for salary adjustments under the recent Federal pay raise, we feel that the increase over last year's appropriation for "Administrative funds" is very modest. The improvement in organization referred to above refers to the staffing up of the Power Supply Division which is the heart, or most vital segment, of the agency in the view of most of our systems. Strengthening this Division gives strength and stability to our whole program because power supply is the major concern of every system.

On previous appearances we have spoken to the committee about our appreciation for the work done by the Office of the General Counsel in the Department of Agriculture. That Office performs a service which is absolutely necessary to rural electrification and rural telephony. We hope that you will give careful consideration to the funds requested for the Office of the General Counsel, to the end that their fine work may be continued through the coming year.

CONCLUSION

We want to express our appreciation to the Congress and especially to this committee for the support rural electrification receives.

Our program is good for all America. Rural people know its direct benefits best. Industry and business also benefit greatly from the $1.5 billion annual market the program creates for appliances, equipment, and supplies.

It is a program based on sound business principles. For every dollar loaned to our systems they have been paying a dollar and a half back into the Treasury.

We thank you for this opportunity to appear before your committee.

RESOLUTIONS ADOPTED BY OFFICIAL DELEGATES OF THE NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION ASSEMBLED IN 21ST ANNUAL MEETING, JANUARY 17, 1963

FARM ELECTRIFICATION RESEARCH LABORATORY

Whereas there is a need for research above and beyond current activity in the utilization of electric energy on the farm; and

Whereas there is not now adequate housing space, equipment or facilities available to the Agriculture Research Service for acquiring new knowledge in farm electrification: Now, therefore, be it

Resolved, That NRECA urge the Congress to appropriate $2 million for the acquisition for adequate facilities and equipment to be located at some suitable location for the conduct of research in the broad field of farm electrification.

FARM ELECTRIC RESEARCH APPROPRIATION

Whereas the Farm Electrification Branch of the Agriculture Research Service of the Department of Agriculture has made many significant contributions through its farm electrification program to the improved quality of food and fiber without increased cost to the consumer; and

Whereas there are many needs that could be met through studies now being considered, such as plant environment investigation, development of biophysical and bioelectric phenomena for animals, insects, and plants; application of electromagnetic radiation for control of insect pests; development of equipment to collect and supply solar energy to agriculture, all of which would guarantee consumers a continuous supply of high quality farm products at reasonable prices: Now, therefore, be it

Resolved, That the National Rural Electric Cooperative Association urge Congress to appropriate $950,000 for the fiscal year 1964 and a like amount for the fiscal year 1965 to be available for research as it applies to the use of electricity in agriculture.

RURAL HOUSING

Whereas the housing loan programs of the Farmers Home Administration have provided the opportunity to thousands of rural people, both farmers and nonfarmers, to obtain decent, modern housing; and

Whereas new modern housing is of primary importance in the on-going, nationwide rural areas development program; and

Whereas credit for financing homes in rural areas is generally much more difficult to obtain than in urban sections and because of this millions of rural people are forced to live in substandard housing: Now, therefore, be it

Resolved, That we urge Congress and the administration to establish the FHA housing programs on a basis that will more adequately meet the requirements of rural people for home financing.

RURAL AREAS DEVELOPMENT

Be it resolved, That we reaffirm our endorsement of rural areas development programs being carried on in cooperation with Government agencies; and be it further

Resolved, That we direct our national service organization, NRECA, to support legislation and administrative programs which will help further the objectives of rural development, and we urge our member systems to enlist the support of their Minutemen by having regular RAD-Minuteman meetings to set forth the purpose, potential, and plans for an effective RAD program when applicable.

SECTION 5 LOANS AND THE RAD PROGRAM

Whereas the rural electric systems are vitally concerned with and are heavily engaged in efforts to renew the opportunities in rural America for providing a decent standard of living for a maximum number of rural people; and

Whereas the section 5 loans program is an effective means of helping in instances where no other help is available: Now, therefore, be it

Resolved, That we support the principle that REA should continue to make section 5 loans which meet all legal and administrative requirements, when such loans are essential to and will make an effective contribution to economic and community development in rural electric service areas.

GENERATION AND TRANSMISSION LOANS

Whereas the ability of rural electric systems to fulfill their responsibilities as nonprofit organizations is directly dependent on their ability to obtain dependable low-cost wholesale energy; and

Whereas in the face of dual rates, escalator clauses, and opposition from commercial power companies, the availability of G. & T. loans from REA is the

only means many systems have to secure a dependable and adequate supply of low-cost energy: Now, therefore, be it

Resolved, That we commend and support Administrator Norman Clapp for strengthening the rural electric system bargaining position by adding the "security concept" to REA's criteria for G. & T. loans, and for reinstating the Power Supply Division of REA; and be it further

Resolved, That we urge the Congress of the United States to oppose any amendments to the REA Act which would require any change in the present established policy of the Administrator to make generation and transmission loans; and be it further

Resolved, That we urge the Congress of the United States to insure an effective G. & T. loan program by appropriating adequate REA loan funds to meet the needs of rural America for electric power.

REA AUTHORIZATIONS AND APPROPRIATIONS

Resolved, That we urge the Congress to authorize REA loan funds for fiscal year 1964 commensurate with the borrowing requirements of rural electric systems as reflected by the NRECA survey this year, the amount to be determined by the NRECA Legislative Committee when the survey is completed; and be it further

Resolved, That we urge the Congress to appropriate adequate REA administrative funds to provide for the orderly and expeditious administration of the agency during fiscal year 1964; and be it further

Resolved, That, in the interest of continuing an effective program, we oppose unequivocally any limitations upon the REA Administrator in the exercise of his duties under the Rural Electrification Act of 1936, as amended.

GENERAL STATEMENT

Mr. MCWHORTER. I would like my statement to appear as I have it here and I am just going to touch on some highlights because some of the things that are in my statement have been covered, Mr. Chairman.

However, one or two I would like to call attention to or emphasize just a little bit. Let me say this. The people who manage and operate these rural electric systems are solid farmers and rural businessmen and respected leaders of their community.

I mention this only because of the implication that some people are trying to make to discredit REA and the rural electric systems. To find out for ourselves, we are making a survey of all the member systems' managers and directors to learn more about their age, their education, their participation in community affairs, their land tenure, and the like, and at the proper time we would like to make this available to you.

SURVEY RESULTS

The results of our survey have not all been tabulated but we are finding out that these managers of cooperatives and directors, such as I am, are the rural community leaders of the country.

Most of them are members or officers of their churches, school boards, farm and business organizations, community drives and welfare associations. A high percentage are land owners in their communities with their roots deep in the soil.

These men like those around this room are taxpayers, deeply concerned with community affairs, schools for their children, better water supplies, sewage systems, recreation areas, and in short with all community affairs.

TAX BASE

In this connection, they are interested in broadening and improving our tax base. This points out why our managers, directors, and members of our systems are interested in area development. It is not because they are employees of a company wanting more business from the community. It is because they are the community.

As operators of going businesses in their communities they are, of course, interested in developing a better power market. But this consideration does not override the concern for the improvement of the environmental factors and opportunities of their home communities.

CHARGES MADE

During the past year charges have been made before this and other committees by the electric power company witnesses that have rankled in the hearts and breasts of our members. It has been a year of soul searching.

We have no secrecy, gentlemen, among us. It has been charged by these companies that we have a closed door policy as far as talking to them about contracts. This is not true. Testimony of the power company witnesses stated or implied that the cooperatives no longer want to deal with them but are prepared to go it alone in the matter of power supply.

The record shows that we deal with the power companies and we have always done this. I think one specially appropriate expression was made by the former chairman of this committee. We always want something to rely on, to give us strength.

Senator Russell likened this right to make power and generation loans that we have been discussing so much this morning, to a shotgun behind the door, sort of a persuader, available at the opportune time.

Mr. Chairman, since we have met, we have had two annual meetings of the members, one last year and I believe we testified before you as we went to Atlantic City. The second one was when we went to Las Vegas.

RESOLUTIONS ADOPTED

At these two meetings, we adopted resolutions and I have included them in my statement for the record. I would like to touch briefly now on two or three of those and then I will close.

Our membership would like to see, and we are not alone in this statement, more research done in various areas. We back this up by our resolution. We have our power-use man with us today and he has exhibits that we would like to include in the record.

Senator HOLLAND. Without objection it will be included and kept on file in the committee.

REA LOAN FUND

Mr. MCWHORTER. Now I am speaking, Mr. Chairman, in regard to the REA Loan Fund.

Our survey each year, Mr. Chairman, is made by our association and this year we are happy to tell you that 82 per cent of all the systems that we surveyed reported. This is a tremendous amount of questionnaires that were returned.

We recommend that you approve the budget figure of $350 million for fiscal 1964 and that, in addition, you establish a contingency fund of $75 million, a total of $425 million for the electric program.

We are vitally affected and we would like to see you continue providing adequate funds to the General Counsel's Office which processes the loan fund papers. If we cannot get these processed adequately, naturally we have a backlog in some of the applications.

Our NRECA survey shows that we would possibly need this total amount including the contingency fund, as I have outlined for you here this morning. Mr. Chairman, we appreciate very much this opportunity of appearing before you.

We want to express our appreciation to you and we think that this program is good for all Americans. Rural people know the direct benefits best.

Industry and business also benefit greatly from the $1.5 billion annual market the program creates for appliances, equipment, and supplies. It is a program based on sound business principles.

For every dollar loaned to our systems they are now repaying $1.50 back to the Treasury.

Senator HOLLAND. This gentleman asked me if he could put in a written statement.

I will be glad to have you supply a written statement and I say it for each of you. We have plenty of printing facilities here at the Capitol. We will be glad to have the record reflect the opinion of any of you who has an opinion that differs in any part from what you have heard or if you want to supplement what is here.

But, if I start opening it up for one, we would be here to the day after tomorrow, and that we cannot do.

Mr. MCWHORTER. Thank you very much, Mr. Chairman.

STATEMENT OF MIDWEST ELECTRIC CONSUMERS ASSOCIATION

Senator HOLLAND. I have a statement from Mr. Harold R. Lee, executive secretary, Mid-West Electric Consumers Association, which will appear in the record.

(The statement referred to follows:)

Mr. Chairman and members of the committee, my name is Harold Lee. I am the executive director of Mid-West Electric Consumers Association.

Mid-West Electric Consumers Association is a regional organization representing the rural electric cooperatives, municipalities, and other consumer-owned groups engaged in the business of furnishing electric service in the Missouri Basin. Our sole purpose is to further the interests of the electric consumers in the basin. Most of the cooperative, municipal, and other consumer-owned electric systems in the basin are members of Mid-West. They are located in the States of Colorado, Iowa, Minnesota, Montana, Nebraska, North Dakota, South Dakota, and Wyoming. Our headquarters is in Denver, Colo.

We submit this statement in support of the REA budget request of $350 million for fiscal 1964 and also urge that you continue the practice followed in previous years of establishing a contingency fund to supply the additional needs of REA borrowers which may be established during the coming fiscal year. Based on the needs of our own rural electric cooperative members throughout the basin and of our public power district members in Nebraska, we feel that these figures represent a conservative estimate of the requirements of REA borrowers throughout the Nation.

Our membership is greatly concerned over the intensified efforts of the power companies to kill off the REA generating and transmission program. We say to the members of this committee that if the companies succeed in having the restrictions imposed upon REA's lending procedures which they now are urging upon the committee, the right of REA borrowers to effectively solve their power

supply problems will disappear, and our membership will be completely at the mercy of the companies.

We wish to emphasize that we would be very happy to live peacefully with the companies. We do not desire anything which they have. We have no designs on any of their territory, nor any of their customers. Our cooperative member organizations were organized for the sole purpose of obtaining electric service for their farm and other rural members, who were unable to obtain service from any other source. They do not wish to interfere with anyone else's business. But they do insist on the right to carry on their own business without being pushed around by someone else. This right of being allowed to live in peace unfortunately is not respected by the power companies. They are constantly engaged in a campaign to harass and cripple the activities of the cooperatives. Nowhere is this more obvious than in the Missouri Basin. There is constant opposition to our program by the power companies in the State legislatures. There is constant pirating of cooperatives' consumers and invasion of territory served by cooperatives by the companies. Under the law, the cooperatives cannot retaliate.

Also, the concerted efforts of the companies to prevent the cooperatives from obtaining an adequate supply of low-cost power is nowhere more dramatically illustrated than in the Missouri Basin. Fourteen companies combined in an all-out campaign during the past year to prevent the cooperatives and other preference customers from obtaining the full benefits of the low-cost hydropower available from the main stem of the Missouri River. The attack was carried on in an extensive newspaper advertising campaign against the cooperatives' plans as well as in every other conceivable place. We ask the committee to look into this determined effort by the companies to defeat the cooperatives' rights to low-cost power.

We also ask the committee to look into the campaign on the part of the companies to kill off the Colorado Ute generating plant. This plant, which the Colorado Public Service Commission has found will save its cooperative members millions of dollars over the life of the REA loan, through which it is financed, has been fought before the commission and in the courts and in the most dishonest type of publicity campaign. Even with commission approval, the battle is not over. Despite earlier defeats in the courts, the companies now are appealing the commission's decision and the matter will eventually go, once again, to the Supreme Court of Colorado. There is simply no end to the bitter opposition of the companies.

We feel that if the committee could become acquainted with all of the facts surrounding these two incidents alone, it would realize how false are the charges being leveled by the companies against REA's lending activities and how essential it is that the companies not succeed in their present efforts to have those activities hamstrung.

Our members have implicit confidence in the job now being performed by Norman Clapp in administering the REA program. We assure the members of the committee that it is impossible for us to obtain a loan until we have submitted a fully documented record clearly showing that all of the requirements of the REA Act and policy conditions have been completely complied with. Any requirement that the companies be given the opportunity to fight our loans at hearings or that our loan applications be turned over to the companies for analysis would secure no useful purpose, since a loan for generation is never made to us by REA unless we conclusively demonstrate that we can generate for a lower cost than the price the companies charge us for power. Such requirements would take away whatever bargaining rights we now possess.

We should point out that many of our members serve in areas where the ranch or farm density is not more than one per mile. Those members simply cannot continue furnishing service to their members unless they are able to obtain a low-cost wholesale supply of electric energy. Also, we are in an area where many farms are being abandoned, which likewise places great burdens upon our ability to operate.

We are relying upon this committee to protect our rural people against these unfair attacks as it has done so helpfully in the past. We thank the committee for that past help and express our confidence that the farmers of America can continue to rely on your good judgment and concern for their problems.

Senator HOLLAND. We will recess until 2 o'clock.

(Whereupon at 12:27 p.m. the committee recessed to reconvene at 2 p.m.)

(AFTER RECESS, 2 P.M., THURSDAY, APR. 4, 1963)

(The committee reconvened at 2 p.m., Senator Spessard L. Holland presiding.)

Senator HOLLAND. The subcommittee will please come to order.

The committee will now hear from the representatives of the various power companies who have requested an opportunity to present testimony to the committee. I have a list of several witnesses before me.

The first gentleman listed is Mr. Walter Bouldin, the president of the Alabama Power Co. and vice president of Edison Electric Institute.

Mr. Bouldin, you may proceed.

EDISON ELECTRIC INSTITUTE

STATEMENT OF WALTER BOULDIN, VICE PRESIDENT, EDISON ELECTRIC INSTITUTE

PREPARED STATEMENT

Mr. BOULDIN. Mr. Chairman and members of the committee, my name is Walter Bouldin. I live in Birmingham, Ala. I am president of Alabama Power Co. and vice president of Edison Electric Institute, the trade association for investor-owned electric utility companies which serve approximately 80 percent of the electric consumers in the United States. I greatly appreciate the opportunity to appear here on behalf of Edison Electric Institute.

REBUTTAL PRIVILEGES

Before I begin, I assume our group will have the same privileges that were accorded to the witnesses this morning in submitting in writing after the hearing adjourns, any matter that we consider appropriate to the testimony which was given this morning.

Senator HOLLAND. That is correct.

Mr. BOULDIN. My statement is concerned solely with the Rural Electrification Administration's program of granting loans to cooperatives to build generating plants and associated transmission lines—the so-called G. & T. loans, for which I understand the REA is requesting an appropriation this year in the amount of approximately $275 million. This statement is in opposition to any appropriation or authorization for these so-called G. & T. loans, and the basis of this opposition may be summarized as follows:

SUMMARY OF OPPOSITION TO LOANS

1. The G. & T. loans are being made contrary to the intent of the Rural Electrification Act, which authorizes loans by the Administrator only for the purpose of bringing electric service to persons in rural areas who are not already receiving central station service.

2. Loans are being made to build unnecessary generating plants. There is an ample supply of power available to the co-ops from investor-owned, taxpaying utilities.

3. These G. & T. loans, if the costs are properly computed, are not making electricity available at lower cost.

4. Every G. & T. loan granted involves not only an interest loss to the Federal Government, but results in serious impairment of State and Federal tax revenues.

5. Every G. & T. loan is impairing investments made by the investor-owned utilities.

6. These G. & T. loans are being made in secret proceedings, which violate fundamental constitutional principles.

I will comment briefly on each of these points.

The REA Act states that loans may be made:

> * * * for the purpose of financing the construction and operation of electric generating plants and electric transmission and distribution lines or systems and the extension of existing facilities, for the furnishing of electric energy to persons in rural areas who are not receiving central station service.

An investigation of each of the generating and transmission loans approved by the Administrator during the past 18 months reveals that in every case but one the generating capacity is to be used to supply cooperative lines already supplied by central station service from investor-owned, taxpaying utilities.

This is a disregard of the wording and intent of the REA Act, which authorizes loans by the Administrator only for the "furnishing of electric energy to persons in rural areas who are not receiving central station service."

REVISED PROCEDURES

The REA Administrator, on December 28, 1962, issued revised procedures for loans to be made by the REA. Among the changes proposed was the deletion of the provision contained in prior regulations that loans pursuant to section 4 of the REA Act are to be made to "serve persons in rural areas not receiving central station electric service." In other words, this proposed regulation will remove the necessity of giving lipservice to the provisions of the law by ignoring them.

Generally, there is no need for the building of generating plants by the co-ops because there is an ample supply of power available to the co-ops from investor-owned, taxpaying utilities. There is no shortage of electric generating capacity.

Central station service is available to all areas of the country. The investor-owned, taxpaying utility companies in the United States have a reserve margin in generating capacity of about 25 percent, and their plans for the future include provision for continuing to maintain adequate generating capacity to serve all of the electric power requirements of their customers, including the electric power requirements of their rural electric co-op customers.

The funds necessary for the construction of increases in generating capacity necessary to supply future additional power requirements would be obtained by the investor-owned utilities in the free market without burdening the Government with further expenditures of tax revenues, and without reducing such tax revenues by supplanting tax-producing facilities of the investor-owned utilities with co-op facilities which produce little or no taxes.

COST OF ELECTRICITY

These generating and transmission loans to co-ops, if the costs are properly computed, are not making electricity available at lower cost. As I will mention later, it is the general taxpayer who pays a very large proportion of the cost of electric service furnished by these generating co-ops; and when these costs are taken into consideration, as they should be, the cost of electricity from these generating plants is far in excess of the rates charged to co-ops by investor-owned utilities for the same service.

It should be noted also that REA is making loans to build generating plants which are themselves inherently uneconomic.

Investor-owned electric utilities have long recognized the cost savings achieved by the use of large generating stations, operating in interconnected systems. This well-known principle has been consistently endorsed by members of the Federal Power Commission.

UNIT COSTS

The unit costs associated with the construction and operation of large generating stations are substantially less than for small stations. It takes fewer dollars per unit of capacity for operation of these large stations, and, as a general rule, their fuel consumption per unit of electrical energy produced is less than for smaller units.

To take advantage of these unit cost reductions, the electric industry has built, is building, and has planned very large steam electric generating stations, containing large generators of a size of 250,000 to 1 million kilowatts, well beyond the size of generators capable of being installed on co-ops' systems as they now exist.

In April 1962, REA published a summary of operating data on 34 co-op-owned steamplants at the close of 1961. Of these plants, only one, at Lexington, Nebr., had a capacity of 100,000 kilowatts in a single unit.

These co-op plants, therefore, do not have the advantage of the economy to be derived from larger units operating in large interconnected, integrated systems. These disadvantages of generation by co-ops were recognized by the REA Administrator.

ADMINISTRATOR'S SPEECH

In his speech before the 74th annual convention of the National Association of Railroad and Utilities Commissioners on November 14, 1962, Mr. Clapp said:

> But even in the power supply field the REA-financed electric systems find themselves up against special cost handicaps. The smallness of their systems—systems that originally filled the gaps—ties them down to small, less efficient units if they go to self-generation.
>
> Their relative isolation limits their alternatives for joining with other systems in joint ownership and operating of power facilities. And, finally, load factor tends to make the cost of power high for the rural systems.
>
> Where our borrowers have had to turn to self-generation as the solution to their power supply problems, these factors have dictated relatively low capacity, high-cost generating units.

The great fallacy involved in the granting of these G. & T. loans is that they cast upon the public the burden of carrying much of the cost of the power supplied from these G. & T. systems.

COST COMPARISON

There is no doubt that costs to the public, such as interest losses and taxes foregone, should be included in any cost comparison. Recently, the President's Committee on Federal Credit programs reported to him their findings and recommendations, among which is the following specific recommendation:

> To facilitate evaluation of the effects on use and allocation of resources and on the costs of Federal credit programs involving a subsidy, the Committee recommends that the subsidy element be explicitly recognized. The first step should be to compare the interest rate paid by the borrower on direct Federal loans to the sum of (a) the prevailing market yield on Government securities of comparable maturities, (b) an allowance for administrative costs, and (c) an allowance for expected losses.

INTEREST RATE

These G. & T. loans are, of course, being made with an interest rate of 2 percent, extending over a period of 30 to 35 years. The Board of Governors of the Federal Reserve System reported in February of this year that yields on long-term U.S. bonds were almost 4 percent. The whole interest loss involved in these G. & T. loans is not measured by the difference in these two interest rates, but for the purpose of this statement I will use such difference as illustrative.

COSTS TO PUBLIC

The cost to the public in lost Federal and State taxes caused by these G. & T. facilities is, in a typical case, even greater than the interest loss. These tax losses are as real as the interest losses, because every G. & T. loan supplants investor-owned facilities which have been or would be built by investor-owned taxpaying utilities to supply the electric load.

The costs which are being borne by the public in this G. & T. program are so great that when they are taken into account it is easy to see that the cost of electricity from these G. & T. systems is far greater than the cost would be if the energy were furnished by investor-owned generation and transmission facilities.

An analysis of the operations of 23 G. & T. co-ops shows that if those co-ops paid taxes on a comparable basis with the investor-owned utilities and paid interest on their long-term debt of only 3.449 percent the co-op group would have had to increase their revenues 28.9 percent to meet their costs and that the cost per kilowatt-hour of energy sold from these plants would have ranged from a low of 9.3 mills per kilowatt-hour to a high of 21.1 mills per kilowatt-hour.

Senator HOLLAND. Where did you get the 3.449 percent which you attribute in your statement as the interest rate, which you think should be paid by the co-op group?

Mr. BOULDIN. I don't say that is the rate that should be paid. That is the rate that we have used, because that is the rate which has been computed by the TVA for interest payments.

That is purely for illustration, Mr. Chairman, but it is considerably lower than the 4 percent which I used before. The loss would be greater, of course, if the interest used was 4 instead of 3.449.

Senator HOLLAND. It is not your contention that the REA units are paying 3.449 percent interest?

Mr. BOULDIN. I am just using this purely for a matter of illustration. If you use a higher interest rate, of course, these losses which I am pointing out would be even greater and their rates would have to be even higher.

TRUE COSTS

These true costs are, of course, far in excess of the cost of energy available to the distributing co-ops from investor-owned utilities.

For illustration, with these costs included, the cost per kilowatt-hour for the year 1960 of energy sold by Alabama Electric Cooperative, a wholesale G. & T. co-op in Alabama, would have been 10.3 mills.

This compares with 6.8 mills per kilowatt-hour, the average cost to co-ops, including Alabama Electric Cooperative, of power from Alabama Power Co. during the same period.

PUBLIC LOSSES

To illustrate further the public losses involved in these G. & T. loans, let me again use the Alabama Electric Cooperative. A G. & T. loan to that co-op, in the amount of $20,350,000, was approved by the Administrator of the REA.

Our company made an analysis of the public losses involved in the single loan of $20,350,000, the total direct loss in tax revenue, State and Federal, over the life of the loan, would be more than $11 million.

The direct loss in interest would be more than $8 million (assuming a Federal interest cost of 4 percent). If the cost of financing these losses is added, the total financial loss to Federal and State governments from this single loan, during the period of the loan, would be more than $45½ million. I do not have sufficient information to calculate the total losses to the public involved in the $1.3 billion of generating and transmission loans which have been approved by REA; but from the illustration I have just given, it is apparent that these total losses will be staggering.

I need not labor the point that every G. & T. loan is impairing investment made by the investor-owned utilities. As I mentioned, an investigation of every G. & T. loan approved by the Administrator during the past 18 months revealed that in every case but one the generating capacity is to be used to supply co-op lines already supplied by central station service from facilities of investor-owned, taxpaying utilities. Any G. & T. system supplanting these facilities necessarily impairs the investment of the utilities.

LOANS BEING MADE IN SECRET PROCEEDINGS

These G. & T. loans are being made in secret proceedings, which violate fundamental constitutional principles. The REA has long had a policy of secrecy about loans for generating and transmission facilities which has prevented any investor-owned utility affected by such a loan from obtaining from the REA the significant facts about the loan.

LOAN FOR G. & T. FACILITIES IN ALABAMA

Last year, I made a statement before this committee about the loan approved by REA for G. & T. facilities in Alabama. My statement was largely directed toward the secrecy with which REA surrounded

the circumstances of that loan. Since then, we have obtained much information about those circumstances.

Under Alabama law, the generating co-op could not proceed with the loan without approval of the State department of finance. Our company opposed this approval. We were again met with refusal by the co-op to disclose the information it submitted to REA as a basis for the loan. We applied to the Alabama courts to require production of the documents. The courts, in the interest of a fair hearing compelled such production.

You may recall that this Alabama loan was the first approved by the REA under the so-called security criterion; that is, it was based primarily upon the finding that our company was hostile to the co-op. That history, outlined in my statement last year, will be found in the printed hearings before the Subcommittee on Agriculture of the Committee on Appropritaions of the Senate, at page 1049.

When we obtained the documents REA and the co-op had refused to disclose, we found that the co-op's application to REA was loaded with accusations against our company. We were able in open hearing to refute these accusations by witnesses having no connection with our company or the co-op.

But the important point is that REA had accepted these charges and evidently made its finding based upon them. In other words, our company was accused, tried, and convicted with no opportunity on our part to confront the witnesses against us.

The only knowledge we had of these accusations was the letter I referred to in my testimony last year.

Senator HOLLAND. Whom was this letter from and to?

Mr. BOULDIN. It was written by Mr. Clapp to me. It was made a part of the record last year.

By this proceeding, we were denied the right which is assured even to a criminal by the fourth amendment to the Constitution of the United States—the right to be confronted by the witnesses against him. I submit to you this is an intolerable condition in a civilized nation.

WASTE OF PUBLIC FUNDS

These G. & T. loans are being made contrary to the intent of the act governing them; they are wasteful of public funds because they are building unnecessary facilities; those facilities are impairing investments; they are causing great losses to the State and Federal Governments, and they are not providing electric service at lower cost.

We are all aware of the necessity of removing unnecessary burdens from taxpayers. The situation I have described affords an opportunity for removing what I am sincerely convinced is a wholly unjustifiable burden.

I respectfully urge that all appropriation of funds for G. & T. projects be withheld unless REA justifies to you specific projects it proposes.

Thank you very much.

Senator HOLLAND. Senator Young?

Senator YOUNG. I have no questions, thank you.

COMPARISON OF ENERGY RATES

Senator HOLLAND. Mr. Bouldin, I notice you make a comparison between the rates which your company charges to the Alabama REA's including the Alabama Electric Cooperative and the cost which you say should be figured if the interest rates of a nontaxpaying utility were considered.

COMPARISON CHARGES FOR POWER

Do you have any comparison for the record of the actual rates charged by you to the REA's as compared to the rates charged by the Alabama Electric Cooperative to its various member co-ops?

Mr. BOULDIN. Yes. We have that figure. I just gave you the figure which we charge, that is 6.8. The charge of the Alabama Electric Co-op, the average charge that it made to its cooperative customers was 8.5 mills.

Senator HOLLAND. 6.8 is what you charge?

Mr. BOULDIN. What we actually charged.

Senator HOLLAND. To the co-ops?

Mr. BOULDIN. Yes, sir.

Senator HOLLAND. How many of them do you serve?

Mr. BOULDIN. Of the 12 co-ops we serve, all of the requirements have 9 and part of the requirements have 3.

Senator HOLLAND. Is the actual charge what you have given here or is that an average?

Mr. BOULDIN. That is an average of the actual charges.

Senator HOLLAND. Will you supply for the record the actual charges made by your company to each of these co-ops that you supply either in whole or in part?

Mr. BOULDIN. I will be happy to.

(The information referred to appears on pp. 244 and 245.)

CHARGES OF ALABAMA ELECTRIC COOPERATIVE

Senator HOLLAND. Your written statement read that the charges of the Alabama Electric Cooperative, the cost per kilowatt-hour of the power of the Alabama Electric Cooperative would have been 10.3 mills if these costs as you call them had been included, meaning the interest rate at the figure which you stated, which was the TVA interest rate?

Mr. BOULDIN. Right. And taxes on a comparable basis.

Senator HOLLAND. Taxes on the part of the local private concern if the co-ops had been taxpaying private concerns?

Mr. BOULDIN. That is right.

Senator HOLLAND. I can understand the difference between your charge and this cost of manufacture as stated here and based upon the hypotheses which you state.

I am not sure that I do understand the difference between your charge and the average charge that you say Alabama Electric Cooperative makes to its member co-ops.

Mr. BOULDIN. They make a charge, as I stated, an average charge, of 8.5 mills to the co-ops.

Senator HOLLAND. Will you supply that, broken down by the various co-ops in the same way I have asked you to supply for your own?

Mr. BOULDIN. I am not sure I have the AEC rates to each of its co-ops. I believe we do have them. I will supply them. This looks like it may be the information you ask for.

(The information referred to appears on p. 245.)

Senator HOLLAND. Why would the local co-ops pay a larger charge to the Alabama Electric Cooperative than you are willing to supply them the power for?

Mr. BOULDIN. That is a good question. It is a complicated answer. Of course, the price they charge the co-ops includes a hope of what they call, I believe, their capital credits. As I say, the amount they charge to the co-ops does not represent actual cost, as I understand it, but it gives them some for their reserves and some for the benefit of their customers later on.

Senator HOLLAND. You don't supply power at actual cost, do you?

Mr. BOULDIN. No, sir. It depends on how you define cost, of course.

Senator HOLLAND. You add to the actual cost enough to enable you to have a profit, pay taxes, set up reserves, and have a dividend?

Mr. BOULDIN. Surely.

CLASSES OF STOCK AND DIVIDENDS PAID

Senator HOLLAND. Will you show for the record the amount of dividends you paid in recent years to your stockholders?

Mr. BOULDIN. We will be glad to.

(The information referred to appears on p. 246.)

Senator HOLLAND. How many kinds of stockholders do you have?

Mr. BOULDIN. We have preferred stockholders and one common stockholder, which is the Southern Co. The Southern Co. owns all the common stock of our company. We have a great many preferred stockholders.

Senator HOLLAND. All the preferred stockholders are paid the same rate of dividend. Are they not?

Mr. BOULDIN. No, sir. We have several issues of preferred stock. We have three.

Senator HOLLAND. If you will show that, that will be clear for the record. Of course, everyone who holds the stock of any of these particular three receives the same dividend as anybody else who holds stock of that same issue?

Mr. BOULDIN. Yes. The reason they are different, as you know, is that we sell our securities at competitive bidding.

Senator HOLLAND. At different times?

Mr. BOULDIN. Yes. Sometimes we get money at a lower rate than we do at other times.

Senator HOLLAND. Thank you very much, Mr. Bouldin.

Mr. BOULDIN. Thank you.

(The information requested appears on p. 246.)

Senator HOLLAND. The next witness is Mr. J. Robert Welsh, president of the Southwestern Electric Power Co., Shreveport, La.

(NRECA rebuttal appears on pp. 247, 310, and Alabama Power Co. rebuttal on p. 330.)

SOUTHWESTERN ELECTRIC POWER CO., SHREVEPORT, LA.

STATEMENT OF J. ROBERT WELSH, PRESIDENT

OPPOSITION TO LOAN

Mr. WELSH. Mr. Chairman, our company operates a system in western Arkansas, northwestern Louisiana, and northeastern Texas. I requested the committee to allow me to appear to talk about a loan that was recently approved by Mr. Clapp that in my opinion should not be approved and the facilities should not be built.

They are a threat to the existence of our business and that is the whole concern for which I am here. The basis on which the loan was approved violates all the principles and policies established by the Senate Appropriations Committee over the years and the facilities are not needed because the power produced at Government dams in the area is available to this preferred customer and at very low cost.

Senator HOLLAND. What is the preferred customer?

Mr. WELSH. Upshur Rural Electric Cooperative Association.

I though perhaps I might start on page 7.

Senator HOLLAND. Would you like your whole statement to appear in the record?

Mr. WELSH. I would like that. I thought I would start on page 7 and get the loan before you and then go to page 1.

Senator HOLLAND. All right, sir. The whole statement will appear in the record, you may proceed.

Mr. WELSH. Thank you.

(The statement referred to follows:)

For the last 17 years it has been my privilege to appear, from time to time, before subcommittees of the House Appropriations Committee and the Senate Appropriations Committee, either as a witness or in company with and as adviser to witnesses. I have, therefore, had a firsthand, ringside view of the evolution of the Federal power policy fashioned largely by the members of this committee and, to some extent, by the companion committee of the House.

The cornerstone of existing Federal power policy, as I understand it, is the active and continuing cooperation by Government and investor-owned systems, with the general end in view that preference in sale of hydroelectric power and energy generated at Government reservoir projects shall be given to public bodies and cooperatives, and the power shall be sold at the lowest possible rates consistent with sound business principles.

The pattern of such cooperation is embodied in the contract between Texas Power & Light Co. and Southwestern Power Administration, in later contracts between the Oklahoma companies and Southwestern Power Administration, and in a contract between Southwestern Electric Power Co. [our company] and Southwestern Power Administration. These contracts were negotiated during the period 1947–50.

The Senate Appropriations Committee made it clear, at the start of negotiations between Southwestern Power Administration and the electric companies, that SPA had no authority to build steamplants. Following are excerpts from the Senate debates on the Interior appropriations bill, 1947:

"Mr. HAYDEN. * * *.

"In connection with the project outlined on the charts on the wall, the Southwest Power Authority, there was a Budget Bureau estimate of $23 million. We had extensive hearings before the subcommittee, and I am quite sure that it is the unanimous opinion of the committee that at the present time there is no adequate authority of law for building steamplants to firm up the power at Government dams. That being the case, we decided that we would not put any money in the bill for the steamplants" (92 Congressional Record 7127, June 19, 1946).

* * * * * * *

"Mr. OVERTON. * * * What does the language 'other facilities' embrace? * * * would it authorize the construction of steam power plants?

"Mr. HAYDEN. That question was argued very extensively in the committee in respect to the Southwest Power Authority. The term 'other facilities' appears in connection with the Denison Dam and other dams. The committee reached the conclusion that at the time that legislation was enacted Congress did not have in mind that power generated at a Government dam might be firmed up subsequently by a steamplant, under the guise of the term 'other facilities.' If Congress intends anything of that kind, it so specifies. * * * It would be a strained construction, as the lawyers on our committee view it, to say that 'other facilities' meant steamplants.

"Mr. OVERTON. I thank the Senator. That is exactly my view" (92 Congressional Record 7134, June 19, 1946).

"Mr. HAYDEN. I want to make it clear. Does the Senator from Oklahoma know of a single Senator who is a member of the Senate Committee on Appropriations who advocated building any steamplants?

"Mr. THOMAS of Oklahoma. No; I know of none.

"Mr. HAYDEN. There was no such proposal. The argument was very firmly made throughout all the hearings by the committee that there was at the present time, in the opinion of the committee, no authority of law for building steamplants to firm up this power, and it was the judgment of the committee that if the power was to be firmed up by steamplants it should be done by appropriate legislation approved by the Congress. The issue here is, Shall three dams be connected together by a transmission line?" (92 Congressional Record 7194, June 20, 1946).

Long discussions of Government power policy with respect to transmission lines are recorded in the legislative history of the continuing fund for Southwestern Power Administration. A concise statement of policy as determined by the Senate was made by Senator Hayden, and is recorded in the Congressional Record, August 23, 1949, as follows:

"Mr. HAYDEN. Mr. President, I shall be very brief. The senior Senator from Oklahoma [Mr. THOMAS] has placed in the Record a letter addressed to me on August 22 by Mr. Douglas G. Wright, Administrator of the Southwestern Power Administration * * *.

* * * * * * *

"I am not anticipating that much trouble at the moment. I want to state what I understand Mr. Wright has committed himself to do, beyond any question, in this letter. He has agreed that if preferred customers of the Government located within the territory of a private utility apply to him for power he will contact the private utility and say, 'If you will wheel power to these Government customers on the same basis as that on which power is now wheeled by the Texas Power & Light Co. you will get a contract to do that, and the Southwestern Power Administration will not build any transmission lines in your territory.' The private power company will have an option of performing the wheeling service or not. If the company says, 'We are ready, able, and willing to build the required transmission lines,' or 'We already have them,' then it will get a contract. If they say 'We do not care to serve your customers,' the Southwestern Power Administration will then be provided with the money with which to build transmission lines and to serve the preferred customers. But we do expect Mr. Wright to make a sincere effort, and we do expect the power companies, in accordance with the representations they have made, to accept that kind of offer. Of course, if some preferred customers at a great distance applied for power it would not be feasible for the Government to build long transmission lines to serve them, and the request would have to be denied. But where the situation fits, both as to the group of customers and as to the location, so that a private power company can do the transmission job, we expect it to be done. As chairman of the subcommittee handling the appropriation bill, I am going to hold Mr. Wright responsible for carrying out the pledge which he has made. He ends his letter by saying:

"'As I advised your committee, it is our intention to continue our efforts in negotiations with the companies to arrive at reasonable arrangements for the maximum utilization of the existing facilities wherever possible, and it will not be our policy to construct transmission lines whenever reasonable arrangements for the use of existing facilities can be made.'

"By 'reasonable arrangements' we understand is meant an arrangement similar to, or upon the basic principles of, the Texas contract" (95 Congressional Record 12031, Aug. 23, 1949).

During the period 1949–50, a series of contracts were made between SPA and several G. & T. cooperatives. These contracts did not follow the pattern of the Texas contract, and they were not approved by the Senate. The plan was worked out between the Department of Agriculture and Department of the Interior and called for the expenditure of large amounts of money by REA cooperatives for generating and transmission facilities. The cooperatives did not need such large and expensive facilities, so the construction of such facilities could not be justified until the Administrator of REA had assurances the loans could be repaid.

The Secretary of the Interior furnished the Administrator of REA with the assurances he required. The Interior Department, through the SPA, agreed to buy the entire output of the REA powerplants at prices that would pay operating expenses and pay off the REA powerplant loans. SPA also agreed to lease the transmission lines, pay an amount that would operate and maintain the lines, and pay off the REA transmission line loans. SPA planned to do this without going to the Congress for appropriations—it planned to obtain from its (SPA's) continuing fund the millions of dollars required to purchase the steam-power and to lease the transmission lines.

The committees of the Congress did not agree such an arrangement was authorized by law, and put restrictions on the use of the continuing fund by SPA. The legislative history during 1950 records indignation at and disapproval of the arrangement between Department of Agriculture (REA) and Department of the Interior (SPA). The Senate report dated July 6, 1950, states the policy as follows:

"USE OF SOUTHWESTERN POWER ADMINISTRATION CONTINUING FUND

"The subcommitee on Interior Department appropriations conducted joint hearings with the subcommittee on agricultural appropriations, which handles the appropriation for the Rural Electrification Administration, on the use of the continuing fund of the Southwestern Power Administration for the purpose of aiding in the construction and operation of facilities for producing and transmitting power for the use of public bodies and cooperatives. This program involves the expenditure of loans of considerable amounts by the REA to a combination of local cooperatives and the lease of the facilities by the Southwestern Power Administration. The continuing fund is being used for this purpose to an extent not contemplated at the time SPA was created. The committee feels that the utmost care should be exercised by those administering this fund to avoid its use in any instance where it is not absolutely necessary to enable public bodies and cooperatives to secure sufficient power to supply customers. It is not the intent of the committee that the continuing fund be used directly or indirectly in the construction or operation of power-producing facilities and transmission lines to compete with private enterprise in areas where adequate power is available or will be made available within a reasonable time at reasonable rates to the cooperatives and public bodies" (S. Rept. No. 1941, dated July 6, 1950, 81st Cong., 2d sess. (1950), p. 130).

During the next few years, the Senate Appropriations Committee continued its careful consideration of appropriations for the continuing fund of SPA.

The Senate subcommittee considering appropriations for Interior power marketing agencies said in its report on the Interior Department Appropriations Bill for fiscal 1954, under the heading "Southwestern Power Administration Continuing Fund," the following:

"It is the desire of the committee that the Secretary, representatives of the cooperatives, and representatives of the power companies in the area may give consideration to making such arrangements that will not require the continued use of the 'continuing fund'."

The record shows that the committee, with some misgivings, has appropriated money from the "continuing fund" to support the SPA–G. & T. contracts in Missouri and Oklahoma. The record further shows that some or all of this committee expressed an opinion that although the SPA–G. & T. agreements (existing in 1955) imposed a legal or moral obligation requiring appropriations from the "continuing fund," no further or additional such contracts should be consummated between SPA and G. & T. cooperatives. On pages 1463 and 1464 of the Senate hearings on Interior Department appropriations for 1954 appears an interesting discussion (quoted below) which supports the above statement.

"Senator ELLENDER. I think we can stop them here in Washington. But, in all good faith, it is my honest belief that Congress should appropriate the money in order at least to carry out the existing contracts.

"Senator HAYDEN. Senator Ellender, I think you are absolutely right the way I understood it last year. We were to transfer this situation from an unlimited amount of money to be utilized to make contracts with co-ops in the future to build steamplants and make contracts for the repayment of the cost of transmission; we said, 'Now that we are going to stop.'

"Senator ELLENDER. That is right."

Until recently, SPA has observed the injunction of the Senate Appropriations Committee and has not made new contracts with G. & T. cooperatives providing for large payments for steam power and large rentals for transmission lines. In fact, it has renegotiated its Missouri G. & T. contracts so its payments are considerably less than they were a few years ago.

THE REA G. & T. LOAN TO UPSHUR-RURAL ELECTRIC COOPERATIVE CORP.

On February 18, 1963, Administrator Clapp of the Rural Electrification Administration, announced approval of a generation and transmission loan to Upshur-Rural Electric Cooperative Corp. The official announcement stated a 33,000-kilowatt steam-generating plant would be built near Ore City, Tex., and 190 miles of 138-kilovolt transmission line would be built from Ore City, Tex., to Brown, Okla., for an interconnection with Southwestern Power Administration; 120 miles of the proposed line would be located in Oklahoma. The release also contains this significant statement:

"Preliminary agreement has been reached between Upshur and the Southwestern Power Administration for an interconnection at the SPA's switching station near Brown, Okla."

Following are the facts regarding the proposed agreement between Upshur-Rural Electric Cooperative Corp. and the Department of the Interior's agency, Southwestern Power Administration.

For several years, Upshur Cooperative has been studying the cost of supplying its own power with a small generating plant. It proposed the installation of one 7,500-kilowatt steam turbine generator and two 7,000-kilowatt gas turbine generators, but found the cost was much too high. During the past 2 years, Upshur Cooperative has been assisted in its studies by representatives of the REA in Washington, and has been urged to install a one-unit generating plant of large size and build a transmission interconnection with Southwestern Power Administration in order to get standby power. The cost of such an arrangement would be very high, and Upshur was not able to get approval of its loan application.

During the past 6 or 8 months, the Administrator of Southwestern Power Administration, Mr. D. G. Wright, has been persuaded to buy power from the proposed 33,000-kilowatt generating plant, lease the proposed 120 miles of 138-kilovolt transmission line in Oklahoma, and pay Upshur in excess of $250,000 a year. The annual payment of more than $250,000 a year by SPA to Upshur is enough of a subsidy to justify the loan by the REA. In fact, the $250,000 annual payment allows Upshur a profit of $75,000 a year so that it can claim a saving of more than $750,000 during the next 10 years.

The new arrangement between Upshur Cooperative and SPA announced by Administrator Clapp on February 18, 1963, is the same kind of arrangement that was condemned by the Senate Committee on Appropriations in its Report No. 1941, dated July 6, 1950, and quoted on page 5 of this statement. The only way SPA can pay for the power it proposes to purchase from Upshur, and pay the lease rentals for the lines in Oklahoma, is through use of its continuing fund. The Senate Committee on Appropriations has stopped such arrangements in the past, and I respectfully request you stop the proposed arrangement between Upshur-Rural Electric Cooperative Corp. and the Southwestern Power Administration. It should be understood by the committee that the loan to Upshur Cooperative has just been approved by the REA in Washington, and that no facilities have been built by Upshur.

Since January 1945, Upshur Cooperative has been purchasing its power from our company (Southwestern Electric Power Co.) at a rate of 5.6 mills per kilowatt-hour, plus fuel adjustment. Fuel adjustment last year amounted to 1.1 mills per kilowatt-hour. The contract contained the so-called dual-rate provision, but no charge was ever made to Upshur Cooperative under this provision. Last year, in a meeting with Mr. Norman Clapp he asked that we remove

the dual-rate provision from the contract, and we did so. The contract contains no restrictive clauses of any kind; it is a simple sale of power to Upshur Cooperative at wholesale rates.

In 1950, our company (Southwestern Electric Power Co.) negotiated a contract with Southwestern Power Administration for the disposal of Narrows Dam Power. For 10 years, Upshur Cooperative obtained part of its power supply from SPA under the Narrows Dam contract. In 1960, SPA negotiated with Tex.-La. Electric Cooperative, Inc. and with our company a new contract disposing of the Narrows Dam power and additional hydro peaking power. Four cooperatives are served under this contract, and last year the average cost of power to them was 6.08 mills per kilowatt-hour. Upshur Cooperative can receive its power supply under the Tex.-La. agreement and receive the benefits of Government peaking power because it is a preferred customer. Upshur Cooperative has refused to receive power under the Tex.-La. agreement, even though the power would cost less than the amount Upshur is paying our company under our present contract.

The Administrator of Southwestern Power Administration has said, on a number of occasions, that the Upshur powerplant should not be built because Upshur can obtain its power supply cheaper under the Texas-Louisiana agreement.

The Administrator of Southwestern Power Administration recently stated that the loan to Upshur Cooperative had no chance of approval by the Administrator of the REA until SPA agreed to pay Upshur more than $250,000 a year for the purchase of power and for rentals on the proposed transmission facilities.

The above scheme is obvious. The Administrator of the Rural Electrification Administration wants to make the loan to Upshur-Rural Electric Cooperative and can do so only when Southwestern Power Administration agrees to a subsidy payment to Upshur out of SPA's continuing fund. However, in 1949 and 1950 this is the very thing this Senate Appropriations Committee said it would not do; and in 1955 Senator Hayden and Senator Ellender said: "Now that we are going to stop." If the arrangement between Upshur-Rural Electric Cooperative Corp. and Southwestern Power Administration is permitted to become effective, the appropriations for SPA's continuing fund will have to be increased more than $250,000 a year, starting 2 years from now. I respectfully direct the attention of the Appropriations Committee to this wasteful and unnecessary expense, and request you immediately hold up the loan to Upshur-Rural Electric Cooperative Corp. which was approved February 18, 1963, and investigate the total disregard for your previous actions about the use of Southwestern Power Administration's continuing fund.

General Statement

G. & T. loan to Upshur-Rural Electric Cooperative Corp.

Mr. Welsh. The REA G. & T. loan to Upshur-Rural Electric Cooperative Corp.: On February 18, 1963, Administrator Clapp of the Rural Electrification Administration announced approval of a generation and transmission loan to Upshur-Rural Electric Cooperative Corp.

The official announcement stated a 33,000-kilowatt steam generating plant would be built near Ore City, Tex., and 190 miles of 138-kilovolt transmission line would be built from Ore City, Tex., to Brown, Okla., for an interconnection with Southwestern Power Administration; 120 miles of the proposed line would be located in Oklahoma. The release also contains this significant statement:

> Preliminary agreement has been reached between Upshur and the Southwestern Power Administration for an interconnection at the SPA's switching station near Brown, Okla.

Actually, as was brought out before your committee last Tuesday, there is an agreement under which Southwestern Administration, an agency of the Department of the Interior, will buy power from the

proposed plant if it is built, and under which it will lease the transmission lines that are proposed to be built in Oklahoma.

Senator HOLLAND. By whom will the transmission lines be built?

Mr. WELSH. The transmission lines will be built by Upshur-Rural Electric Cooperative and the powerplant will be built by Upshur-Rural Electric Cooperative with the proceeds of a loan that were approved on February 18 by the Administrator.

AMOUNT OF LOAN

Senator HOLLAND. What was the total amount of the loan?

Mr. WELSH. The total amount of the loan was $9,170,000.

Senator HOLLAND. Do you have the breakdown between the cost of that part of the loan which was to be used for the transmission line and that part to be used for the powerplant?

Mr. WELSH. Yes, sir; $5,393,000 to finance a 33,000-kilowatt steam-generating plant in the vicinity of the Ore City, Tex., to be completed in 1965.

The second item is $3,861,500 to finance 190 miles of 138-kilovolt transmission line.

Senator HOLLAND. That line is 70 miles in Texas and 120 in Oklahoma. Is that it?

Mr. WELSH. That is correct, sir.

Senator HOLLAND. Proceed.

PROPOSED AGREEMENT

Mr. WELSH. Following are the facts regarding the proposed agreement between Upshur-Rural Electric Cooperative Corp., and the Department of the Interior's agency, Southwestern Power Administration.

For several years Upshur Cooperative has been studying the cost of supplying its own power with a small generating plant. It proposed the installation of one 7,500-kilowatt steam-turbine generator and two 7,000-kilowatt gas-turbine generators, but found the cost was much too high.

During the past 2 years, Upshur Cooperative has been assisted in its studies by representatives of the REA in Washington, and has been urged to install a one-unit generating plant of large size and build a transmission interconnection with Southwestern Power Administration in order to get standby power. The cost of such an arrangement would be very high, and Upshur was not able to get approval of its loan application.

During the past 6 or 8 months, the Administrator of Southwestern Power Administration, Mr. D. G. Wright, has been "persuaded" to buy power from the proposed 33,000-kilowatt generating plant, lease the proposed 120 miles of 138-kilovolt transmission line in Oklahoma, and pay Upshur in excess of $250,000 a year.

The annual payment of more than $250,000 a year by SPA to Upshur is enough of a subsidy to justify the loan by the REA. In fact, the $250,000 annual payment allows Upshur a profit of $75,000 a year so that it can claim a saving of more than $750,000 during the next 10 years.

NEW ARRANGEMENTS

The new arrangement between Upshur Cooperative and SPA announced by Administrator Clapp on February 18, 1963, is the same kind of arrangement that was condemned by the Senate Committee on Appropriations in its Report No. 1941, dated July 6, 1950, and quoted on page 5 of this statement.

The only way SPA can pay for the power it proposes to purchase from Upshur, and pay the lease rentals for the lines in Oklahoma, is through use of its continuing fund.

The Senate Committee on Appropriations has stopped such arrangements in the past, and I respectfully request you stop the proposed arrangement between Upshur-Rural Electric Cooperative Corp. and the Southwestern Power Administration.

It should be understood by the committee that the loan to Upshur Cooperative has just been approved by the REA in Washington, and that no facilities have been built by Upshur.

The security for the line is not reasonably adequate. As matters now stand annual appropriations will not be made to the continuing fund of Southwestern Power Administration and payment of more than $250,000 a year cannot be made to Upshur-Rural Electric Cooperative Corp.

If you would like, Mr. Chairman, I would like to move back to page 1 of my statement.

The cornerstone of existing Federal power policy, as I understand it, is the active and continuing cooperation by Government and investor-owned systems, with the general end in view that preference in sale of hydroelectric power and energy generated at Government reservoir projects shall be given to public bodies and cooperatives, and the power shall be sold at the lowest possible rates consistent with sound business principles.

The pattern of such cooperation is embodied in the contract between Texas Power & Light Co. and Southwestern Power Administration, in later contracts between the Oklahoma companies and Southwestern Power Administration, and in a contract between Southwestern Electric Power Co. (our company) and Southwestern Power Administration. These contracts were negotiated during the period of 1947 to 1950.

TERM OF CONTRACTS

Senator HOLLAND. How much longer do those contracts have to run?

Mr. WELSH. Our first contract from 1950 to 1960. Now we have a new contract that I will try to touch on briefly. In the first hearings back in 1947 on Southwestern Power Administrations request for funds, the Senate Appropriations Committee made it clear before any negotiations were started between Southwestern Power Administration and the electric companies that Southwestern Power Administration had no authority to build steamplants.

In here I quote a little bit from the legislative history.

I would like to read this one sentence here on page 2. Mr. Hayden is speaking and says and I quote:

We had extensive hearings before the subcommittee and I am quite sure that it is the unanimous opinion of the committee that at the present time there is no adequate authority of law for building steamplants to firm up the power at Government dams.

That being the case, we decided that we would not put any money in the bill for the steamplants.

That is further supported by other quotations in this debate on the appropriations bill.

After the steamplant question was settled, the companies did enter into contracts with Southwestern Power Administration for the wheeling of power and we find long discussions of Government power policy with respect to transmission lines recorded in the legislative history as a continuing fund for Southwestern Power Administration.

STATEMENT OF POLICY

A concise statement of policy as determined by the Senate was made by Senator Hayden and is recorded in the Congressional Record of August 23, 1949.

I would like to read two or three sentences from that statement if I may.

Mr. Hayden is again speaking and says and I quote:

I am not anticipating that much trouble at the moment. I want to state what I understand Mr. Wright has committed himself to do, beyond any question, in this letter.

He has agreed that if preferred customers of the Government located within the territory of a private utility apply to him for power he will contact the private utility and say, "If you will wheel power to these Government customers on the same basis as that on which power is now wheeled by the Texas Power & Light Co. you will get a contract to do that, and the Southwestern Power Administration will not build any transmission lines in your territory."

Then on the next page this continues:

But where the situation fits both as to the group of customers and as to the location so that a private power company can do the transmission job we expect it to be done.

As chairman of the subcommittee handling the appropriation bill, I am going to hold Mr. Wright responsible for carrying out the pledge which he has made.

He ends his letter by saying:

As I advised your committee, it is our intention to continue our efforts in negotiations with the companies to arrive at reasonable arrangements for the maximum utilization of the existing facilities wherever possible. And it will not be our policy to construct transmission lines whenever reasonable arrangements for the use of exsting facilities can be made.

REASONABLE ARRANGEMENTS

Mr. Hayden adds:

By reasonable arrangements we understand is meant an arrangement similar to or upon the basic principles of the Texas contract.

After that first Texas contract was made, the two Oklahoma companies made contracts with Southwestern Power Administration for the wheeling of power and our company made a contract with Southwestern Power Administration for the wheeling of narrows dam power.

The Oklahoma contracts are still in effect. Our contract for narrows dam power was for such a small amount of power that in 1960 we negotiated a new contract providing for enough power to take care of the requirement of all the cooperatives that we serve.

Now after these arrangements were worked out and during the period 1949 to 1950, a series of contracts were made between Southwestern Power Administration and several G. & T. cooperatives. These contracts did not follow the pattern of the Texas contract, and they were not approved by the Senate.

PLAN WORKED OUT

The plan was worked out between the Department of Agriculture and the Department of the Interior and called for the expenditure of large amounts of money by REA cooperatives for generating and transmission facilities.

The cooperatives did not need such large and expensive facilities, so the construction of such facilities could not be justified until the Administrator of REA had assurances the loans could be repaid.

The Secretary of the Interior furnished the Administrator of REA with the assurances he required. The Interior Department, through the Southwestern Power Administration, agreed to buy the entire output of the REA powerplants at prices that would pay operating expenses and pay off the REA powerplant loans.

Southwestern Power Administration also agreed to lease the transmission lines, pay an amount that would operate and maintain the lines, and pay off the REA transmission line loans. Southwestern Power Administration planned to do this without going to the Congress for appropriations—it planned to obtain from its (Southwestern Power Administration's) continuing fund the millions of dollars required to purchase the steampower and to lease the transmission lines.

RESTRICTIONS ON USE OF CONTINUING FUND

The committees of the Congress did not agree such an arrangement was authorized by law, and put restrictions on the use of the continuing fund by Southwestern Power Administration.

In my statement here I quote some of that part of the report that appears under date of July 6, 1950. I would like to read about the last line of that which reads as follows:

> It is not the intent of the committee that the continuing fund be used directly or indirectly in the construction or operation of power-producing facilities and transmission lines to compete with private enterprise in areas where adequate power is available or will be made available within a reasonable time at reasonable rates to the cooperatives and public bodies.

For several years when the appropriations were submitted for Southwestern Power Administration to pay the costs of these contracts under which it was purchasing power and leasing the transmission lines to the cooperatives, the Senate Appropriations Committee considered this and especially during the time when they were considering the continuing fund for Southwestern Power Administration in the bill for 1954 there is discussion of a large amount of money requested by Southwestern Power Administration for its continuing fund in order to pay off these obligations.

SENATE HEARINGS, FISCAL YEAR 1954

On pages 1463 and 1464 of the Senate hearings on Interior Department appropriations for 1954 appears an interesting discussion about whether or not the arrangements under which Southwestern Power Administration would pay for the use of co-op facilities could be stopped.

I would like to read this short quotation in here. Senator Ellender is speaking and says:

I think we can stop them here in Washington. But in all good faith it is my honest belief that Congress should appropriate the money in order at least to carry out the existing contracts.

Those were contracts between co-ops in Missouri and Oklahoma. Senator Hayden replies as follows:

Senator Ellender, I think you are absolutely right the way I understood it last year. We were to transfer this situation from an unlimited amount of money to be utilized to make contracts with co-ops in the future to build steamplants and make contracts for the repayment of the cost of transmission; we said, "Now that we are going to stop."

Senator Ellender replied, "That is right."

Until just now, Southwestern Power Administration has observed the injunction of the Senate Appropriations Committee and has not made new contracts with G. & T. cooperatives providing for large payments for steampower and large rentals for transmission lines.

This loan to Upshur, which was approved on February 17 is an arrangement exactly like the arrangements condemned in the legislative history that I just read to you.

Of course, the arrangement now is that no more funds will be appropriated for Southwestern Power Administration to make such payments because, as far as I know, the Senate committee has not changed its mind. This arrangement is entirely unnecessary and I would like to take 1 or 2 minutes to tell you about the existing arrangements.

Since January 1945, Upshur Cooperative has been purchasing its power from our company (Southwestern Electric Power Co.) at a rate of 5.6 mills per kilowatt-hour, plus fuel adjustment.

Fuel adjustment last year amounted to 1.1 mills per kilowatt-hour. The contract contained the so-called dual rate provision, but no charge was ever made to Upshur Cooperative under this provision.

DUAL RATE PROVISION

Last year, in a meeting with Mr. Norman Clapp he asked that we remove the dual rate provision from the contract, and we did so. The contract contains no restrictive clauses of any kind; it is a simple sale of power to Upshur Cooperative at wholesale rates.

In 1960, Southwestern Power Administration negotiated a new contract involving three parties. Southwestern Power Administration, Tex-La Electric Cooperative, and our company.

Upshur is a member of Tex-La Electric Cooperative. The new contract provides for the disposal not only of narrows dam power but also additional power. Under the arrangement the cooperatives that we serve, the distribution cooperatives that we serve, become customers of Tex-La.

Tex-La buys the power from the Federal Government. It is unable to use the power by itself, so under the arrangement with us, Tex-La sells the power to our company and buys back from us the necessary firm power to take care of all of the requirements of the distribution co-ops that it serves.

Four cooperatives are served under this contract at the present time under the agreements approved by Administrator Clapp.

AVERAGE COST OF POWER

Last year the average cost of power to them was 6.08 mills per kilowatt-hour. Upshur co-op can receive its power supply under the Tex-La agreement and receive the benefits of Government pecking power because it is a preferred customer.

So far Upshur has refused to receive power under the Tex-La agreement even though the power would cost less than what it is paying us now under our old contract which we entered into in 1945.

There are two significant things about this arrangement that I think I should bring to your attention. The Administrator of Southwestern Power Administration has said on a number of occasions that the Upshur powerplant should not be built because Upshur can obtain its power supply cheaper under the Tex-La agreement.

The Administrator of Southwestern Power Administration recently stated that the loan to Upshur had no chance of approval by the Administrator of REA until SPA agreed to pay Upshur more than $250,000 a year for the purchase of power and for rentals of proposed transmission systems.

The above scheme is obvious. The Administrator of REA wants to make the loan to Upshur and can do so only when Southwestern Power Administration, another branch of the Government, agrees to a subsidy payment from tax moneys to Upshur out of its continuing fund.

This is the very thing that the Senate Appropriations Committee said it would not do. If the arrangement between Upshur and Southwestern Power Administration is permitted to become effective, the appropriations for SPA's continuing fund will have to be increased more than $250,000 a year.

REQUEST TO HOLD UP LOAN TO UPSHUR COOPERATIVE

I respectfully direct attention of this Appropriations Committee to this wasteful and unnecessary expense and request that you hold up the loan to Upshur Cooperative which was approved on February 18, investigate this entire matter, and observe the disregard for your previous actions about the use of the Southwestern Power Administration's continuing fund.

I would like to make it clear that I am not here just complaining. I am here because this is a serious threat to our business if this proposal is allowed to go through now.

It started back in 1949 and 1950; we came up here, the Congress listened to us, realized we were threatened, and they stopped this arrangement and I most prayerfully request that you gentlemen stop it now.

There is a real move underfoot to take over our business. Mr. Ellis is quoted as saying in a speech out in Portland, Oreg., last year and I

quote, "The only way we will get nationwide public ownership is gradually."

Let me say, Mr. Chairman, I don't think it is so gradual. Up until 1947 our company served the electrical requirement at Quitman, Tex. In that year Wood County Electric Cooperative working with the town officials obtained a franchise and we were ordered either to sell our system to the cooperative or to reel it up and get out of town.

Wood County bought our system and it is still serving the town of Quitman today. It is gone from our system forever.

Ten years ago the 13 cooperatives to which we sell power—that should be 15 cooperatives—were serving less than 30 customers inside of towns where we had franchises to supply the electrical requirement.

Today these 15 cooperatives serve more than 1,000 customers inside a 42-town district where we had franchises to serve.

This is a real takeover of our company and is not so gradual. If this Upshur loan is allowed to stand with this subsidy payment from Southwestern Power Administration, the takeover of our company will get up to a gallop.

Before I am out of the way it will be well on its way to ruination.

I think you gentlemen should take this as the most sincere statement I can make that I am truly worried about this and I hope you will give it careful consideration.

Senator HOLLAND. Mr. Welsh, I believe you have concluded your statement.

Mr. WELSH. Yes, sir. I had just completed my statement, sir. I would like to hand the clerk one thing, if you would like, if you will permit it. Mr. Ellis came and said he was misquoted in the article. I don't have any information on that but so that the record will be clear, the information that I used is from the Congressional Record of October 8, 1962, volume 108, page 21599.

I assume if he has some correction he will be permitted to make the correction.

Senator HOLLAND. Certainly. He has a chance for rebuttal later.

Does that complete your statement, Mr. Welsh?

Mr. WELSH. Yes, sir.

(NRECA rebuttal appears on p. 265 and Southwestern Electric Power Co. rebuttal on p. 336.)

Senator HOLLAND. Mr. Robert Pulley is the next witness. We will be glad to hear you, Mr. Pulley.

GULF POWER CO., PENSACOLA, FLA.

STATEMENT OF ROBERT L. PULLEY, PRESIDENT

PREPARED STATEMENT

Mr. PULLEY. Mr. Chairman, I sincerely appreciate your allowing me the privilege of appearing before your committee.

I am president of Gulf Power Co. whose general offices are located in Pensacola, Fla. My company supplies electric service in that area of northwest Florida generally known as "the panhandle"—lying west of the Apalachicola River.

OPPOSITION TO REA LOANS FOR GENERATING PLANTS AND TRANSMISSION LINES

My presentation to you today is in opposition to the appropriation of funds for the Rural Electrification Administration's use in making loans for the construction of unnecessary electric generating plants and transmission lines.

Our company supplies retail service to over 104,000 rural and urban customers. No distinction is made between rural and urban customers, both being served at the same applicable rate as approved by the Florida railroad and public utilities commission. Our investment in generating plants, high voltage transmission lines, substations, distribution systems, and other facilities is in excess of $114 million.

In addition to our retail sales we supply, and have supplied since their inception, at wholesale rates below the national average for such service, all the electric power requirements of three REA electric cooperatives through five delivery points and the larger portion of the requirements of one other cooperative through two delivery points.

More than 30 years ago, years before the REA cooperatives were formed, the company was extending electric service into and developing rural areas. As the REA cooperatives were formed the company supplied their electric requirements and for a period of 20 years the company and cooperatives worked together to supply and develop the rural areas of northwest Florida.

As a result of these efforts of the company and cooperatives, almost every person in northwest Florida desiring electric service is supplied.

Several years ago with most of the persons in rural areas supplied with electric service, the REA-controlled cooperatives began to deviate from the purposes for which they were created by Congress.

It is my belief that the Congress never intended that funds appropriated by it should be utilized by the cooperatives for the purpose of competing with investor-owned business, construction of unnecessary and wasteful duplicating transmission lines and generating plants.

EXAMPLES OF WASTEFUL USE OF FUNDS

Now, I would like to describe to this committee four examples of competition and wasteful use of the funds, made available at taxpayers' expense, in my own territory, northwest Florida.

The Alabama Electric Cooperative, a generating and transmission cooperative, operating in south Alabama adjacent to northwest Florida, was granted a loan in 1961 for the purpose of building a generating plant in south Alabama and transmission lines extending into northwest Florida.

The transmission lines extending into northwest Florida were for the purpose of supplying the electric power requirements of the Escambia River Electric Cooperative and the Choctawhatchee Electric Cooperative, both of which are served by the Gulf Power Co.

Before the Alabama Electric Cooperative could make an expenditure of funds for the construction of the plant and lines, it was required to secure the approval of the finance director of the State of Alabama. The Alabama Power Co. and Gulf Power Co., in hearings before the finance director, opposed the approval of the expenditure of these funds.

Testimony by REA cooperative witnesses established that the cost of power to be purchased from the Alabama Electric Cooperative by the two Florida cooperatives would be approximately 12 percent higher than they were paying Gulf Power Co.

COMPARATIVE RATES

Senator HOLLAND. What were the comparative rates? Do you have them?

Mr. PULLEY. I don't have those immediately available. I will be glad to make them available to you, sir.

Senator HOLLAND. Will you please put them in the record?

(The information referred to appears on p. 246.)

Mr. PULLEY. Gulf Power Co. witness testified that the company was willing to continue to supply the electric power requirements of these cooperatives, for purposes originally intended by Congress, under a long-term contract, at the existing low rates. The Alabama Power Co. and Gulf Power Co. has resorted to litigation in this case.

In 1958, the company entered into negotiations with Choctawhatchee Electric Cooperative for a new contract covering the continuation of its supply of the electric power requirements at the four delivery points of the cooperatives.

Senator HOLLAND. Is that "cooperatives" right, or "cooperative"?

Mr. PULLEY. Cooperative, singular.

Senator HOLLAND. The statement shows it in plural but this applies only to Choctawhatchee, as I understand it?

Mr. PULLEY. Yes, sir.

Senator HOLLAND. Go ahead.

Mr. PULLEY. During these negotiations and without our knowledge, the cooperative was constructing a transmission line from the system of the Alabama Electric Cooperative to supply the electric power requirements of two of its delivery points. Both of these delivery points were disconnected from Gulf Power Co. and connected to the Alabama Electric Cooperative system in December 1958.

The 22d Annual Report of Energy Purchased by REA Borrowers for the fiscal year ending June 1960 shows that Choctawhatchee Electric Cooperative paid Alabama Electric Cooperative 8.9 mills per kilowatt-hour for power at these delivery points as contrasted with 6.7 mills per kilowatt-hour for power supplied at its other delivery points by Gulf Power Co.

RATE CHARGED

Senator HOLLAND. What was the rate of power you charged for delivery to the two delivery points that were served by Alabama Electric Cooperative beginning in 1960?

Mr. PULLEY. It was the identical rate at which we served the two remaining delivery points.

Senator HOLLAND. In other words, 6.7?

Mr. PULLEY. 6.7 is the average of the payments for the delivery points and would have been about the same for the two that were disconnected from us.

Within the 7,400 square-mile area served by my company is located Eglin Air Force Base reservation with an area of approximately 800

square miles. Gulf Power Co. has furnished all the electric power requirements of this base since its inception prior to World War II and has several millions of dollars invested in lines, substations, and other facilities.

In October 1962 the Air Force invited Gulf Power Co. and Choctawhatchee Electric Cooperative to submit proposals to furnish the electric power requirements (4,000 kilowatts) of a radar tracking research installation to be installed by the Bendix Corp. and designated as a SPADAT "A" system.

The specifications required a 115,000-volt line to the site with a capacity of 15,000 kilovolt-ampere. Substation capacity 7,500 kilovolt-ampere initially. The Air Force advised that service requirements were very critical as to variations of voltage and frequency and interruptions could not be tolerated.

The cooperative has no 115,000-volt lines and has never operated such a high voltage system. Gulf Power Co. has approximately 900 miles of such lines. Three separate 115,000-volt lines now serve the Air Force Base loads. We have such lines along the north, east, and west boundaries of the reservation as shown by the sketch attached.

Bids were submitted by both the company and the REA cooperative. Company representatives met with the Air Force answering technical questions relative to its proposal and pointing out that it could furnish one, two, or three lines as needed to the site, together with duplicate substation equipment thus assuring virtually uninterrupted service.

All facilities to be furnished by the company at no cost to the Government or the taxpayers. The company proposed service at its standard published rates for the class of service as approved by the State commission. The company suggested that the Air Force, in analyzing the bids, take into consideration the cost to the taxpayer of the difference between the 2-percent interest rate paid by the cooperative and the 4-percent cost to the Government and income tax payments foregone in the case of service from the cooperative.

It was pointed out to the Air Force that the only 115,000-volt lines available to the REA were those of the Alabama Electric Cooperative located over 50 miles distant in Alabama. That the most conservative minimum cost of this line and substation, using the cooperative's own cost figures as revealed in testimony before the finance director of the State of Alabama, making no allowance for the cost of generating capacity devoted to this service, would be $1,150,000.

Mr. Chairman, I might inject here that since I have been in Washington I have seen in the Baltimore Sun of April 2 a statement that the REA proposes to borrow $2 million to supply this service.

So, our estimate of $1,150,000 is conservative. A conservative estimate of the direct interest cost to the taxpayer during the initial 5 years of operation would be approximately $23,000 per year and would total $478,000 over the 35-year period of the loan.

RATES PROPOSED BY COMPANY

It was also pointed out that at the rates proposed by the company the cost of service to the Air Force was estimated to be $275,700 and of this amount a minimum of $43,500 would be returned annually

to the U.S. Government in the form of income taxes paid by the company.

The company has not had access to the cooperative's bid but has been told that the cooperative's proposed rate was 7.55 mills. If this information is correct and consideration given to interest cost and taxes foregone to the Government, the company's rate would be 6.72 mills and the lowest cost to the taxpayer.

The company has been informed that since there is no statute requiring the Air Force to give consideration to the interest cost and the taxes foregone that the cooperative had the lowest bid and was being awarded the contract.

PROTEST OF AWARD

The company has entered a protest of this award with the Comptroller General as not being in the best interest of the taxpayer and has also appealed to the courts for injunctive relief.

In the municipality of DeFuniak Springs, Fla., the company operates under a franchise. In an area annexed a few years ago, the cooperative and the company have lines serving customers.

We have been told by customers who have constructed new homes in this area and to whom service was available from the company, that they were allowing the cooperatives to serve them because the cooperative would sell them all their appliances under a 10-year contract at 4 percent interest rate.

I do not believe nor can I find any evidence that it was the intent of Congress in making funds available to cooperatives that they be used to compete in a municipality with an investor-owned company who had service available at no expense to the taxpayer.

ADVANTAGES PROVIDED COOPERATIVES

These instances I have described to you clearly demonstrate that advantages provided the cooperatives for the purpose of making electric service available to persons in rural areas are being used to compete with investor-owned business and such competition, if allowed to continue, can only result in the destruction of private industry.

Funds are also being used to build wholly unnecessary generating plants and lines that do not supply service to a single customer not now receiving service.

In view of the facts which I have presented today, I urge you to withhold any appropriation of funds for generating and transmission projects until REA has justified to the Congress their request for funds for each generating plant and each transmission line project.

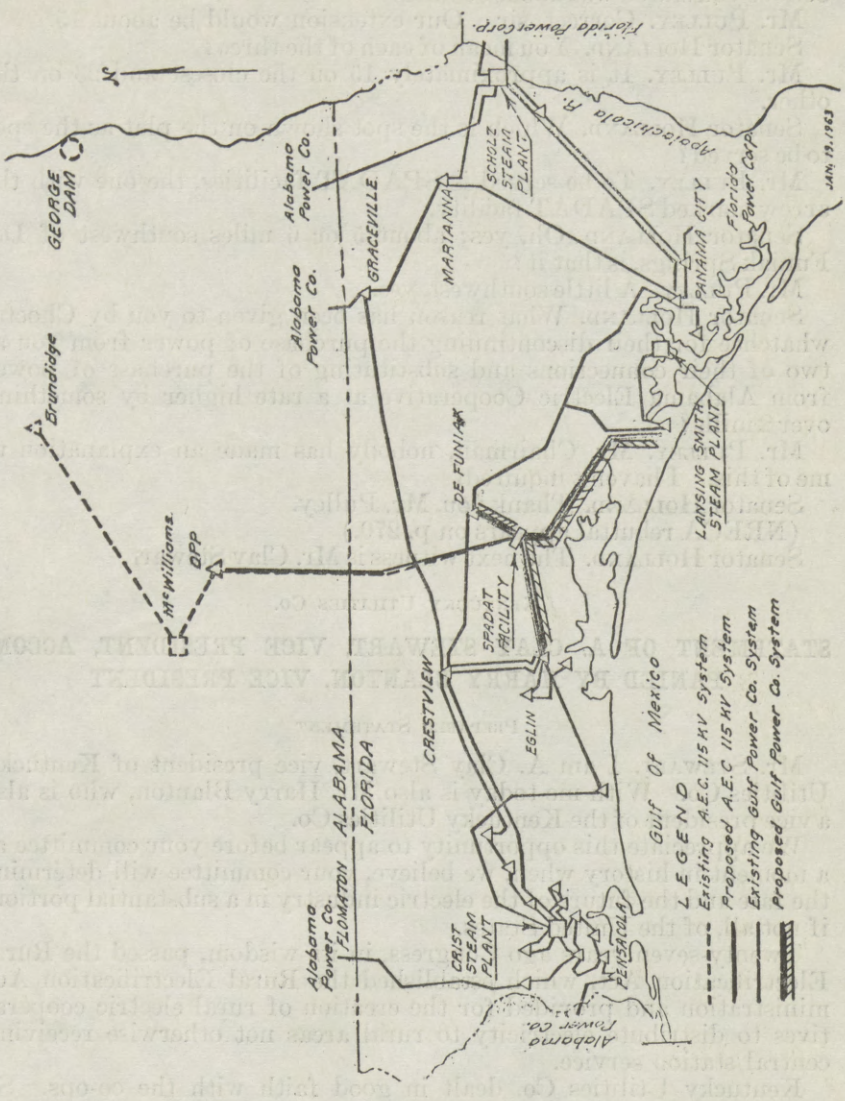
Thank you very much.

Senator HOLLAND. I note you have attached a plat to the statement. Do you wish that to be shown in the record, also?

Mr. PULLEY. If it can be, yes.

Senator HOLLAND. We will place that in the record.

(The document referred to follows:)


Florida Power Corp.
Apalachicola R.
GEORGE DAM
Alabama Power Co.
GRACEVILLE
MARIANNA
SCHOLZ STEAM PLANT
PANAMA CITY
Florida Power Corp.
JAN. 13, 1963
Brundidge
McWilliams
APP
DE FUNIAK
LANSING SMITH STEAM PLANT
SPRODAT FACILITY
CRESTVIEW
EGLIN
ALABAMA
FLORIDA
Gulf Of Mexico
FLOMATON
CRIST STEAM PLANT
PENSACOLA
Alabama Power Co.
LEGEND
Existing A.E.C. 115 KV System
Proposed A.E.C 115 KV System
Existing Gulf Power Co. System
Proposed Gulf Power Co. System

MILEAGE REQUIRED FOR TRANSMISSION LINES

Senator HOLLAND. How does the mileage required to be built for the transmission lines from each of your three lines shown on the plat compare with the mileage of the Alabama Electric Co. which I believe you stated was about 50 miles?

Mr. PULLEY. Correct, sir. Our extension would be about 15.

Senator HOLLAND. You mean of each of the three?

Mr. PULLEY. It is approximately 15 on the closest and 23 on the other.

Senator HOLLAND. Which is the spot shown on the plat as the spot to be served?

Mr. PULLEY. To be served is SPADAT facilities, the one with the arrow marked SPADAT facility.

Senator HOLLAND. Oh, yes; about 5 or 6 miles southwest of De-Funiak Springs, is that it?

Mr. PULLEY. A little southwest, yes.

Senator HOLLAND. What reason has been given to you by Choctawhatchee for their discontinuing the purchase of power from you at two of their connections and substituting of the purchase of power from Alabama Electric Cooperative at a rate higher by something over 2 mills?

Mr. PULLEY. Mr. Chairman, nobody has made an explanation to me of this. I haven't inquired.

Senator HOLLAND. Thank you, Mr. Pulley.

(NRECA rebuttal appears on p. 270.)

Senator HOLLAND. The next witness is Mr. Clay Stewart.

KENTUCKY UTILITIES CO.

STATEMENT OF A. CLAY STEWART, VICE PRESIDENT, ACCOMPANIED BY HARRY BLANTON, VICE PRESIDENT

PREPARED STATEMENT

Mr. STEWART. I am A. Clay Stewart, vice president of Kentucky Utilities Co. With me today is also Mr. Harry Blanton, who is also a vice president of the Kentucky Utilities Co.

We appreciate this opportunity to appear before your committee at a moment in history when, we believe, your committee will determine the fate and the future of the electric industry in a substantial portion, if not all, of the United States.

Twenty-seven years ago Congress, in its wisdom, passed the Rural Electrification Act, which established the Rural Electrification Administration and provided for the creation of rural electric cooperatives to distribute electricity to rural areas not otherwise receiving central station service.

Kentucky Utilities Co. dealt in good faith with the co-ops. So much so that a Rural Electric Administrator in the latter 1940's praised the low, no-profit, rate at which Kentucky co-ops were purchasing wholesale from us, a rate lower than most being offered to co-ops in various other States.

As a result of this, the Kentucky co-ops, we believe, were able to be listed as fourth in the United States in customers per mile of line—then, and still, a significant yardstick of co-op performance.

BENEFITS OF CO-OPS

But today the situation is changing as co-ops, aided by various and significant subsidies, plus operating profits even though they are classed as nonprofit organizations, are waging an open war to move into markets which have heretofore been considered outside their spheres of operations.

And it is our understanding of congressional intent that co-ops were to be kept out of certain markets because of the very fact that they did enjoy, by law, certain economic advantages.

Prior to 1954 our company supplied at wholesale, among other cooperatives, 16 rural distribution cooperatives in central and eastern Kentucky.

It has lost all of those customers to a super generation and transmission cooperative, East Kentucky RECC. This cooperative has an existing generating station of 172,000 kilowatts near Ford, Ky., and is building a new 100,000-kilowatt generating station near Burnside, Ky., on Lake Cumberland.

BIG RIVERS RECC APPLICATION FOR LOAN

In April 1962 a new generation and transmission cooperative, Big Rivers RECC, applied to REA for a loan of about $18 million for the construction of a new steam generating plant and transmission system.

Big Rivers RECC has absolutely no properties of any kind. It was formed by three rural distribution cooperatives in Kentucky all of which distribution co-ops had—since their inceptions a quarter of a century ago—bought all of their power requirements from existing utilities in the area.

At the present time two of the distribution co-ops buy all of their power requirements from Kentucky Utilities Co. and the third buys its entire requirements from another investment-owned company, Louisville Gas & Electric Co. In the case of our company, we know that our rates to these co-ops are more advantageous than what their power costs would be from their own plant.

REQUESTED MEETING WITH REA OFFICIALS

When we learned of the loan application of Big Rivers we requested a meeting with REA officials in Washington at which we stated our firm belief that the loan could not possibly be justified, whether under the original statutory requirements and criteria, or even under the new third criteria adopted by REA.

We earnestly sought information concerning the loan so that we could submit economic and engineering data to the Administrator of REA for consideration by him in comparing the cost of our power with the cost of power from the proposed plant and in evaluating the need for the application.

Administrator Clapp declined to make available to us any of the data of Big Rivers RECC which would have made it possible for us to submit our own views as to the accuracy of such claims and data.

We advised Administrator Clapp that, even without the data in his possession which we considered should be public data, we still

would prepare for his consideration information which we felt would demonstrate that the Big Rivers application was not necessary and need not be granted.

APPROVAL OF LOAN

Within eight days of our meeting with the Administrator, and before we could submit any data for his consideration, he approved the Big Rivers loan. The data upon which he approved this loan was never available to the public.

He reached a decision which in theory is supposed to weigh all alternatives, without these alternatives being presented to him and behind the same veil of secrecy which continues to hide the operations of the REA in its handling of public funds.

It seems to us that the major reason for this veil of secrecy behind which the REA operates today is to hide the fact that cooperatives are swinging away from serving primarily farm and rural needs—the justification for their existence and their subsidies—and increasingly seeking industrial, urban, and nonrural business, even to the extent of taking away the customers from companies such as ours.

For instance, industrial and commercial customers now provide 34 percent of the annual revenues of one cooperative we serve, but still it is actively soliciting more nonfarm loads among many of our present and potential customers.

The co-op drive to take on industrial loads is matched by their drive to get into and serve cities. An illustration of this is the controversy and litigation involving the city plant board in Bowling Green (population 28,500) with a cooperative in that area. The case had to be taken all the way to the State's highest appellate court to establish the city's right to serve one of its new subdivisions.

Bowling Green's conflict with the neighboring cooperative is typical of many. Owensboro (population 43,000), another city with its own electric system, has been in a controversy of long standing with the nearby cooperative on the matter of service to areas within the city limits.

Owensboro, along with Kentucky Utilities Co. and Louisville Gas & Electric Co., is opposing the construction of the Big Rivers Cooperative generation and transmission plant in a case now before the Kentucky Public Service Commission.

RESOLUTION ADOPTED

Because of the many controversies which have arisen between the cities and the cooperatives, especially in this matter of service to urban customers, the Kentucky Municipal League, at its annual meeting last October, unanimously passed a resolution directed—

to the attention of the Congress requesting that the activities of the cooperatives be thoroughly investigated and municipal governments and the urban citizen be given due consideration and protection in this matter.

The aspect of REA operation which really disturbs me and other officials of this company, and which should be of great interest and concern to the Congress, is the extent to which the Administrator of REA is colluding with other agencies of the executive branch of the Federal Government to effect drastic changes in the electric utility industry in this country—all without the approval of Congress and, in fact, beyond the scope of the laws enacted by Congress.

AGENCIES INVOLVED

The agencies involved are the Department of Agriculture, acting through the Administrator of REA; the Department of the Interior, acting through the Administrator of Southeastern Power Administration (SEPA), and Tennessee Valley Authority.

Let me begin by citing the testimony given to Congress this year by a cooperative official.

TESTIMONY BEFORE HOUSE COMMITTEE

Testifying before the House Committee on Public Works on February 27, H. L. Spurlock, manager of the East Kentucky G. & T., discussed the distribution of power from projects for which SEPA is the marketing agency, and stated categorically that the transmission system of East Kentucky RECC, augmented by a minimum of interconnection facilities, could serve as the carrier to realize the "dream" of moving SEPA power into Kentucky, Ohio, Indiana, and Illinois.

But if this is done it can only mean further encroachment by co-ops, with the aid of the Southeastern Power Administration which would be charged with marketing this power into areas served by investor-owned companies.

At another point in his testimony Mr. Spurlock said:

> We in East Kentucky RECC have been accused * * * of being interested in working with the Southeastern Power Administration to make such power [from Federal dams] available to several hundred thousand ratepayers in several States * * *. If this endeavor is wrong—if assisting those geographically and topographically restricted from enjoying the benefits afforded by this low-cost power is wrong—if wanting residents of Ohio and Indiana and Illinois and Kentucky and other States * * * [to] enjoy the power benefits of our lakes is wrong—we are accurately accused and are ready to pay the consequences.

TVA

There is a third Federal agency participating in the collusion we refer to, and that is TVA. The proposed Big Rivers system is an integral and essential part of this REA–TVA–SEPA combine.

TVA cannot operate in its own name outside its established service area. SEPA can operate outside the TVA service area, but it has no facilities—either transmission or generation—with which to serve customers. Therefore, SEPA has to utilize some other agencies' facilities to be an effective element in this combine. In other words, SEPA and TVA cannot do the job alone.

MAJOR DEFICIENCY

In addition to lack of transmission, SEPA has another major deficiency. SEPA has available for marketing only hydropower from the Army Corps of Engineers projects. It has no steam generated power. The hydropower is not generally considered a firm and constant source of power.

Thus, before this hydropower can be effectively marketed by SEPA, it has to be augmented by steam capacity. This is where REA fits into the picture. In the two steam generating plants of East Kentucky RECC, and in the proposed new steamplant of Big Rivers RECC, there would be provided steam capacity to supplement the hydrocapacity which SEPA would market.

At this point, however, these three Federal agencies faced the problem that SEPA did not have available sufficient hydrocapacity to act, even in conjunction with the G. & T. co-ops, to effectively raid the Kentucky facilities system. This was because all of the output of existing dams belonged to TVA under long-term contracts.

On March 1, 1963, TVA and SEPA took the necessary steps to resolve this deficiency. In a contract dated March 1, 1963, TVA agreed to relinquish and make available to SEPA a part of the power from the existing dams which heretofore had been considered by everyone as a part of the TVA system.

Why would TVA voluntarily relinquish a substantial block of this power from dams which are among its more economical sources of supply?

This power from the dams which TVA now seeks to make available outside its service area, through SEPA, would only be useful for standby and peaking purposes. Some other provision must be made to carry the baseload of any customer taking power from these dams. The steam generating plants financed by REA are the intended source of such base load power.

Thus, every one of the three agencies is necessary to the operation of the plan, and the role of each of the three agencies is clearly apparent. TVA "releases"—or "sells"—power to SEPA.

Although SEPA acts as the nominal marketer or seller of this TVA power, it still needs the systems of the co-ops and it teams up with them.

Even before the power reaches the transmission system of a G. & T. co-op, TVA performs other most essential functions.

It takes the power into its own system, commingles it with firm energy from its huge steamplants, and transmits and delivers power at a desired point on the periphery of the TVA system at which the transmission facilities of the G. & T. co-op will be interconnected with the TVA facilities.

The REA-financed transmission system of the co-op then takes this TVA power to the immediate customer previously served by our company and, at the same time, is provided with whatever baseload power it might require.

Furthermore, because this hydropower has gone through the TVA system, it has changed in character and is no longer strictly hydropower.

TVA-SEPA CONTRACT

The TVA–SEPA contract of March 1, 1963, was made public in the public service commission hearing involving Big Rivers.

Still another contract has been entered into between SEPA and Big Rivers RECC pursuant to which SEPA would sell to Big Rivers standby capacity and peaking energy from the TVA system. The whole plan is thus now for the first time set forth in written contracts involving all three of these named agencies.

Charles W. Leavy, the Administrator of SEPA, openly solicited the business of the city of Middleboro, Ky., which our company has served at retail since 1914.

In a letter dated October 22, 1962, to the mayor of Middlesboro, Mr. Leavy stated, "a source of firming energy must be found." That firming energy can only come from a steamplant of TVA or a steamplant

financed by REA. Either alternative would involve, we believe, a definite violation of congressional intent.

In April 1962, Administrator Leavy also openly solicited the business of the capital city of Frankfort, Ky., which our company has supplied at wholesale since the 1920's. In a newspaper account of this offer, Frankfort Electric Plant Board manager, H. K. Hines, explained that electricity to this area [Frankfort] could be transported through REA lines.

OPEN SOLICITATION OF CUSTOMERS

There are many other instances in which representatives of these three Federal power agencies have either openly solicited customers of our company or have urged those customers or their officials to seek service from the Federal agencies.

The unleashing of subsidized Federal power on the scale described above in an area presently served by investor-financed utilities is a serious one.

In our judgment, if the private enterprise system is to be replaced by a federalized system, then this policy decision should be made by the Congress and not by bureaucratic agencies.

In earlier appearances before committees of the Congress, we and others have predicted this plan of these three Federal agencies, which now has become a reality and constitutes a conspiracy aimed at the complete destruction of the private utility industry in Kentucky.

We have been accused of seeing ghosts but if that is true, all we can say is these are the most alive and active ghosts we have ever seen.

Mr. Chairman, members of the committee, we have described a most real and a most serious situation and we are convinced our only protection lies with the Congress.

REQUEST FOR RESTRICTION ON USE OF FUNDS

We ask you to put some kind of restriction on the use of funds made available to REA so that these funds can be used more in keeping with the original intent of the REA Act and not to finance co-ops working in conjunction with other Federal agencies in an all-out drive to displace investor-owned utilities.

Senator HOLLAND. Does not the present TVA Act prevent the extension of operations outside of a stated line?

Mr. STEWART. Yes, it does.

Senator HOLLAND. Which surrounds their area of operation at the time that final act was passed?

Mr. STEWART. Yes, sir.

PROPOSED EXTENSION OF TVA POWER

Senator HOLLAND. In other words, is this proposed extension of the TVA power without or inside that line?

Mr. STEWART. This power I am speaking of comes from the Cumberland Basin project, Wolfe Creek, Center Hill, Dale Hollow and Cheatham. TVA now has a long-term contract to take the output of these projects.

Senator HOLLAND. Are these projects within the TVA line?

Mr. STEWART. Yes, sir.

Senator HOLLAND. Is it possible—is this proposed use of that power within their lines?

Mr. STEWART. No. The proposed use of the power will be taken outside this limitation line. Let me correct that and say one of the dams is outside their service area.

Senator HOLLAND. The fact is that if they were permitted to do this it would nullify the provision of the act under which they are operating requiring them to stay within the lines, would it not?

Mr. STEWART. That is my belief, sir, definitely.

REQUEST FOR COST AND CONDITIONS OF ENERGY

Senator HOLLAND. Did the Big Rivers RECC come to you or your organization prior to making their application, or at any time, suggesting that you submit a proposal to the co-op, to RECC, as to the terms and conditions under which you would furnish the energy which will be generated if the steamplant is built?

Mr. STEWART. There were a number of conferences and a number of exchanges of letters but there was never a satisfactory arrangement worked out.

It was just broken off.

Senator HOLLAND. Was Big Rivers RECC actually organized and in existence at the time they were approaching you?

Mr. STEWART. No. It wasn't only to the extent that the manager of the distribution co-op who was acting as the spokesman for the proposed Big Rivers.

AMOUNT OF POWER JEOPARDIZED

Senator HOLLAND. Have you any way of stating for the record, the amount of your production, which is jeopardized by these public power programs that you have put into the record?

Mr. STEWART. I can put into the record what the city of Frankfort, the total kilowatt capacity we used there. We have already lost, as you know, to TVA, $4½ million of our gross revenue, approximately 55,000 kilowatts of load, that, by the TVA revenue bond bill and that limitation, would allow them to extend service to seven of our towns.

Now on the Big Rivers six, I can state what the amount of energy that Big Rivers has been taking from us and what revenues we get from them, about $1,600,000 from the two cooperatives we serve, Henderson Union and Green Rivers.

TOTAL GROSS REVENUE GAIN

Senator HOLLAND. What is your total gross revenue?

Mr. STEWART. Our total company?

Senator HOLLAND. Yes.

Mr. STEWART. We just recently passed $50 million. We have been in business for 50 years.

Senator HOLLAND. These two customers constitute between 3 and 4 percent of your total volume of business?

Mr. STEWART. Yes.

Senator HOLLAND. What does Owensboro and Frankfort represent?

Mr. STEWART. Owensboro already has its own system. Owensboro is building a steam-generating plant, 100,000 kilowatts.

Senator HOLLAND. You mean a municipal plant?

Mr. STEWART. Yes. They have always owned their own plant. Now the other town I mentioned was Middlesboro, where at retail, we have served since 1914.

Middlesboro's total load is 4,500 kilowatts. We won that election by 2½ to 1. They had an election last fall.

Senator HOLLAND. There you own the distribution system?

Mr. STEWART. We owned the distribution system and the city was asking the voters for the right to condemn our system and buy out our system and then get their power from SEPA.

Senator HOLLAND. What about Frankfort? Do you own the distribution system there, or sell it wholesale?

Mr. STEWART. Sell it wholesale.

Senator HOLLAND. The city handles the distribution?

Mr. STEWART. Yes, sir.

Senator HOLLAND. What is the revenue you get from the sale of power wholesale to the city of Frankfort?

Mr. STEWART. The city of Frankfort, the total revenue was $895,795 last year.

Senator HOLLAND. That is between 1½ and 2 percent of your total?

Mr. STEWART. That is right. They take approximately 19,000 kilowatts of capacity from us.

(NRECA rebuttal appears on p. 273, and by the Kentucky Utilities Co. on p. 339.)

Senator HOLLAND. Thank you, sir. I want to give notice that if all of you continue to expand your records as they have been expanded heretofore, we are going to have to terminate without getting all of you into the record, because we recess around 5:30.

Mr. George A. Schreiber, executive vice president of Public Service Co. of New Mexico. We will be glad to hear you.

PUBLIC SERVICE CO. OF NEW MEXICO

STATEMENT OF GEORGE A. SCHREIBER, EXECUTIVE VICE PRESIDENT

PREPARED STATEMENT

Mr. SCHREIBER. Thank you.

My name is George A. Schreiber. I am executive vice president of the Public Service Co. of New Mexico.

The general offices of our company are located in Albuquerque, and we provide electric service to approximately 108,000 electric customers in many of the principal communities of New Mexico, including Albuquerque, Santa Fe, Las Vegas, Belen, Deming, and the rural areas adjacent to these communities.

We also provide water service to approximately 12,000 customers in Santa Fe and Las Vegas. Our company is an investor-owned utility, composed of over 630 employees and over 9,000 individual stockholders. We are proud of the fact that the largest number of our stockholders reside in New Mexico and many are our customers and

employees. We also have stockholders in every State of the Union and a few foreign countries.

We appreciate the opportunity and privilege of appearing before this committee to present testimony regarding a matter which we consider to be of vital interest to our company, our customers, our employees, and our stockholders, and even more important, a matter involving the public interest.

This committee is now considering an appropriation request for the Rural Electrification Administration of $425 million to finance further expansions of the rural electric cooperative program in the United States.

REQUEST OF COMMITTEE

In considering the funds for the Rural Electrification Administration program we urge this committee to weigh fully and carefully the course of action which it desires the Rural Electrification Administration to take in the future, and we urge that the committee consider the advantages and disadvantages of the proposed program to the electric industry as a whole, including consumers, employees, stockholders, the Nation's taxpayers, and to the public at large.

The problems which confront our company in New Mexico go far beyond the service area of any one company, and in fact are almost nationwide in scope. In many cases these same problems also apply to municipally owned systems as well as stockholder-owned companies.

Generally speaking, the problems related to REA activities arise from the fact that the present REA program has, in our opinion, gone far beyond the original purpose for which this agency was established. The REA was created to provide central station electric service to rural areas where power could not be provided from other sources.

REA PROGRAM

The REA program was established during a period of economic depression and was used in many instances to stimulate the rural economy with the primary purpose of improving living standards in rural areas. As a result the Administrator of the program was given rather broad discretionary powers without normal controls which the Congress maintains on similar agencies. As a result, administrative interpretations over the years have greatly changed the intent and purpose of the Rural Electrification Administration Act without the expressed consent of Congress, so that its operations today go far beyond the authority of an administrative agency.

PROMOTION OF NEW CONCEPT

The REA freely admits that 98 percent of the farms in the United States are now electrified, and that five out of six new customers being connected to REA systems are nonrural in character, yet the amount of funds requested increases each year. The reason for the increase in funds is that the REA is now promoting a new concept of operations wherein these electric systems, constructed with subsidized Federal funds, wish to assume responsibility regardless of whether or not the service area involves large cities, commercial, and industrial establishments, which can and should be served by taxpaying commercial suppliers.

To establish this new concept, REA is openly promoting and encouraging the cooperatives to whom they have lent funds to promote legislation at the State level of a so-called territorial integrity bill, which would establish definite and exact service areas for rural electric cooperatives to the exclusion of municipal or investor-owned electric systems.

PROGRAM BEING PROMOTED BY AGENCY OF GOVERNMENT

This program is being promoted by an administrative agency of the Federal Government notwithstanding the fact that the present Rural Electrification Administration Act limits areas of service to communities having a population of no more than 1,500 persons.

We do not believe that when this program was initiated, Congress envisioned Federal financing and control of all utility service within specified service areas without regard to the character of service required, and without regard to the density of population within the service area.

We do not believe that when this program was initiated, the Congress of the United States envisioned that the program would grow to require an annual appropriation from the Federal Government of $345 million in 1963 and $425 million in 1964.

We do not believe that Congress envisioned a time when five out of six new customers connected to REA systems would be urban or industrial and perfectly able to obtain power from commercial and nonsubsidized operating electric utilities, or that requests for appropriations would continue after 98 percent of the farms were electrified.

Senator HOLLAND. Where did you get the figure that four out of five customers connected to the REA systems are urban or industrial?

Mr. SCHREIBER. That is generally stated. I can furnish proof of that for the record, if you would like, sir.

Senator HOLLAND. I wish you would.

(The information referred to follows:)

PUBLIC SERVICE COMPANY OF NEW MEXICO,
Albuquerque, N. Mex., April 5, 1963.

HON. SPESSARD L. HOLLAND,
Chairman of the Agriculture Subcommittee, Appropriations Committee, U.S. Senate, Washington, D.C.

DEAR SENATOR HOLLAND: In the course of our testimony before your subcommittee on April 4, 1963, concerning appropriations for the Rural Electrification Administration, you requested the source of our information regarding the number of nonrural consumers presently being connected to the systems of the rural electric cooperatives. Accordingly, we wish to advise that Mr. David A. Hamil, former Administrator of the REA in testimony before the Agricultural Subcommittee of the Committee on Appropriations of the U.S. Senate, 86th Congress, 2d session, advised that in 1959, five out of six of the new consumers being connected to REA systems were nonfarm consumers. The following statement by Mr. Hamil appears on page 484 of the hearings on Agriculture appropriation for the fiscal year 1961.

"The extent of these changes is reflected in the categories of new consumers going on the lines. In 1959, five out of six of the new consumers added in the continental United States were nonfarm consumers. We anticipate that by 1965 this development will result in more nonfarm consumers on borrower lines than farm consumers."

If you or the committee desires further information, please advise.

Very truly yours,

G. A. SCHREIBER,
Executive Vice President.

INTENT OF CONGRESS

Mr. SCHREIBER. We do not believe that Congress envisioned giant cooperative generating stations when central station power was available from alternative commercial sources but rejected by the REA borrower and the Administrator of the program because the cost of power from these sources contained elements of cost for the payment of Federal, State, and local taxes which the giant generation and transmission plants are able to avoid.

We do not believe that Congress envisioned situations where an REA would loan funds to an industry as an inducement to have that industry located on the REA's system rather than a system of the commercial power company; or that REA would embark upon a principle of area coverage without regard to economics, which in many cases has built a wall around existing facilities of investor-owned companies which, for reasons of regulation, taxes, and sound economics, cannot extend immediately into the more sparsely settled areas and at the same time pay fixed charges approximately twice the amount now being paid by REA. Yet all of these abuses and many more have come to pass in the days since the original program was established some 28 years ago.

NEED FOR CONTROLS

In our opinion many of these abuses have come about because Congress has not specified the necessary controls for the activities of the REA program, but rather Congress leaves the direction of the program to massive bureaucracy, intent upon self-perpetuation and a desire to become an active competitor with all other segments of the electric industry.

We realize that our criticism of some of the practices of the REA program has been severe. Therefore, we wish to emphasize that we are not taking exception to the original REA program and the many organizations who still operate within the original purpose of the act. We have in the past, and will continue in the future to support REA electrification in its original purpose of bringing central station electric service to the rural or ranch customers in the sparsely populated area of New Mexico or in any other part of our country. However, present abuses are very real and not in keeping with the best interest of our Nation. Therefore, we believe that the Congress, at this time, should take a constructive course of action which we believe should be in the best interests of the public and the Nation's taxpayers.

INVESTIGATION AND RESTATEMENT OF POLICIES

We believe that the Congress of the United States should fully investigate and restate the policies that it wishes REA to pursue. It should direct that REA assistance can only be made to those projects which comply with congressional objectives. In cases of dispute as to the need for an REA loan, or as to its compliance with congressional objectives, an impartial regulatory agency should be empowered to decide the issue rather than the Administrator of the REA program, who must take the postion of its REA borrower, and is in fact a competitor with the other segment of the electric industry. Such objectives should, in our opinion, eliminate the controversial "third criterion."

G. & T. LOANS

We believe that generation and transmission loans should be made only where an adequate source of power cannot be obtained at fair and reasonable rates from other sources, at costs consistent with going rates in the area and normally approved by the appropriate regulatory authority. The payment by commercial companies of Federal, State, and local taxes should be recognized by REA as a legitimate cost of doing business and should not be used to price commercial power sources out of the market. To correct this situation, feasibility studies of generation and transmission loans should be made public, and REA should be required to prove to the proper regulatory authority that power is not available from other sources at fair and reasonable rates. Further, the feasibility studies of REA-financed plants should include a value to represent taxes foregone from commercial sources. Certainly, an investor-owned utility, with almost twice the fixed charges, cannot be expected to compete indefinitely in providing electric service.

COMPARISON OF COSTS

Unless the present practices of comparing REA costs without taxes, to the costs of investor-owned utilities, which must include taxes, are abolished, the day must eventually come when all power will be provided by federally financed electric systems.

LINE ITEM JUSTIFICATIONS

REA should be required to submit line item justifications for all loans over a reasonable amount and for all generation and transmission loans. At the present time REA spends more money each year for its electric power program than either the Bureau of Reclamation or the Corps of Engineers. Yet, the latter agencies justify before Congress their entire requests for funds including both new construction items and routine operating expenses. In this manner any party who may oppose a given expenditure by these agencies has the opportunity to appear before the appropriate committee of the Congress and present his views. If such procedures can work for other agencies, they can work equally well for the REA. Today, however, there is absolutely no congressional control over REA expenditures, and the lending authority is vested entirely in the REA administrator.

INTEREST RATE

We believe that the present interest rate for REA loans should be increased from the present level of 2 percent to a more realistic value, at least reflecting the cost of money to the Federal Government. We also believe that the many REA systems have grown beyond the original REA concept and are now financially able to obtain the necessary funds from outside or private sources.

This view is also held by the President's Committee on Federal Credit Programs, under the chairmanship of Secretary of the Treasury Douglas Dillon. In these instances, the REA cooperatives should be required to obtain financing from commercial leading agencies or other outside sources and not from the Federal Government. Vital governmental functions should have first call on Federal funds.

We believe that the Congress of the United States should take an affirmative action to prevent examples of back-door spending such as those presently being conducted by the REA in collaboration with the Bureau of Reclamation.

COLORADO-UTE ELECTRIC ASSOCIATION LOAN

Last year the REA granted the loan requests of the Colorado-Ute Electric Association totaling $31,000,000 to install a 150,000 kilowatt generating station near Hayden, Colo., on the transmission system of the Bureau of Reclamation's Colorado River storage project. This plant will be constructed to firm the Bureau of Reclamation's hydroelectric generating system, and the major portion of the plant's output will, in fact, go to the Salt River Power District operating in Arizona, including parts of metropolitan Phoenix, to supply wholesale electric service to a non-REA borrower. The proposed Colorado-Ute plant will delay irrigation assistance and repayment requirements of the Colorado River storage project and is therefore in competition with the project.

In the past, Congress has consistently refused to appropriate funds to an agency of the Federal Government under its direct supervision, to construct steamplants outside the Tennessee Valley Authority area. We believe that the proposed plan of development between REA and the Bureau of Reclamation is a direct effort to circumvent the will of Congress through the use of two Federal agencies, one of which is not closely supervised, to construct facilities which in the past has been denied by the Congress. The REA has made many statements to the effect that the proposed Colorado generating station will ultimately have a generating capacity of some 600,000 kilowatts, although the present load of the cooperative is, at this time, under 50,000 kilowatts.

PLANS FOR SECOND THERMAL GENERATING STATION

In addition to the Colorado-Ute generation and transmission loan which has been authorized, the Plains Electric Generation and Transmission Cooperative, Inc. (New Mexico 18) and the Bureau of Reclamation have, from time to time, announced plans for a second thermal generating station to be constructed with REA funds in the Four Corners area of New Mexico. This plant also would be used to firm the Bureau of Reclamation's hydroelectric system and to furnish power to a non-REA borrower. The need for a new generating station by Plains Electric Generation and Transmission Cooperative does not exist, nor will it exist for many years in the future. The cooperative has installed capacity of 49,500 kilowatts. Plains has a contract with Public Service Co. of New Mexico to purchase power in amounts up to 33,000 kilowatts, and a contract with the Rio Grande project of the Bureau of Reclamation to purchase approximately 20,000 kilowatts, making a total capacity of 102,500 kilowatts and a net firm capacity of 75,000 kilowatts. The total peak load for the Plains Electric Generation & Transmission Cooperative, Inc., for 1963, was 48,000 kilowatts.

In addition, Plains has received an allocation from the Colorado River storage project of some 64,000 kilowatts for use in the year 1967, and this amount could, in all probability, be increased in later years if the need should develop.

NEW MEXICO POWER SUPPLY

There is an adequate supply of power at this time in New Mexico which would be available to the cooperatives at fair and reasonable rates, and under rates which would be subject to the jurisdiction of the New Mexico Public Service Commission. Accordingly, we believe that if the cooperative would be required to justify a loan request to this committee, no reasonable justification could be presented. Any request for new generating facilities by the Plains Electric Generation & Transmission Cooperative, Inc., at this time, could only be classified as a "back-door spending," whereby the cooperative is obtaining funds which would otherwise be denied to the Bureau of Reclamation.

Senator HOLLAND. Thank you, sir.

(NRECA rebuttal appears on pp. 295, 321.)

Senator HOLLAND. Mr. Wallace, C. M. Wallace, Jr., is the next witness.

GEORGIA POWER CO.

STATEMENT OF C. M. WALLACE, JR., VICE PRESIDENT

PREPARED STATEMENT

Mr. WALLACE. My name is C. M. Wallace, Jr., vice president of the Georgia Power Co., which generates, transmits, and distributes electrical energy throughout 97.7 percent of Georgia. We serve approximately 57,000 square miles of the State's 59,000 square miles, supplying electric power, at retail, in 636 towns and communities; and at wholesale to 50 municipalities and 39 REA electric cooperatives.

OPPOSITION TO CERTAIN FEATURES OF BUDGET FOR REA

I appreciate the opportunity to be heard here today. My appearance is in opposition to certain features of the requested budget for the Rural Electrification Administration, which has reached an all-time high of $425 million.

This huge sum is requested in the face of efforts, on the part of the Congress, to reduce expenditures in the budget for fiscal 1964. This $425 million is requested for new loans in spite of the fact that REA statistical reports indicate that 98 percent of the Nation's farms now have electric power.

Thus, the basic job of rural electrification is virtually complete, partly by REA, partly by investor-owned utilities, yet the REA administrator has asked that the huge sum of $425 million, $25 million more than 1963, be appropriated for fiscal 1964 for 2-percent rural electrification loans.

INCREASE IN UNNECESSARY GENERATION AND TRANSMISSION FACILITIES

What then is the purpose or need for this tremendous appropriation? There seems to be but one answer—an increase in unnecessary generation and transmission facilities. It is interesting to note that in the first 5 years of REA's life loans for generation and transmission, as against loans for distribution, constituted only about 3 percent of total REA loans.

Yet, of the loans approved in fiscal 1962, 59.4 percent, almost 60 percent, were for generation and transmission purposes. If this pattern is followed in this budget request, it can be assumed that approximately $255 million will be devoted to the development of generation and transmission facilities.

The construction of generating and transmission facilities by REA borrowers to furnish electric energy which investor-owned utilities are willing to supply at reasonable, regulated rates is something that was never intended by the framers of the rural electrification program.

In the words of Congressman John M. Slack, Jr., of West Virginia, "REA today, through a steady process of pyramiding one twisted interpretation of its basic statute upon another, is essentially a Federal power agency. It is ridiculous to use the terms 'rural' or 'farm' in connection with its program.

"It uses Federal funds—money belonging to taxpayers—to help Federal power agencies bypass Congress in efforts to build a nationwide public power system in competition with private power companies."

POINTS WORTHY OF SERIOUS CONSIDERATION

There are four important points in connection with the request for appropriations that in my estimation are worthy of serious consideration. They are:

1. The bulk of the requested appropriation would be used to finance unnecessary generation and transmission facilities that would be operated in competition with regulated, investor-owned public utilities.
2. A substantial portion of the appropriation will be used to finance heavy electrical machinery and equipment in competition with private lending institutions and for the purpose of obtaining customers that regulated investor-owned utilities might otherwise obtain.
3. Many REA borrowers have large reserves over and above necessary operating requirements that could and should be used for the construction of necessary electric facilities making it unnecessary to return year after year for increasing appropriations.
4. The REA loan program does not conform to the principles set forth in the recent report of the President's Advisory Committee on Federal Credit Programs.

GENERATION AND TRANSMISSION LOANS

With your permission I wish to discuss briefly these four points. First, the matter of generation and transmission. Until recently, generation and transmission loans were only made by the Administrator where the sources of power available to the borrower were either inadequate or the energy too costly.

Few generation and transmission loans were made because ample power was available from investor-owned electric utilities. According to REA statistical reports for 1960—the last year for which I have figures—electric energy purchased by cooperatives from co-operative generating stations or "power type borrowers" was more expensive than that obtained from investor-owned utilities, 10.1 mills per kilowatt-hour as compared with 7.8 mills per kilowatt-hour.

JUSTIFICATION ON A NEW GROUND

Since 1961, however, the Administrator has sought to justify generation and transmission loans on a new ground—the third criterion—"when necessary to protect the 'security and effectiveness' of REA-financed systems from 'hostile utilities'."

The co-operatives in our area are not threatened by a hostile utility. This third criterion is in reality no criterion at all, but merely an excuse to expend public funds to finance sources of power to compete with existing adequate sources of power operated by regulated public utilities.

May I pause at this point to comment on the fact that the Georgia Power Co.'s relationship with its REA cooperative customers down through the years has been, by and large, most cordial and one of cooperation. The record will bear out the fact that from the earliest days of the cooperatives in Georgia we helped organize, prepare legislation, stake lines, provide engineering assistance, and conducted load building programs for them and with them.

We do not, at the present time, know of any requests on the part of the Georgia cooperatives for loans for the purpose of constructing generation and transmission facilities. In the States around us, however, and in the service areas of our sister companies, generation and transmission loans have been granted, not on the basis of inadequate power supply, not on the basis of energy being too costly, not on the basis of economics, but rather on the nebulous philosophy of "protection of the security and effectiveness of REA-financed systems."

If this trend continues unchecked, we, and other utilities, may well be faced with the same situation and it is for this reason we oppose the granting of loans for unjustified generation and transmission facilities as an unnecessary expenditure of public funds.

I also wish to make this point clear: We do not object to, nor do we oppose an allocation of funds for the purpose of making loans to rural electric cooperatives for the strengthening of distribution lines, the updating of the systems to adequately supply the needs of increasing customer demands and normal load growth.

It is probable that the demands of the cooperative consumers for electric energy, like those of our customers, will continue to increase in the future at a rapid rate as they have in the past. Heavier demand will require increased generating capacity. Thus, a cooperative which gets a generating loan in 1963 will within a few years be back for another large loan.

COST TO TAXPAYERS

Therefore the cost to taxpayers of unnecessary subsidized generation facilities for REA cooperatives will mount at a rapid rate even though adequate energy at publicly regulated rates has always been available to the borrower since the inception of its generating program.

It seems obvious, therefore, that generation and transmission loans must be curtailed now in the interest of the American taxpayer of the future as well as the present.

97-162—63——12

FINANCING ELECTRICAL MACHINERY AND EQUIPMENT

Second, in this proposed budget there are certain moneys for relending to commercial and industrial enterprises for the purpose of financing electrical machinery and equipment.

Section 5 of the REA Act of 1936 authorizes the REA Administrator:

> * * * to make loans for the purpose of financing the wiring of the premises of persons in rural areas and the acquisition of and installation of electrical and plumbing appliances and equipment.

Until 1961, loans pursuant to this section of the act, which are known as section 5 loans, were made only for the purchase of home wiring and appliances and electrical farm equipment. We make no objection to such loans. But now section 5 money is being used to promote cooperatives' business with industrial and commercial consumers of electricity.

Such loans have recently been made to a gravel-crushing plant in North Dakota, a lumber mill in Minnesota, and a ski resort in Illinois for the purchase of snowmaking equipment and outdoor lights.

The REA Administrator provides funds at the usual 2-percent rate of interest which are reloaned by the cooperative at such rate of interest as it decides is most advantageous to it.

The REA Administrator has suggested in revised REA Bulletin 24–1, published July 11, 1961, that an interest rate of 4 percent be set by the cooperatives. This, of course, is lower than the current rate of interest available in the marketplace.

These loans are available only to consumers receiving or who have agreed to receive electric service from an REA borrower. Thus Federal funds are being employed by cooperatives in competition with private lending institutions and for the purpose of improving the cooperatives' competitive position as against investor-owned electric utilities.

We submit it was never intended by the framers and founders of the rural electrification program that the REA lend money through section 5 loans at low interest rates to large commercial and industrial ventures.

LARGE INVESTED RESERVES

Third, many rural electric cooperative borrowers have large invested reserves that could and should be used for the construction of electric facilities. Why should these REA borrowers be allowed to invest these huge funds in the marketplace or in U.S. Government securities at higher rates of interest while continuing to borrow from the REA at the subsidized rate of interest of 2 percent?

We submit that the existence of these tremendous reserves in the hands of REA borrowers should be considered in connection with current requests for appropriations.

REPORT OF PRESIDENT'S ADVISORY COMMITTEE

Fourth, an important additional factor for consideration in connection with this appropriation is the report of the President's Advisory Committee on Federal Credit Programs made public by the President on February 14, 1963. In so doing, he suggested that—

> all departments be guided by the principles outlined in the report in administering present programs and especially in proposing any new or expanded credit authority.

The REA appropriation for fiscal year 1964 and its expansion in recent years are not in line with such principles. For example, the report states in connection with subsidies:

The provision of credit under Federal programs, even when the interest rate and other charges fully cover Government costs, tends to reallocate national resources.

Indeed, such reallocation in socially desirable directions is the major purpose of these programs. Intelligent choice among alternatives requires that the effects of Federal credit on resource allocation be explicitly recognized and decisions be made in the light of this recognition.

REPORT RECOMMENDATION

The report recommends:

(*a*) All proposals to grant new credit programs or to broaden existing credit programs should be accompanied by an appraisal of the relationship between the interest rate charged in the program, the rate which would be charged by competitive and efficient private lenders, and the rate necessary to cover Government costs. (*b*) The normal reviews of all existing Federal credit programs should include discussion of these relationships.

It is our belief that such relationships should be given full consideration in connection with the REA request for appropriations. The REA credit subsidy, consisting of the provision of unduly low interest rates and payment by the Government of administrative costs, is a large one.

CREDIT SUBSIDY

Furthermore, the credit subsidy, to the extent that it leads to the construction of REA generation and transmission facilities in competition with those operated by taxpaying utilities results in loss of business to those utilities and therefore to a loss of tax revenues to the Government.

Significantly, the report states that—

* * * the ultimate objective should be to reduce or eliminate the Government involvement if and as private market imperfections disappear.

It is our belief that rather than reducing Government involvement the REA is striving to increase Government involvement through loans to finance facilities which private capital is ready, willing, and able to finance. This is particularly true in respect of loans for generation and transmission facilities.

Whether the recommendations of the President's Committee are being considered by the REA is extremely difficult to determine because of the lack of information furnished by the REA in support and justification of the requested funds.

The President's Committee recommendations indicate the desirability of obtaining detailed information in respect of the individual large loans that would be made by REA from the funds appropriated. We submit that the REA should be required to prove, if it can, that the proposed loans are consistent with the recommendations of the President's Committee.

I suggest that the allocation of any funds for a generation and transmission type loan be withheld until the necessity for such a loan has been firmly established; that the Rural Electrification Administration be required to justify to the Congress the need for an allocation of funds or an appropriation for this purpose.

RECOMMENDED DECREASE—FUNDS

In conclusion, may I point out that again the REA seeks an increased appropriation. We submit that an examination of the status of rural electrification in the United States and of the financial condition of the vast majority of REA borrowers indicates that appropriations for the operation of REA should be diminished rather than increased.

Senator HOLLAND. How many REA's do you supply with power?

Mr. WALLACE. Thirty-nine through 234 delivery points.

Senator HOLLAND. What is the average cost per kilowatt?

Mr. WALLACE. 6.35 mills.

Senator HOLLAND. Do you have any figures on the average cost of their own power that they use at their own generating plant?

Mr. WALLACE. They have none.

Senator HOLLAND. None in Georgia?

Mr. WALLACE. No, sir.

Senator HOLLAND. Do you have any formula by which you could pass on that experience to some of these other gentlemen?

Mr. WALLACE. No, sir.

(NRECA rebuttal appears on p. 327.)

Senator HOLLAND. Mr. H. F. Minnis, of the Arkansas Power & Light Co., you may proceed.

ARKANSAS POWER & LIGHT CO.

STATEMENT OF H. F. MINNIS, VICE PRESIDENT

PREPARED STATEMENT

Mr. MINNIS. I am H. F. Minnis, vice president of Arkansas Power & Light Co., for which company I am appearing. In the interest of the committee's time, I will make my oral comments very brief, but would like to submit for the record a nine-page written statement.

Senator HOLLAND. Without objection it may be included in the record.

(The statement referred to follows:)

I am H. F. Minnis, a resident of Little Rock, Ark. My appearance is made on behalf of Arkansas Power & Light Co., which company I serve as a vice president.

Arkansas Power & Light Co. furnishes electric service in 61 of the 75 counties of Arkansas, and serves over 314,000 customers. It provides employment for over 2,500 persons. In order to provide high quality electric service to its 314,000 customers, the company makes use of capital amounting to $262,886,000, which has been entrusted to it by investors.

Among the customers now served by Arkansas Power & Light Co. are 14 of the 18 rural electric cooperatives in the State, which are served through 95 points of delivery at distribution voltage, generally 13,800 volts. Arkansas Power & Light Co. has, since the beginning of the rural electric cooperatives in the State in the late 1930's, worked closely with the cooperatives in providing them a source of power. The company's policy with respect to rates for wholesale power to rural electric cooperatives which was adopted in 1937 at the request of the department of public utilities (the predecessor of the present Arkansas Public Service Commission and which has been consistently followed, is to provide such service at the lowest feasible rates. We have shared an interest in the development of the rural areas of our State, recognizing that rural development is good business in the long run for the company and have felt that providing power to the cooperatives at the lowest possible rates was a real contribution toward rural development.

The department of public utilities in 1937 adopted a practice of allocating service areas to investor-owned companies and to the rural electric cooperatives, and confining the operations of each to their respective allocated areas. Our company has substantial rural areas allocated to it and it has made major investments in extending electric service into these areas. More than 100,000 of our company's customers could be classed as rural.

The first rate at which our company served rural electric cooperatives was described by the Arkansas Department of Public Utilities as being "as low as any wholesale cooperative rate from a private company in the Nation at that time." We believe that the rates from that time on have compared very favorably with those available to cooperatives across the Nation. It has been our policy to see that this was true.

In 1959, when 10-year contracts under which the company's cooperative customers were then being served were beginning to approach expiration dates, negotiations were commenced for a new rate under which new contracts could be signed. These negotiations extended over a period of about 2 years and resulted in the present rate which was filed in March 1962. Eight of our rural electric cooperative customers have entered into contracts covering all or a part of their requirements under the new rate schedule, which is designated rate 22–B.

Arkansas Power & Light Co. has a total generating capability owned or under contract of 1,361,000 kilowatts. It is part of the middle south utilities system, which has a total generating capability of 3,609,000 kilowatts, and is also interconnected with other neighboring utilities. The highest peakload which has ever occurred on the companys system was in August 1962 when the load was 1,073,000 kilowatts. This load included the requirements of the company's 14 rural electric cooperative customers. The company's reserve capacity, without calling on the vast capability available through interconnections with other companies, was 288,000 kilowatts at the time of the peakload.

The company has always been, is now, and will in the future be ready, willing, and able to furnish all of the power and energy required for the loads served by the 14 rural electric cooperatives which it now serves. Insofar as we are informed, there is no question as to the availability of sufficient power from our company to the cooperatives it serves.

On June 5, 1962, Arkansas Power & Light Co. learned from press reports that Arkansas Electric Cooperative Corp., a super co-op composed of 12 or more of the rural electric cooperatives in Arkansas, had applied to the Rural Electrification Administration in Washington for a loan to construct a steam-generating plant in the vicinity of Augusta, Ark., and a substantial amount of transmission lines. This application had been filed on May 28, 1962. In an endeavor to ascertain wherein our company might have failed to qualify as a suitable supplier of power and energy for its rural electric cooperative customers, and after correspondence with the REA Administrator's office had failed to bring to light any deficiency, an appointment was made with Mr. Clapp, Administrator of the Rural Electrification Administration. At this meeting, which was attended by two of the officers and two other key employees of Arkansas Power & Light Co. on August 6, 1962, Administrator Clapp was asked in what respect Arkansas Power & Light Co. no longer qualified as an acceptable supplier of electric power. This same question was subsequently put to the Arkansas Electric Cooperative Corp. by letter. To date, we have received nothing that can be regarded as a response to any of these inquiries.

By letter dated August 28, 1962, Arkansas Electric Cooperative Corp. inquired as to whether or not our rate 22–B was the last and best offer on rates which the company could make. That rate schedule provides for basic rates of 7 mills for a 5-year term contract and 6.67 mills for a 10-year term contract. The company, in response to this inquiry, on September 7, 1962, offered, subject to approval by the Arkansas Public Service Commission, additional basic rates of 6.34 mills per kilowatt-hour for a 15-year term contract and 6.02 mills for a 20-year term contract. We were informed that this would be passed on to Washington for consideration, but that in view of REA's objection to a 10-year contract, it was not thought that REA would look with favor on longer term contracts. We have never received any direct rejection of the offered rates. With respect to term of contract, it is interesting to note that REA does not look with favor on power supply contracts for terms as long as 10 years, but will make loans to build powerplants with a loan term of 35 years and a plant life of 30 years or more.

On October 23, 1962, approval of Arkansas Electric Cooperative Corp.'s loan was publicly announced. The announcement stated that the loan was for a total of $24,679,000, which figure included $2,106,000 carryover from a previous loan. The loan was to be used to finance a 100,000-kilowatt steam generating plant near Augusta, Ark., 36 miles of 161,000-volt transmission line to connect the plant with the lines of the Southwestern Power Administration, and 594 miles of 69,000-volt transmission line from the plant to distribution cooperative points of delivery, and related substation facilities.

On October 29, 1962, the Arkansas Electric Cooperative Corp. filed an application with the Arkansas Public Service Commission seeking a certificate of public convenience and necessity, which is required for the construction of the proposed steam generating plant and transmission lines. None of the supporting exhibits referred to in the application were filed with the application, it being stated that all would be filed by amendment. Consideration of the application has been held in abeyance by stipulation while Arkansas Electric Cooperative Corp. and Arkansas Power & Light Co. carry on negotiations to try to avoid unnecessary duplication of existing facilities.

Plotting the transmission lines proposed by Arkansas Electric Cooperative Corp. on a map of the present transmission facilities of Arkansas Power & Light Co. reveals that they will constitute duplication of adequate existing facilities, and in many cases would parallel this company's existing transmission lines.

We feel it is important to point out that insofar as we are able to determine, not one single additional customer would be afforded central station electric service as a result of the proposed facilities.

Since there has been no indication that any of the cooperatives question the adequacy of the present supply of power as furnished by our company or our ability to meet their needs in the future, it would appear that the only possible economic justification for the proposed loan and the generation and transmission facilities would be on the cost of power. No figures have been released which reveal the expected cost of power to the distribution cooperatives from the proposed generation and transmission facilities. Without such figures and data, our engineering and rate people estimated such costs based upon their long experience as to the cost of constructing and operating such facilities. It is their considered opinion that the 6.34 mills per kilowatt-hour and 6.02 mills per kilowatt-hour for 15- and 20-year contracts (which were proposed before approval of the loan and again offered to all of our cooperative customers on February 25, 1963) are lower than can be achieved with the proposed facilities, even with 2-percent money and preferential treatment as to taxes and other matters enjoyed only by rural electric cooperatives.

We are still negotiating in good faith with representatives of Arkansas Electric Cooperative Corp. to try to work out some arrangement which will avoid unnecessary duplication of existing facilities, our approach being that where investment has already been made in facilities, we should strive for the maximum use of these existing facilities to the benefit of all customers. We feel it would be improper to state, however, that it has been quite evident in our negotiations that economics and engineering feasibility are not to be controlling considerations. For policy reasons, known only to the cooperatives and the Rural Electrification Administration, economic feasibility, essential to the best utility operation, is to be forgone, without regard for either the taxpayer or the customer.

We recognize that the loan to Arkansas Electric Cooperative Corp. is, in effect, an accomplished fact. Our purpose here is not to ask that the committee attempt to do anything about that loan. However, we do seriously question the economic justification for that loan, and feel that under the procedures now followed by the REA, there is no opportunity afforded for affected and interested parties to explore the question of whether the overall public interest is being served by the use of taxpayers' funds to build facilities to do what can be done more economically through existing facilities.

It is our view that the Congress can discharge its responsibilities to the taxpayers of the country only by satisfying itself that the projects for which appropriated loan funds are used are, in fact, economically justified and required in the public interest. We would strongly urge that your committee require the Administrator of the Rural Electrification Administration to specify, in his budget requests, the projects for which loan funds will be used, perhaps restricted to projects involving more than some stated amount such as $5 million, and to provide the committee with the justification therefor for its review. At the very least, Congress should take steps to require that the veil of secrecy

which now enshrouds applications for generation and transmission loans, their processing and approval, is lifted. If these loans serve the public interest, they should have nothing to fear from examination by affected and interested parties in the full light of day.

GENERAL STATEMENT

Arkansas Power & Light Co. has, for many years, served some or all of the requirements of 14 of the 18 Rural Electric Cooperatives in our State at rates which have been kept as low as possible, and which compare favorably with those available to cooperatives anywhere in the country.

We learned from the press, last June, that Arkansas Electric Cooperative Corp. had applied for an REA loan of almost $25 million to construct a 100,000-kilowatt generating plant and about 630 miles of transmission lines to serve a number of the cooperatives we have been serving.

We have tried by correspondence with the REA Administrator's office, by questions directed to Administrator Clapp at a meeting in his office last August 7, and by letter to the Arkansas Electric Cooperative Corp. to determine on what basis Arkansas Power & Light Co. has ceased to be an acceptable supplier.

Gentlemen, we have not received any enlightenment from Washington or the Arkansas Cooperative people as to wherein we may have failed to measure up as an acceptable supplier. There has been no question of the adequacy of our generation or transmission facilities to meet their present and future needs.

They have released no figures as to what is the expected cost of electric power and energy to the distribution cooperatives from the proposed REA generation and transmission facilities. We have, prior to approval of the loan, offered rates as low as 6.03 mills per kilowatt-hour on a 20-year contract—and even without access to their figures, our engineers and rate people, based on their extensive experience in such matters, are confident that the offered rates are lower than can be achieved with the proposed G. & T. facilities.

And this is true even with the advantage of 2-percent financing and the preferential treatment on taxes and other matters which only rural electric cooperatives enjoy.

LOAN APPROVED FOR ARKANSAS ELECTRIC COOPERATIVE CORP.

Arkansas Power & Light Co. seriously questions the economic justification of the loan approved for Arkansas Electric Cooperative Corp.—but the thing which troubles us most is the complete absence under present procedures of any opportunity for public consideration of the justification for such loans before they are approved.

We feel that the Congress has an obligation to examine these generation and transmission loans, each of which involves large sums of the taxpayer's money to assure that each is economically justified and in the public interest.

It appears to us that this obligation can be satisfied only by requiring the REA Administrator to specify, in his budget requests, the individual projects for which loans proposed and to provide the committee his justification there for its review.

SECRECY ENSHROUDING APPLICATIONS

At the very least, Congress should take steps to require that the veil of secrecy which now enshrouds applications for generation and transmission loans, their processing and approval, is lifted.

If these loans serve the public interest, they should have nothing to fear from examination by affected and interested parties in the full light of day.

Senator HOLLAND. On this new generating facility that you propose, did you have negotiations with them before they changed to REA?

Mr. MINNIS. Yes, sir; Mr. Chairman. We have had a very low rate in Arkansas, for a number of years, under a 10-year contract. That rate was made at the time our full cost was approximately 8¾ cents per million B.t.u.'s. Since that time, and during the 10-year period, our fuel cost has gone up materially, and now our average fuel is approximately 24 cents per million B.t.u.'s

RATE SCHEDULE

Before the expiration of the existing contracts we did file with Arkansas Public Service Commission for a new rate schedule. The commission asked us to negotiate with the cooperatives and see if we could not come back and file a rate schedule that would be acceptable.

We carried on those negotiations for several months and finally we did reach an agreement. It was filed, the commission heard the evidence, and there was no opposition of any of the cooperatives. The commission approved the rate.

After that eight of the cooperatives signed the new 10-year contract but four or five did not. The next thing we knew was the press release of generating and transmission loans.

Senator HOLLAND. You still have eight of your longtime customers?

Mr. MINNIS. Yes, sir.

Senator HOLLAND. Are they on a 5-, 10,- or 15-year basis?

OFFER OF CONTRACTS

Mr. MINNIS. They are on a 10-year basis. We have offered a 15-year contract at a lower rate and we have offered a 20-year contract at a lower rate. The new 10-year contract rate is 6.67 mills average.

We have offered a 15-year contract rate of 6.34 mills per kilowatt-hour or 6.02 mills for a 20-year contract. We think that is one of the lowest rates in the Nation.

Senator HOLLAND. Which ones of the eight accepted?

Mr. MINNIS. I beg your pardon?

Senator HOLLAND. Which ones of the eight have accepted?

Mr. MINNIS. They have accepted a 10-year contract, sir, and we have offered them 15 or 20.

(NRECA rebuttal appears on p. 297, and by the Arkansas Power & Light Co. on p. 335.)

Senator HOLLAND. Mr. Blanchar.

PUBLIC SERVICE CO. OF INDIANA, INC.

STATEMENT OF CARROLL H. BLANCHAR, PRESIDENT

PREPARED STATEMENT

Mr. BLANCHAR. Mr. Chairman and members of the committee, my name is Carroll H. Blanchar and I am president of Public Service Co. of Indiana, Inc. (service company), an investor-owned electric utility. I appreciate this opportunity to appear before your committee to place before you my views relative to the 1964 fiscal year appropriations being sought by the Rural Electrification Administration (REA). My interest in this matter is not only in my capacity as a utility company president, but also as a taxpayer and citizen.

OPPOSITION TO LOANS FOR GENERATION OR TRANSMISSION FACILITIES

I am opposed to the inclusion in any authorization of funds to REA of any amount of money that may be loaned for the construction of generation or transmission facilities except in such a case, if any, as it may be established to the satisfaction of the Congress, at the time the funds are appropriated, that the construction for which the funds are to be loaned is necessary because an adequate supply of electric energy is not available and cannot be obtained by the distributor at fair and reasonable rates.

To permit Government funds to be used for generation and transmission loans under circumstances other than these is, in my opinion, an unwarranted use of public moneys that is unfair to the investor-owned utilities of this country and to the consumers served by them, is an unfair and unwarranted use of the tax moneys, and is a perversion of the purpose and intention of the REA Act as passed by Congress.

Mr. Walter Bouldin, who is vice president of the Edison Electric Institute, of which my company is a member, has already testified here on behalf of the electric industry and has placed before you the general reasons supporting the view I have just expressed.

I do not want to trespass upon your busy schedules by repeating these reasons. But I do want to say that Mr. Bouldin has most ably voiced my own firm convictions on this matter and that I subscribe without reservation to the things he has here presented.

AUTHORIZED LOAN TO HOOSIER COOPERATIVE ENERGY, INC.

I do believe, however, that it will be of value to you in the performance of your responsibilities in this matter if I supplement what Mr. Bouldin has said by placing before you briefly the facts as to the specific situation of the $60,225,000 generation and transmission loan that REA has authorized in Indiana. It vividly points up the economic waste, arbitrary secrecy of action, and injustice to taxpayers that are involved in REA's handling of such matters and demonstrates very clearly why Congress should, and must if taxpayers are to be treated fairly and unjust discriminations and bureaucratic waste are to be avoided, refuse to appropriate moneys for REA without knowledge of the use to be made of it.

HOOSIER COOPERATIVE ENERGY, INC.

Senator HOLLAND. What is the name of that borrower?

Mr. BLANCHAR. Hoosier Cooperative Energy, Inc.

The Indiana situation is not an isolated one. You will be given the facts as to numerous similarly unwarranted uses of funds that Congress has in the past made available to REA without any adequate showing of intended use.

The company I represent supplies electric utility service directly to more than 387,000 customers, including about 65,000 farm and rural customers. It operates in 69 counties in the central, north central, and southern parts of Indiana. Its directly served consumers are located at 714 municipalities and unincorporated communities, and in extensive rural areas. It also supplies electric energy for resale to 31 electric cooperatives, called rural electric membership corporations in Indiana (REMC's) and to 47 municipal utilities. All of these, in turn, distribute such electric energy to users within the territories in which they are authorized to operate.

We are second among investor-owned utilities in the United States in the amount of electric energy sold to the rural electric cooperatives.

AVERAGE RATE

Senator HOLLAND. What is your average rate?

Mr. BLANCHAR. 8.42 mills for the last year.

Senator HOLLAND. Do you manufacture from coal entirely?

Mr. BLANCHAR. Yes, sir. As of December 31, 1962, the depreciated original cost of Service Co.'s utility plant was $448,471,525. In 1962 the company had operating revenues of $107,434,058, out of which it provided $18,640,000 for Federal income taxes and $10,751,168 for State, local, and miscellaneous Federal taxes—making a total for taxes of 27.4 cents out of each $1 of revenue received.

In Indiana, electric utility service, both in the case of service directly to users and of wholesale service, is regulated by a State regulatory agency—the Public Service Commission of Indiana. The commission has, among other things, statutory jurisdiction over the rates charged, and the service rendered, by investor-owned electric companies to the electric cooperatives of REMC's.

Senator HOLLAND. Does the public utility commission have any supervision or regulatory power over REA's in Indiana?

Mr. BLANCHAR. Yes.

ELECTRIC COOPERATIVES IN INDIANA

The electric cooperatives began to function in Indiana in 1936. There are 43 of them in the State. In 1937, the commission, acting on a petition filed in their behalf, ordered a preferential rate classification for them under which electric energy for resale is purchased by them at a rate which is now about 28 percent below the generally established rate for purchasers for resale.

Service Co. supplies 31 of the Indiana electric cooperatives with all or a part of the electricity distributed by them. It has done so at all times since they began to function. It has from time to time provided all needed generating capacity and has changed and extended

its transmission system so as to enable it to make adequate delivery of the electric energy to the electric cooperatives at numerous delivery points on their distribution system. There are 160 such delivery points at the present time, and others are established from time to time as required.

From the beginning of electric cooperative operations in Indiana, the investor-owned electric utilities have supplied and transmitted to the distribution delivery points all the electric energy required by the electric cooperatives. In fact, in the above-mentioned rate petition in 1937 (just a year after the REA Act was enacted), Indiana Statewide Rural Electric Cooperative, Inc. (Statewide), stated:

> Unless respondents offer petitioner rates meeting the requirements submitted—by petitioner—to the respondents, the expansion of rural electrification in Indiana will be seriously retarded. The rates now demanded by respondents cannot be paid by rural electric membership corporations; the Rural Electrification Administration will not approve such rates; the REMC's will be forced to build their own generating plants unless lower rates are obtained. Funds that should be used to build distribution lines to reach unelectrified farms must then be used to build generating plants and transmission lines. Existing utilities have ample capacity and duplication should be avoided as an uneconomic and social waste.

The electric cooperatives in Indiana distribute electric energy to their members at rates that are substantially the same as, or lower than, those of the investor-owned electric companies. They have accumulated profits of over $40 million, none of which were subject to Federal income taxes. The cost to them of the electric energy purchased by them for resale averaged 8.48 mills per kilowatt-hour in 1961 (the last calendar year for which the data is presently available to us). The rates are subject to regulation by the State commission at all times. There has been no claim of any inadequacy of service; but service, too, is subject to commission control.

Approval of Loan

On June 15, 1961, REA approved a loan of $60,225,000 to Hoosier Cooperative Energy, Inc. (Hoosier) to build a 198,000-kilowatt generating station and 1,515 miles of transmission lines. Under both the Rural Electrification Administration Act and the Indiana statutes the loan funds could not lawfully be advanced to Hoosier unless the Indiana commission gave its approval to the project, and a petition seeking such approval was filed by Hoosier with the commission. Thereafter, and before any hearings were held, Hoosier with the consent of REA, transferred its interest in the REA loan authorization to Indiana Statewide Rural Electric Cooperative, Inc. (Statewide). This was admittedly done for the purpose of escaping the necessity of commission action on the project. Hoosier then dismissed the petition before the commission. Statewide is a cooperative service organization which was created in 1935 and claims the right to borrow moneys and construct the generating plant and transmission lines without obtaining any commission order. The issue is now before the courts.

Statewide's proposed generating and transmission facilities would serve 16 REMC's in southern Indiana. Fourteen of these are now being supplied electric energy by Service Co., one is being so supplied

by Southern Indiana Gas & Electric Co. (Southern Co.), and one is being supplied partly by Service Co. and partly by Southern Co. The investment of these two investor-owned utilities in generation and transmission facilities to serve these 16 REMC's is approximately $25,600,000, which amount is $34,625,000 less than the $60,225,000 loan that REA has granted to build the unnecessary duplicating facilities. This is economic waste on a grand scale and can only result in higher electric rates, as well as being an unjust burden on Federal income taxpayers.

As I have stated earlier, Service Co. has provided central station service to electric cooperatives in Indiana since they began operations in 1936. In fact, it sold the first energy to the first rural electric cooperative to be energized in the United States—Boone County Rural Electric Membership Corp. Today, Service Co. supplies 31 REMC's in Indiana and is second among the investor-owned electric utilities in the United States in the amount of electric energy sold to the rural electric cooperatives. This volume of electric energy supplied by Service Co. has increased from 135,720 kilowatt hours in 1936 to 887,034,000 kilowatt hours in 1962.

In 1962, these 31 REMC's purchased their energy from Service Co., at distribution voltage delivery, at an average cost of 8.42 mills per billed kilowatt-hour. Had they been willing to take advantage of an optional rate schedule, which provides a rate for electric energy purchased for resale to new large nonfarm loads in excess of 80,000 kilowatt-hours a month that is substantially the same as Service Co.'s standard wholesale rate, these REMC's would have paid an average of but 8.39 mills per kilowatt-hour for their 1962 energy taken at distribution voltage, or a rate of 7.79 mills per kilowatt-hour for their 1962 energy if taken at transmission voltage.

Furthermore, under that rate schedule, they could, by making practical and easily made improvements in power factor, have earned, on the basis of their 1962 requirements, an average rate of 8.05 mills per kilowatt-hour for energy at distribution voltage delivery or of 7.49 mills per kilowatt-hour for energy at transmission voltage delivery.

Five of the REMC's served by the Service Co. are taking service under the optional rate. In 1962, 90.4 percent of such service was at distribution voltage delivery. Their average cost of the purchased power was 7.98 mills per kilowatt-hour for 1962.

About 54 percent of the electric energy supplied by Service Co. to REMC's is sold to those in the Hoosier generation and transmission project. The average 1962 cost of such energy to these REMC's was 8.50 mills per kilowatt-hour with distribution voltage delivery. The optional rate above referred to was and is also available to them.

The amounts paid to Service Co. in 1962 for the electric energy supplied to the 31 REMC's served by it was $7,467,390. Of this amount $4,010,455 was received from the REMC's participating in the Hoosier project.

OPERATING MARGIN

The operating margin—that is, the amount of earnings available to pay interest on long-term debt and as a profit—of the Indiana REMC's has in each of the years 1955 to 1960, both inclusive (all the years for which a tabulation of such information is presently available to us), been the highest percentage of net plant that has been earned by the

electric cooperatives of any State in the Union. (Source: Analysis of REA Distribution, Type Borrowers by States by Ebasco Services Inc., May 1962.)

A tabulation of such rate of return and the average for the United States is as follows:

Return on net plant

Year	Indiana rural electric membership corporations	Average of electric cooperatives in United States	Year	Indiana rural electric membership corporations	Average of electric cooperatives in United States
1955	7.80	4.76	1958	7.03	4.75
1956	7.57	5.01	1959	7.30	4.94
1957	7.01	4.70	1960	6.95	4.72

Mr. BLANCHAR. 99.5 percent of the farms in Indiana now have electric utility service either from the Rural Electric Membership Corporation's or the investor-owned electric utilities. (Source: U.S. Department of Agriculture—Rural Electrification Administration. See app. V to this statement.)

Electric service is available to the remaining one-half of 1 percent if and whenever it is desired by the owners or tenants of such farms. There is no public policy need to provide Federal funds for the construction of a generating plant and a transmission system which is unnecessary for the service requirements of the area, would wastefully duplicate facilities available and used for supplying electric energy to the area, and would place, on the taxpayers of this country, a heavy additional tax burden both because such Federal funds would be loaned at a 2-percent-per-annum interest rate although long-term moneys are presently costing the Federal Government about 4 percent per annum, and because such program would result in reducing the amount of business revenue that is subject to Federal income tax payments. In these days of high Federal budgets and high taxes, it is especially important that such unnecessary and unfair use of the public purse be avoided.

Throughout the 25 years that Service Co. has been supplying electric energy to the Rural Electric Membership Corporations, it has designed its transmission system in such a way that the REMC loads and the loads of other customers can be supplied in the most economical manner. In planning its generating capacity, Service Co. has continually taken the REMC load requirements into account. To demonstrate how adequate our facilities are, and how unnecessary a loan for generation and transmission is in Indiana, I quote from a letter dated June 11, 1954, sent by Statewide to Service Co. and three other Indiana investor-owned utilities:

> After a preliminary study by the Southern Engineering Co., represented here in Indiana by Mr. Kelly W. Rusk, a partner, and Mr. George B. Taylor, a staff engineer, we were advised that—
>
> (1) There is no apparent power shortage in Indiana as far as generating facilities are concerned.
>
> (2) In the absence of detailed information on non-REMC loads served by the utilities, Southern Engineering Co. was not in a position to determine if the existing transmission facilities are adequate but they believe that the power companies are able to fulfill any contractual agreements entered into and can provide such facilities as might be required by the REMC's.

In the 8 years since that statement was made, the Indiana utilities supplying Rural Electric Membership Corporation loads have installed over 2 million kilowatts of additional net generating capacity. Service Co. alone has increased its net generating capacity from 911,500 kilowatts in 1954 to 1,640,000 kilowatts at the end of 1962. It has also made extensive improvements in and additions to its transmission system during this period. Service Co. has, presently, a 27-percent reserve generating capacity and has carefully developed plans for additional capacity and additional transmission system development as load growth in its territory requires. In 1954, Service Co. supplied service to the REMC's through 109 delivery points. Today it furnishes service through 160 delivery points, again demonstrating that Service Co. has always provided the facilities required by the REMC's. As I have earlier pointed out, the State regulatory commission has full jurisdictional powers over the matter of adequate service by utilities.

In its news releases, REA has made estimates that Statewide could sell power from the proposed Hoosier generating plant and transmission system at 8.05 mills per kilowatt-hour.

SECRECY IN MAKING LOANS

Due to the secrecy with which REA surrounds the making of these loans, neither do we, nor, so far as I have been able to learn, does Congress, have any information as to how this figure was developed or whether or not it is based on distribution or transmission delivery. However, we have made studies based on the proposed engineering and financial characteristics of the planned system, and are convinced that the Statewide plant, in order to break even, will have to sell power to the 16 REMC's at an average price in excess of 10 mills. It will cost these 16 REMC's well over $1 million a year more to purchase power from Statewide than the price at which they are able to purchase power from the investor-owned electric utilities right now.

Nor is the price for the power to be paid by the REMC's to Statewide the sole factor that it is the responsibility of Congress to consider. That price, whatever it may prove to be, is not the whole cost of supplying the service.

At least one-half of the cost of money which the Federal Government has to pay for the funds to be loaned at 2 percent per annum is not included. It does not include the lost Federal tax revenues that result from the exemption of the electric cooperative from Federal income taxes. The interest item alone will cost the taxpayers more than $12,800,000 during the first 10 years of the REA loan. These very large and very real costs exist, and will be borne by the Federal income taxpayers of the country. Under these circumstances, I submit that this committee has a real responsibility to the taxpayers not to provide the REA with funds to be used in a manner that is unnecessary in carrying out, and contrary to, any public policy, and creates an unwarranted and unjust additional burden on the already heavily burdened taxpayers of this country.

APPENDIXES

For your further information, I am supplementing this statement with five appendixes:

Appendix I—Summary showing, by years 1936–62, the number of connections for the REMC's supplied with electric energy by Service Co., the kilowatt-hours sold to them, and the amounts paid and the average rate per billing kilowatt-hours for such energy.

Appendix II, summary showing, on the basis of 1962 requirements of electric energy by the REMC's served by Service Co., their cost for the electric energy so supplied, and the price per kilowatt-hour for such energy if taken under each of the rates available to such REMC's.

Appendix III, summary classifying the REMC's supplied with electric energy by Service Co. between participants in the Hoosier loan, others, billed on rate REMC, and others, billed on rate REMC–O, and showing for 1962 the total amounts, and the average amount per billing kilowatt-hour paid by such REMC's for such energy.

Appendix IV, financial summaries showing data as to assets, and liabilities, and revenues, expenses, and profits, of the Indiana REMC's for 1959, 1960, and 1961.

Appendix V, number and percentage of farms electrified with central station service by States, 1935, 1940, 1950, and 1961, U.S. Department of Agriculture, Rural Electrification Administration.

SUMMARY AND CONCLUSIONS

May I summarize the situation I have presented, and state my conclusions.

Any way that the loan of $60,225,000 authorized by REA to build the Statewide generating plant and transmission system is examined, it is unnecessary and against the public interest. There is no power shortage in Indiana, rather there is a surplus of power. For 25 years the investor-owned electric utilities have provided all of the power required by the REMC's at reasonable rates—rates that have continuously been approved by the Indiana Commission. The construction of the proposed generating plant and transmission system by Statewide with the proceeds from the $60,225,000 REA loan will render useless substantial portions of the $25,600,000 now invested by Southern Co. and Service Co. in facilities that are and can continue to provide wholely adequate service at reasonable cost. From the public point of view there will be over $60 million invested in duplicating the existing utility plant, and as our engineering studies show, the proposed system will not be as reliable as is our power supply.

In addition, the cost of power to the 16 REMC's will be increased by more than $1 million a year, and the taxpayers of the country will be required to pay an even larger amount each year as an enforced subsidy toward the support of this uneconomic program.

The Indiana situation is not an isolated one. Loans of this kind have been made or authorized by REA in many other States, and I believe you will be given the facts as to a substantial number of these situations. With these actual experiences before us, I strongly urge this committee to recommend to Congress that it should refuse to appropriate for REA any moneys to be loaned for electric generation and transmission facility purposes until and unless, in a public hearing before this committee, the REA Administrator (i) has presented such facts as establish the necessity for such a loan in order that electric energy may be available for a rural area at reasonable cost, and (ii) has placed before this committee the facts as to the

estimated entire cost of supplying electric energy under the proposed program for which funds are to be loaned, including the portion of such costs as will fall upon the taxpayers of the country both because of the interest rates at which the loan is to be made and because of the exemption of the borrower from Federal income taxes.

Such course will end the secrecy both from Congress and from the taxpayers that REA now throws around the making of generation and transmission facility loans, and will enable Congress to fulfill its responsibility to taxpayers by being in possession of the facts necessary for a sound determination by it of the question whether or not the appropriation of public funds for such loan purpose will be in the public interest.

Thank you for your very courteous attention.

Senator HOLLAND. Thank you, Mr. Blanchar.

(The appendixes referred to on p. 189 follow:)

PUBLIC SERVICE CO. OF INDIANA, INC.

APPENDIX I

Total sales to rural electric membership corporations, 1936–62

Year	Number of connections, end of year	Kilowatt-hour consumption, annual	Amount of bill	Average rate per kilowatt-hour (billing)
				Cents
1936	1	135,720	$2,409.09	1.775
1937	5	1,400,781	18,929.09	1.351
1938	13	5,741,794	69,686.04	1.214
1939	19	11,246,947	134,158.20	1.193
1940	24	20,824,769	243,406.36	1.169
1941	[1] 27	30,984,610	343,593.11	1.109
1942	[1] 28	41,552,426	404,903.08	.974
1943	[1] 27	47,964,655	459,174.68	.957
1944	[1] 27	53,914,720	514,372.88	.954
1945	[1] 28	64,037,102	618,833.99	.966
1946	32	79,104,004	772,610.29	.977
1947	43	110,600,611	1,048,216.45	.948
1948	50	148,424,762	1,380,101.59	.930
1949	55	202,955,752	1,935,351.71	.954
1950	71	261,362,153	2,337,279.38	.894
1951	81	307,924,489	2,699,858.13	.877
1952	99	349,325,023	3,013,202.80	.863
1953	[2] 106	399,431,455	3,430,621.10	.859
1954	109	444,349,325	3,765,324.45	.847
1955	113	495,710,250	4,169,263.13	.841
1956	125	552,125,439	4,793,027.82	.868
1957	128	598,574,776	5,241,592.02	.876
1958	132	663,267,318	5,813,506.20	.876
1959	148	714,900,388	6,262,462.38	.876
1960	151	766,840,330	6,687,890.86	.872
1961	154	813,787,474	6,971,170.11	.857
1962	160	887,034,000	7,467,984.00	.842

[1] Excluding connections serving Crane Naval Ammunition Depot (Utilities District of Western Indiana).
[2] Including Henry County-Mount Summit connection not in use during December when load was temporarily served from another substation. Also, Clark County-Watson connection is included although substation was abandoned Dec. 24, 1953.

Sales to 15-member rural electric membership corporations of Indiana Statewide Rural Electric Cooperative, Inc., 1936–62

Year	Number of connections, end of year	Kilowatt-hour consumption, annual	Amount of bill	Average rate per kilowatt-hour (billing)
				Cents
1936				
1937	2	315,422	$4,125.37	1.308
1938	5	1,651,784	20,144.69	1.220
1939	9	2,945,753	35,898.32	1.219
1940	11	6,791,866	81,082.15	1.194
1941	[1] 13	10,759,909	120,969.06	1.124
1942	[1] 14	16,444,986	163,535.37	.994
1943	[1] 13	18,996,095	184,572.68	.972
1944	[1] 13	21,618,037	206,323.34	.954
1945	[1] 14	26,137,641	255,995.34	.979
1946	17	32,742,822	319,864.16	.977
1947	23	47,175,749	451,087.39	.956
1948	26	65,395,150	613,319.17	.938
1949	29	89,749,256	867,419.66	.966
1950	37	117,932,135	1,061,818.74	.900
1951	42	144,226,370	1,273,467.30	.883
1952	50	168,270,065	1,458,762.17	.867
1953	55	195,089,414	1,680,159.99	.861
1954	58	219,293,162	1,863,314.62	.850
1955	59	247,670,584	2,086,467.03	.842
1956	60	281,674,583	2,444,313.11	.868
1957	62	309,597,302	2,711,310.03	.876
1958	64	344,507,178	3,014,477.96	.875
1959	76	373,043,018	3,267,969.09	.876
1960	78	402,334,583	3,514,382.62	.873
1961	78	431,934,232	3,722,956.47	.862
1962	78	471,844,326	4,010,455.00	.850

[1] Excluding connections serving Crane Naval Ammunition Depot (Utilities District of Western Indiana).

Sales to rural electric membership corporations, excluding 15 members of Indiana Statewide Rural Electric Cooperative, Inc., 1936–62

Year	Number of connections, end of year	Kilowatt-hour consumption, annual	Amount of bill	Average rate per kilowatt-hour (billing)
				Cents
1936	1	135,720	$2,409.09	1.775
1937	3	1,085,359	14,803.72	1.364
1938	8	4,090,010	49,541.35	1.211
1939	10	8,301,194	98,259,88	1.184
1940	13	14,032,903	162,324.21	1.157
1941	14	20,224,701	222,624.05	1.101
1942	14	25,107,440	241,367.71	.961
1943	14	28,968,560	274,602.00	.948
1944	14	32,296,683	308,049.54	.954
1945	14	37,899,461	362,838.65	.957
1946	15	46,361,182	452,746.13	.977
1947	20	63,424,862	597,129.06	.941
1948	24	83,029,612	766,782.42	.924
1949	26	113,206,496	1,067,932.05	.943
1950	34	143,430,018	1,275,460.64	.889
1951	39	163,698,119	1,426,390.83	.871
1952	49	181,054,958	1,554,440.63	.859
1953	[1] 51	204,342,041	1,750,461.11	.857
1954	51	225,056,163	1,902,009.83	.845
1955	54	248,039,666	2,082,796.10	.840
1956	65	270,450,856	2,348,714.71	.868
1957	66	288,977,474	2,530,281.99	.876
1958	68	318,760,140	2,799,028.24	.878
1959	72	341,857,370	2,994,493.29	.876
1960	73	364,505,747	3,173,508.24	.871
1961	76	381,853,242	3,248,213.64	.851
1962	82	415,189,674	3,457,529.00	.833

[1] Including Henry County-Mount Summit connection not in use during December when loss was temporarily served from another substation. Also, Clark County-Watson connection is included although substation was abandoned Dec. 24, 1953.

APPENDIX II

Comparison of billing to rural electric membership corporations served by company under rate REMC and rate REMC–O (delivery at 15,000 volts or less) based on electric requirements for 12 months ended Dec. 31, 1962

REA No.	REMC	Rate REMC		Rate REMC–O (DD) actual power factor			Rate REMC–O (DD) 100 percent power factor		
		Annual billing	Per kilowatt-hour (mills)	Annual billing	Per kilowatt-hour (mills)	Decrease from rate REMC	Annual billing	Per kilowatt-hour (mills)	Decrease from rate REMC
21	Bartholomew	$261,884.45	8.52	$256,446.00	8.60	$5,438.45	$239,630.64	8.03	$22,253.81
6	Boone	263,718.63	8.23	254,753.37	8.19	8,965.26	241,369.29	7.76	22,349.34
24	Carroll	172,535.26	8.53	168,382.42	8.58	4,152.84	157,333.42	8.01	15,201.84
72	Clark [1]	223,825.09	8.48	205,507.18	8.02	18,317.91	204,507.64	7.98	19,317.45
26	Daviess-Martin	202,184.60	8.72	195,351.57	8.68	6,833.03	184,694.08	8.20	17,490.52
27	Decatur	238,735.39	8.68	235,964.38	8.83	2,771.01	218,491.00	8.18	20,244.39
83	Dubois	192,768.98	8.81	190,255.72	8.95	2,513.26	176,077.36	8.29	16,691.62
15	Fayette-Union	97,117.82	8.71	95,933.22	8.86	1,184.60	93,311.64	8.62	3,806.18
29	Fulton	134,167.30	8.51	129,538.23	8.46	4,629.07	123,528.93	8.07	10,638.37
32	Hancock [1]	181,158.09	8.85	162,695.46	8.18	18,462.63	161,966.80	8.15	19,191.29
89	Harrison	275,268.77	8.48	254,466.21	8.07	20,802.56	252,039.60	7.99	23,229.17
33	Hendricks	332,766.75	8.55	324,074.39	8.58	8,692.36	304,078.31	8.05	28,688.44
16	Henry [1]	266,000.30	8.53	244,052.88	8.06	21,947.42	242,960.58	8.02	23,039.72
74	Huntington	77,648.95	8.80	71,367.79	8.33	6,281.16	71,097.32	8.30	6,551.63
92	Jackson [1]	436,022.78	8.54	399,760.11	8.06	36,262.67	398,343.47	8.04	37,679.31
38	Johnson	186,282.53	8.71	184,514.61	8.89	1,767.92	176,462.61	8.50	9,819.92
40	Knox	546,537.92	7.82	506,254.39	7.46	40,283.53	501,631.45	7.39	44,906.47
88	Kosciusko	28,926.02	8.12	28,452.94	8.23	473.08	26,305.78	7.61	2,620.24
46	Miami-Cass	194,880.06	8.83	189,378.42	8.83	5,501.64	179,704.62	8.38	15,175.44
60	Morgan	409,952.67	8.56	399,367.56	8.59	10,585.11	375,133.92	8.07	34,818.75
47	Orange	157,342.03	8.63	156,261.03	8.83	1,081.00	145,913.85	8.24	11,428.18
42	Parke [1]	340,454.51	8.35	312,776.37	7.90	27,678.14	312,035.82	7.88	28,418.69
18	Rush	165,998.68	8.58	162,701.06	8.66	3,297.62	151,255.34	8.05	14,743.34
14	Shelby	215,081.79	8.55	211,675.24	8.67	3,406.55	196,886.98	8.06	18,194.81
52	Southeastern Indiana	489,698.09	8.51	465,960.28	8.34	23,737.81	448,253.38	8.03	41,444.71
81	Sullivan	218,414.16	8.78	211,708.92	8.77	6,705.24	202,052.70	8.37	16,361.46
55	Tipmont	452,608.92	8.63	434,528.53	8.53	18,080.39	414,025.57	8.13	38,583.35
1	Utilities District of Western Indiana	353,187.03	8.69	343,444.56	8.70	9,742.47	321,902.52	8.16	31,284.51
8	Wabash	229,777.91	8.60	225,431.38	8.70	4,346.53	212,763.28	8.21	17,014.63
11	Warren	89,542.69	8.68	87,395.68	8.73	2,147.01	83,256.88	8.31	6,285.81
59	Wayne	164,063.96	8.48	158,546.72	8.44	5,517.24	150,368.72	8.00	13,695.24
	Total all 31 REMC's served by company	7,598,552.13	8.52	7,266,946.62	8.39	331,605.51	6,967,383.50	8.05	631,168.63

[1] Were billed on rate REMC–O for the full 12 months of 1962.

Comparison of billing to rural electric membership corporations served by company under rate REMC and rate REMC–O (delivery at 15,000 volts or less) based on electric requirements for 12 months ended Dec. 31, 1962—Continued

REA No.	REMC	Rate REMC		Rate REMC–O (TD) actual power factor			Rate REMC–O (TD) 100 percent power factor		
		Annual billing	Per kilowatt-hour (mills)	Annual billing	Per kilowatt-hour (mills)	Decrease from rate REMC	Annual billing	Per kilowatt-hour (mills)	Decrease from rate REMC
21	Bartholomew	$261,884.45	8.52	$236,856.75	7.94	$25,027.70	$222,457.39	7.46	$39,427.06
6	Boone	263,718.63	8.23	236,152.87	7.59	27,565.76	224,691.79	7.22	39,026.84
24	Carroll	172,535.26	8.53	155,549.42	7.92	16,985.84	146,087.92	7.44	26,447.34
72	Clark	223,825.09	8.48	191,759.93	7.49	32,065.16	190,947.64	7.45	32,877.45
26	Daviess-Martin	202,184.60	8.72	180,793.51	8.03	21,391.09	172,117.08	7.65	30,067.52
27	Decatur	238,735.39	8.68	217,507.63	8.14	21,227.76	202,546.00	7.58	36,189.39
83	Dubois	192,768.98	8.81	175,819.22	8.27	16,949.76	164,340.11	7.73	28,428.87
15	Fayette-Union	97,117.82	8.71	89,815.22	8.29	7,302.60	87,556.89	8.09	9,560.93
29	Fulton	134,167.30	8.51	120,603.23	7.87	13,564.07	115,488.93	7.54	18,678.37
32	Hancock	181,158.09	8.85	150,818.96	7.59	30,339.13	150,194.80	7.56	30,963.29
89	Harrison	275,268.77	8.48	236,146.06	7.49	39,122.71	234,068.10	7.42	41,200.67
33	Hendricks	332,766.75	8.55	299,365.89	7.92	33,400.86	282,242.81	7.47	50,523.94
16	Henry	266,000.30	8.53	226,834.88	7.49	39,165.42	225,984.83	7.46	40,015.47
74	Huntington	77,648.95	8.80	66,042.84	7.71	11,606.11	65,813.12	7.68	11,835.83
92	Jackson	436,022.78	8.54	371,834.36	7.50	64,188.42	370,646.72	7.48	65,376.06
38	Johnson	186,282.53	8.71	172,055.11	8.29	14,227.42	165,767.61	7.99	20,514.92
40	Knox	546,537.92	7.82	472,960.04	6.97	73,577.88	469,023.55	6.91	77,514.37
88	Kosciusko	28,926.02	8.12	26,363.94	7.63	2,562.08	24,525.28	7.10	4,400.74
46	Miami-Cass	194,880.06	8.83	176,024.42	8.21	18,855.64	167,739.12	7.83	27,140.94
60	Morgan	409,952.67	8.56	369,267.06	7.94	40,685.61	349,239.42	7.51	60,713.25
47	Orange	157,342.03	8.63	145,498.28	8.22	11,843.75	136,621.35	7.72	20,720.68
42	Parke	340,454.51	8.35	291,528.37	7.36	48,926.14	290,929.32	7.35	49,525.19
18	Rush	165,998.68	8.58	150,194.56	7.99	15,804.12	140,633.34	7.48	25,365.34
14	Shelby	215,081.79	8.55	195,385.24	8.00	19,696.55	182,721.73	7.48	32,360.06
52	Southeastern Indiana	489,698.09	8.51	431,858.28	7.73	57,839.81	416,993.38	7.47	72,704.71
81	Sullivan	218,414.16	8.78	196,704.42	8.15	21,709.74	188,600.45	7.81	29,813.71
55	Tipmont	452,608.92	8.63	401,997.03	7.89	50,611.89	384,909.57	7.56	67,699.35
1	Utilities District of Western Indiana	353,187.03	8.69	317,099.31	8.03	36,087.72	299,235.77	7.58	53,951.26
8	Wabash	229,777.91	8.60	210,582.63	8.12	19,195.28	199,943.53	7.71	29,834.38
11	Warren	89,542.69	8.68	82,090.93	8.20	7,451.76	78,531.13	7.84	11,011.56
59	Wayne	164,063.96	8.48	146,636.22	7.80	17,427.74	139,633.22	7.43	24,430.74
	Total, all 31 REMC's served by company	7,598,552.13	8.52	6,742,146.61	7.79	856,405.52	6,490,231.90	7.49	1,108,320.23

APPENDIX III

Sales to rural electric membership corporations by Public Service Co. of Indiana, Inc., year 1962

	Net amount of bill, year 1962	Average rate per kilowatt-hour (mills)
Billed on rate REMC:		
Participants in "Hoosier" loan:		
Bartholomew	$261,884.45	8.52
Daviess-Martin	202,184.60	8.72
Decatur	238,735.39	8.68
Dubois	192,768.98	8.81
Fayette-Union	97,117.82	8.71
Harrison	275,268.77	8.48
Johnson	186,282.53	8.71
Knox	546,537.92	7.82
Morgan	409,952.67	8.56
Orange	157,342.03	8.63
Rush	165,998.68	8.58
Shelby	215,081.79	8.55
Southeastern Indiana	489,698.09	8.51
Sullivan	218,414.16	8.78
Utilities District of Western Indiana	353,187.03	8.69
Total, participants in "Hoosier" loan	4,010,454.91	8.50
Others:		
Boone	263,718.63	8.23
Carroll	172,535.26	8.53
Fulton	134,167.30	8.51
Hendricks	332,766.75	8.55
Huntington	77,648.95	8.80
Kosciusko	28,926.02	8.12
Miami-Cass	194,880.06	8.83
Tipmont	452,608.92	8.63
Wabash	229,777.91	8.60
Warren	89,542.69	8.68
Wayne	164,063.96	8.48
Total, others	2,140,636.45	8.55
Total, rate REMC	6,151,091.36	8.52
Billed on rate REMC-O:		
Clark	205,507.18	8.02
Hancock	158,619.96	7.98
Henry	240,856.63	7.96
Jackson	399,760.11	8.06
Parke	311,554.37	7.87
Total, rate REMC-O	1,316,298.25	7.98
Total, company	7,467,389.61	8.42

APPENDIX IV

INDEX

SECTION 1.—Financial summaries for the years 1959, 1960, and 1961 for all Indiana REMCs:
Exhibit 1—Summary of combined financial position.
Exhibit 2—Summary of combined earnings.
Exhibit 3—Selected financial ratios.
SECTION 2.—Financial summaries for the years 1959, 1960, and 1961 for 16 Indiana REMCs:
Exhibit 1—Summary of combined financial position.
Exhibit 2—Summary of combined earings.
Exhibit 3—Selected financial ratios.
SECTION 3.—Financial summaries for the years 1959, 1960, and 1961 for 31 REMCs served by Public Service Co. of Indiana, Inc.:
Exhibit 1—Summary of combined financial position.
Exhibit 2—Summary of combined earnings.
Exhibit 3—Selected financial ratios.

NOTE.—All data are from annual reports of the REMCs as filed by them with the Public Service Commission of Indiana.

SECTION 1

EXHIBIT 1.—*Summary of combined financial position for all Indiana rural electric membership corporations for the years ended Dec. 31, 1959, 1960, and 1961*

[Compiled from reports on file with the Public Service Commission of Indiana]

	Dec. 31, 1959		Dec. 31, 1960		Dec. 31, 1961	
Assets:						
Utility plant	$80,272,971		$84,732,793		$89,161,183	
Less reserve for depreciation	24,912,771		26,908,308		28,802,376	
		$55,360,200		$57,824,485		$60,358,807
Other investments, miscellaneous special funds and temporary cash investments:						
U.S. Government securities	6,301,458		6,531,902		6,431,063	
Cash, savings and loan associations and other deposits	2,937,444		3,667,783		4,620,661	
Other investments	564,749		594,860		712,900	
		9,803,651		10,794,545		11,764,624
Other physical property		37,640		138,781		123,499
Cash and other current assets		6,970,065		6,963,545		7,211,898
Deferred debits		188,858		244,805		260,062
Total assets		72,360,414		75,966,161		79,718,890
Liabilities:						
Capital accounts:						
Amount invested by members	1,260,602		1,308,059		1,393,484	
Donated capital	143,840		147,214		150,131	
Retained profits	33,879,466		37,068,907		40,186,918	
		35,283,908		38,524,180		41,730,533
Long-term debt:						
Long-term debt contracted	42,163,140		42,035,093		41,614,593	
Less:						
Unapplied payments—Long-term debt	$2,747,411		$2,578,775		$2,747,545	
Allocation available from REA	5,419,697		5,345,903		4,554,374	
	8,167,108		7,924,678		7,301,919	
		33,996,032		34,110,415		34,312,674
Current liabilities		2,274,361		2,523,267		2,768,573
Deferred credits and miscellaneous reserves		197,884		141,348		181,571
Contributions in aid of construction		608,229		666,951		725,539
Total liabilities		72,360,414		75,966,161		79,718,890

EXHIBIT 2.—*Summary of combined earnings for all Indiana rural electric membership corporations for the years ended Dec. 31, 1959, 1960, and 1961 (compiled from reports on file with the Public Service Commission of Indiana)*

	Year ended Dec. 31		
	1959	1960	1961
Electric operating revenues	$21,905,942	$22,993,439	$24,481,469
Other electric revenues	223,216	398,805	268,527
Total electric revenues	22,129,158	23,392,244	24,749,996
Less cost of electricity purchased	8,776,887	9,380,879	9,847,784
Electric revenues in excess of purchased cost	13,352,271	14,011,365	14,902,212
Other operating expenses and taxes:			
Operating expenses	5,584,407	6,013,851	6,611,198
Taxes	1,046,696	1,191,689	1,257,410
Depreciation	2,495,625	2,610,906	2,741,526
Total	9,126,728	9,816,446	10,610,134
Total utility operating margin	4,225,543	4,194,919	4,292,078
Other income:			
Interest revenues	223,957	287,470	311,974
Other nonoperating revenues (net)	49,779	59,917	47,168
Total	273,736	347,387	359,142
Gross margin	4,499,279	4,542,306	4,651,220
Interest and other income deductions:			
Interest	649,095	659,473	662,359
Other income deductions	7,952	1,826	8,110
Total	657,047	661,299	670,469
Net operating margin	3,842,232	3,881,007	3,980,751

EXHIBIT 3.—*Selected financial ratios for all Indiana rural electric membership corporations for the years ended Dec. 31, 1959, 1960, and 1961 (compiled from reports on file with the Public Service Commission of Indiana)*

	Year ended Dec. 31		
	1959	1960	1961
Utility operating margin (net operating income)	$4,225,543	$4,194,919	$4,292,078
Net operating margin (net profit)	3,842,232	3,881,007	3,980,751
Invested capital—Dec. 31:			
Invested by members	1,260,602	1,308,059	1,393,484
Total invested capital (including donated capital and retained profits)	35,283,908	38,524,180	41,730,533
Net investment in utility plant in service plus materials and supplies	55,948,186	58,413,082	60,887,673
Gross utility plant	80,272,971	84,732,793	89,161,183
Total electric revenues	22,129,158	23,392,244	24,749,996
Taxes	1,046,696	1,191,689	1,257,410
Ratios:			
Percent net income to amount invested by members	304.79	296.70	285.67
Percent net income to total invested capital	10.89	10.07	9.54
Percent net operating income to net investment in utility plant in service plus materials and supplies	7.55	7.18	7.05
Percent taxes paid to gross utility plant	1.30	1.41	1.41
Taxes paid per $1 of total electric revenues	$0.05	$0.05	$0.05

SECTION 2

EXHIBIT 1.—*Summary of combined financial position for the years ended Dec. 31, 1959, 1960, and 1961, for 16 Indiana rural electric membership corporations who are participants in the proposed REA-loan generation and transmission program of Indiana Statewide Rural Electric Cooperative, Inc. (compiled from reports on file with the Public Service Commission of Indiana)*

	Dec. 31, 1959			Dec. 31, 1960			Dec. 31, 1961		
Assets:									
Utility plant		$34,837,863			$36,559,222			$38,301,502	
Less reserve for depreciation		10,009,435			10,779,499			11,495,591	
			$24,828,428			$25,779,723			$26,805,911
Other investments, miscellaneous special funds and temporary cash investments:									
U.S. Government securities		2,157,638			2,666,697			2,729,517	
Cash, savings and loan associations and other deposits		1,745,496			1,910,022			2,466,482	
Other investments		262,742			321,377			300,565	
			4,165,876			4,898,096			5,496,564
Other physical property			21,350			20,831			17,851
Cash and other current assets			2,575,711			2,694,971			2,887,202
Deferred debits			102,132			146,893			187,890
Total assets			31,693,497			33,540,514			35,395,418
Liabilities:									
Capital accounts:									
Amount invested by members		520,709			535,647			562,578	
Donated capital		93,700			96,576			98,842	
Retained profits		11,177,615			12,580,363			13,911,984	
			11,792,024			13,212,586			14,573,404
Long-term debt:									
Long-term debt contracted		21,621,695			21,545,534			21,811,153	
Less:									
Unapplied payments—Long-term debt	$777,922			$621,281			$964,038		
Allocation available from REA	2,164,305			1,955,408			1,452,275		
		2,942,227			2,576,689			2,416,313	
			18,679,468			18,968,845			19,394,840
Current liabilities			884,035			1,004,433			1,048,523
Deferred credits and miscellaneous reserves			71,579			69,939			67,957
Contributions in aid of construction			266,391			284,711			310,694
Total liabilities			31,693,497			33,540,514			35,395,418

EXHIBIT 2.—*Summary of combined earnings for the years ended Dec. 31, 1959, 1960, and 1961 for 16 Indiana rural electric membership corporations who are participants in the proposed REA-loan generation and transmission program of Indiana Statewide Rural Electric Cooperative, Inc. (compiled from reports on file with the Public Service Commission of Indiana)*

	Year ended Dec. 31		
	1959	1960	1961
Electric operating revenues	$8,816,307	$9,237,831	$9,953,729
Other electric revenues	98,602	256,081	119,912
Total electric revenues	8,914,909	9,493,912	10,073,641
Less—cost of electricity purchased	3,443,674	3,726,154	3,949,267
Electric revenues in excess of purchased cost	5,471,235	5,767,758	6,124,374
Other operating expenses and taxes:			
Operating expenses	2,187,619	2,408,505	2,670,585
Taxes	442,269	508,948	533,375
Depreciation	1,040,472	1,092,858	1,150,239
Total	3,670,360	4,010,311	4,354,199
Total utility operating margin	1,800,875	1,757,447	1,770,175
Other income:			
Interest revenues	103,259	125,492	148,653
Other nonoperating revenues (net)	16,932	18,551	18,782
Total	120,191	144,043	167,435
Gross margin	1,921,066	1,901,490	1,937,610
Interest and other income deductions:			
Interest	360,137	363,703	372,885
Other income deductions	937	762	4,457
Total	361,074	364,465	377,342
Net operating margin	1,559,992	1,537,025	1,560,268

EXHIBIT 3.—*Selected financial ratios for the years ended Dec. 31, 1959, 1960, and 1961 for 16 Indiana rural electric membership corporations who are participants in the proposed REA-loan generation and transmission program of Indiana Statewide Rural Electric Cooperative, Inc. (compiled from reports on file with the Public Service Commission of Indiana)*

	Year ended Dec. 31		
	1959	1960	1961
Utility operating margin (net operating income)	$1,800,875	$1,757,447	$1,770,175
Net operating margin (net profit)	1,559,992	1,537,025	1,560,268
Invested capital, Dec. 31:			
Invested by members	520,709	535,647	562,578
Total invested capital (including donated capital and retained profits)	11,792,024	13,212,586	14,573,404
Net investment in utility plant in service plus materials and supplies	24,990,073	25,998,804	27,051,516
Gross utility plant	34,837,863	36,559,222	38,301,502
Total electric revenues	8,914,909	9,493,912	10,073,641
Taxes	442,269	508,948	533,375
Ratios:			
Percent net income to amount invested by members	299.59	286.95	277.34
Percent net income to total invested capital	13.23	11.63	10.71
Percent net operating income to net investment in utility plant in service plus materials and supplies	7.21	6.76	6.54
Percent taxes paid to gross utility plant	1.27	1.39	1.39
Taxes paid per $1 of total electric revenues	$0.05	$0.05	$0.05

SECTION 3

EXHIBIT 1.—*Summary of combined financial position for 31 rural electric membership corporations served by Public Service Co. of Indiana, Inc. for the years ended Dec. 31, 1959, 1960, and 1961 (compiled from reports on file with the Public Service Commission of Indiana)*

	Dec. 31, 1959			Dec. 31, 1960			Dec. 31, 1961		
Assets:									
Utility plant		$62,260,222			$65,602,332			$69,039,273	
Less reserve for depreciation		19,196,970	$43,063,252		20,682,988	$44,919,344		22,105,469	$46,933,804
Other investments, miscellaneous special funds and temporary cash investments:									
U.S. Government securities		3,892,212			4,305,113			4,204,101	
Cash, savings and loan associations and other deposits		2,119,132			2,722,280			3,486,262	
Other investments		415,731	6,427,075		435,446	7,462,839		570,464	8,260,827
Other physical property			22,499			30,599			32,696
Cash and other current assets			5,324,604			5,319,266			5,521,023
Deferred debits			167,820			219,812			227,654
Total assets			55,005,250			57,951,860			60,976,004
Liabilities:									
Capital accounts:									
Amount invested by members		926,266			958,862			1,030,248	
Donated capital		132,657			136,215			138,452	
Retained profits		24,643,419	25,702,342		27,150,307	28,245,384		29,454,380	30,623,080
Long-term debt:									
Long-term debt contracted		32,616,354			32,155,268			32,059,433	
Less:									
Unapplied payments—long-term debt	$1,882,317			$1,743,589			$1,953,376		
Allocation available from REA	3,731,178			3,295,645			2,657,478		
		5,613,495	27,002,859		5,039,234	27,116,034		4,610,854	27,448,579
Current liabilities			1,756,409			1,996,700			2,227,079
Deferred credits and miscellaneous reserves			108,178			111,367			149,014
Contribution in aid of construction			435,462			482,375			528,252
Total liabilities			55,005,250			57,951,860			60,976,004

EXHIBIT 2.—*Summary of combined earnings for 31 rural electric membership corporations served by Public Service Co. of Indiana, Inc., for the years ended Dec. 31, 1959, 1960, and 1961 (compiled from reports on file with the Public Service Commission of Indiana)*

	Year ended Dec. 31		
	1959	1960	1961
Electric operating revenues	$16,847,261	$17,692,787	$18,886,151
Other electric revenues	179,248	353,933	217,030
Total electric revenues	17,026,509	18,046,720	19,103,181
Less cost of electricity purchased	6,788,992	7,264,129	7,607,942
Electric revenues in excess of purchased cost	10,237,517	10,782,591	11,495,239
Other operating expenses and taxes:			
Operating expenses	4,289,827	4,683,592	5,120,842
Taxes	817,110	932,204	986,726
Depreciation	1,913,174	2,009,589	2,102,594
Total	7,020,111	7,625,385	8,210,162
Total utility operating margin	3,217,406	3,157,206	3,285,077
Other income:			
Interest revenues	141,693	177,906	205,596
Other nonoperating revenues (net)	36,251	48,354	37,443
Total	177,944	226,260	243,039
Gross margin	3,395,350	3,383,466	3,528,116
Interest and other income deductions:			
Interest	514,535	524,886	527,277
Other income deductions	1,127	1,011	5,879
Total	515,662	525,897	533,156
Net operating margin	2,879,688	2,857,569	2,994,960

EXHIBIT 3.—*Selected financial ratios for 31 rural electric membership corporations served by Public Service Co. of Indiana, Inc., for the years ended Dec. 31, 1959, 1960, and 1961 (compiled from reports on file with the Public Service Commission of Indiana)*

	Year ended Dec. 31		
	1959	1960	1961
Utility operating margin (net operating income)	$3,217,406	$3,157,206	$3,285,077
Net operating margin (net profit)	2,879,688	2,857,569	2,994,960
Invested capital, Dec. 31:			
Invested by members	926,266	958,862	1,030,248
Total invested capital (including donated capital and retained profits)	25,702,342	28,245,384	30,623,080
Net investment in utility plant in service plus materials and supplies	43,431,953	45,358,052	47,241,849
Gross utility plant	62,260,222	65,602,332	69,039,273
Total electric revenues	17,026,509	18,046,720	19,103,181
Taxes	817,110	932,204	986,726
Ratios:			
Percent net income to amount invested by members	310.89	298.02	290.70
Percent net income to total invested capital	11.20	10.12	9.78
Percent net operating income to net investment in utility plant in service plus materials and supplies	7.41	6.96	6.95
Percent taxes paid to gross utility plant	1.31	1.42	1.43
Taxes paid per $1 of total electric revenues	$0.05	$0.05	$0.05

APPENDIX V

U.S. DEPARTMENT OF AGRICULTURE, RURAL ELECTRIFICATION ADMINISTRATION

Number and percentage of farms electrified with central station service, by States, 1935, 1940, 1950, and 1961

State	Farms, Jan. 1, 1935, number [1]	Farms receiving central station electric service, Dec. 31, 1934		Farms, Apr. 1, 1940, number [1]	Farms receiving central station electric service, Apr. 1, 1940		Farms, Apr. 1, 1950, number [1]	Farms receiving central station electric service, Apr. 1, 1950		Farms, fall 1959, number [4]	Farms receiving central station electric service, June 30, 1961	
		Number [2]	Percent		Number [1]	Percent		Number [1]	Percent		Number [3]	Percent
United States	6,812,350	743,954	10.9	6,096,799	1,853,249	30.4	5,382,134	4,154,359	77.2	3,710,247	3,590,250	96.8
Alabama	273,455	11,053	4.0	231,746	33,907	14.6	211,512	144,267	68.2	115,610	112,150	97.0
Alaska										367	300	81.7
Arizona	18,824	5,577	29.6	18,468	5,607	30.4	10,412	7,535	72.4	7,219	6,850	94.9
Arkansas	253,013	2,943	1.2	216,674	21,303	9.8	182,429	121,587	66.6	95,009	92,650	97.5
California	150,360	81,093	53.9	132,658	107,904	81.3	137,168	123,311	90.0	99,258	97,650	98.4
Colorado	63,644	7,145	11.2	51,436	14,823	28.8	45,578	32,827	72.0	33,390	30,500	91.4
Connecticut	32,157	10,138	31.5	21,163	16,995	80.3	15,615	14,393	92.2	8,292	8,200	98.8
Delaware	10,381	1,791	17.3	8,994	3,545	39.4	7,448	6,092	81.8	5,207	5,000	96.5
Florida	72,857	5,700	7.8	62,248	15,476	24.9	56,921	40,292	70.8	45,098	44,200	98.0
Georgia	250,544	6,956	2.8	216,033	42,409	19.6	198,191	149,105	75.2	106,347	104,750	98.5
Hawaii										6,242	5,200	83.3
Idaho	45,113	13,433	29.8	43,663	25,439	58.3	40,284	36,901	91.6	33,667	32,700	97.2
Illinois	231,312	28,379	12.3	213,439	80,027	37.5	195,268	168,658	86.4	154,640	152,150	98.4
Indiana	200,835	23,476	11.7	184,549	91,127	49.4	166,627	152,528	91.5	128,160	127,500	99.5
Iowa	221,986	32,047	14.4	213,318	73,308	34.4	203,159	183,508	90.3	174,707	172,450	98.7
Kansas	174,589	13,224	7.6	156,327	27,960	17.9	131,394	91,747	69.8	104,345	97,050	93.0
Kentucky	278,298	8,480	3.0	252,894	38,607	15.3	218,476	144,796	66.3	150,984	148,100	98.1
Louisiana	170,216	2,826	1.7	150,007	16,058	10.7	124,181	82,932	66.8	74,438	73,300	98.5
Maine	41,907	13,959	33.3	38,980	20,221	51.9	30,358	25,990	85.6	17,360	16,650	95.8
Maryland	44,501	6,791	15.3	42,175	17,170	40.7	36,107	30,164	83.5	25,121	24,350	97.0
Massachusetts	35,094	14,494	41.3	31,897	26,220	82.2	22,220	20,256	91.2	11,178	11,050	98.8
Michigan	196,517	42,152	21.4	187,589	131,126	69.9	155,589	146,549	94.2	111,817	110,700	99.0
Minnesota	203,302	13,783	6.8	197,351	50,075	25.4	179,101	148,328	82.8	145,662	143,900	98.8
Mississippi	311,683	2,802	.9	291,092	26,078	9.0	251,383	140,212	55.8	138,142	124,750	90.3
Missouri	278,454	17,893	6.4	256,100	39,204	15.3	230,045	157,930	68.7	168,673	163,450	96.9
Montana	50,564	2,768	5.5	41,823	7,947	19.0	35,085	22,915	65.3	28,957	26,200	90.4
Nebraska	133,616	9,544	7.1	121,062	22,832	18.9	107,183	77,354	72.2	90,475	86,200	95.3
Nevada	3,696	946	25.6	3,573	1,555	43.5	3,110	1,811	58.2	2,350	1,950	82.0
New Hampshire	17,695	9,495	53.7	16,554	10,845	65.5	13,391	12,675	94.7	6,542	6,450	98.3
New Jersey	29,375	15,162	51.6	25,835	21,298	82.4	24,838	23,174	93.3	15,458	15,350	99.2
New Mexico	41,369	1,350	3.3	34,105	4,479	13.1	23,599	12,997	55.1	15,919	14,000	88.0
New York	177,025	57,825	32.7	153,238	102,283	66.7	124,977	116,888	93.5	82,355	81,050	98.4
North Carolina	300,967	9,672	3.2	278,276	67,627	24.3	288,508	218,897	75.9	190,567	186,550	97.9

North Dakota	84,606	1,968	2.3	73,962	3,218	4.4	65,401	35,646	54.5	54,928	47,250	86.0
Ohio	255,146	48,048	18.8	233,783	137,680	58.9	199,359	185,297	92.9	140,353	137,550	98.0
Oklahoma	213,325	5,648	2.6	179,687	20,149	11.2	142,246	91,990	64.7	94,675	89,000	94.0
Oregon	64,826	17,839	27.5	61,829	36,369	58.8	59,827	53,425	89.3	42,573	41,550	57.6
Pennsylvania	191,284	45,182	23.6	169,027	94,081	55.7	146,887	133,467	90.9	100,051	98,150	98.1
Rhode Island	4,327	1,975	45.6	3,014	2,457	81.5	2,598	2,411	92.8	1,395	1,350	97.5
South Carolina	165,504	3,796	2.3	137,558	27,568	20.0	139,364	94,842	68.3	78,171	75,300	96.3
South Dakota	83,303	2,939	3.5	72,454	3,981	5.5	66,452	37,487	56.4	55,726	49,600	89.0
Tennessee	273,783	9,727	3.6	247,617	38,884	15.7	231,631	165,005	71.2	157,688	154,400	97.9
Texas	501,017	11,466	2.3	418,002	79,127	18.9	331,567	258,899	78.1	227,054	217,950	96.0
Utah	30,695	16,130	52.5	25,411	17,411	68.5	24,176	21,427	88.6	17,811	17,450	98.1
Vermont	27,061	7,945	29.4	23,582	12,213	51.8	19,043	17,463	91.7	12,099	11,900	98.3
Virginia	197,632	14,954	7.6	174,885	42,144	24.1	150,997	113,949	75.5	97,623	94,700	97.0
Washington	84,381	40,060	47.5	81,686	58,283	71.4	69,820	64,161	91.9	51,575	51,050	99.0
West Virginia	104,747	3,647	3.5	99,282	25,199	25.4	81,434	58,789	72.2	44,011	41,600	94.5
Wisconsin	199,877	39,206	19.6	186,735	87,556	46.9	168,561	155,545	92.3	131,215	129,000	98.3
Wyoming	17,487	527	3.0	15,018	3,474	23.1	12,614	7,937	62.9	9,743	9,150	94.0

[1] U.S. Census of Agriculture.
[2] Edison Electric Institute.
[3] REA estimate.
[4] U.S. Census of Agriculture, 1959, preliminary.

(NRECA rebuttal appears on p. 298 and Public Service Co. of Indiana, Inc., rebuttal on p. 333.)

MISSISSIPPI POWER & LIGHT CO.

STATEMENT OF DONALD J. GRAY, VICE PRESIDENT AND OPERATING MANAGER

PREPARED STATEMENT

Senator STENNIS (presiding). I am delighted that Mr. Gray is up here and he could come. He and I have chatted about this some. I do not know where we will be at the end, but we value very much his services not only to his company, but to our State. I know he will have some valuable testimony.

Mr. GRAY. Thank you, sir.

Gentlemen, the opportunity of appearing before your committee is deeply appreciated.

My name is Donald G. Gray, and I am vice president and operating manager of the Mississippi Power & Light Co. The company's general offices, and my office, are located in Jackson, Miss.

Our company is an investor-owned electric utility, serving over 190,000 rural and urban customers in 45 counties in western Mississippi.

CONCERN OVER PROPOSED INCREASE FOR REA LOAN PROGRAM

I am here today because of a deep and growing concern, both as a citizen and as a businessman, over the proposed increase of Federal appropriations for the rural electrification loan program of the REA. It is our firm belief that there is no justification for such increases. In fact, there are many reasons why the funds appropriated for this purpose should be substantially reduced.

This belief does not stem from any basic opposition from either me or my company to the rural electrification program. We are in accord with the original intent of Congress in providing funds for loans by REA to furnish electric energy to customers in rural areas who are not receiving central station service.

In the western Mississippi territory where we are privileged to do business the Mississippi Power & Light Co. has cooperated with the 10 rural electric cooperatives located in the area we serve ever since the inception of REA.

In 1962 our company served 8 rural electric cooperatives at 47 points of delivery, selling them nearly 317 million kilowatt-hours of electricity at an average rate of 6.76 mills per kilowatt-hour.

The contracts we enter into with the rural electric cooperatives contain no limitations as to the use of the electric power we sell to them. We have agreed to sell the rural electric cooperatives we serve all of the electric power they may need to meet their customers' requirements within the scope of the service the Congress intended they should render. Five-year contracts are presently in effect with the cooperatives we serve. We have offered, and still offer, contracts of 10 years duration or for even longer periods of time.

The rural electric cooperatives have done an excellent job as attested by the fact that 98 percent of the farms in the Nation have electricity available. Of course, not all of this has been the work of REA borrowers.

Utility operating margins of 23 Mississippi rural electric cooperative borrowers in 1961 represented a 5.1-percent return on their net plant. Net operating margins represented a 10.2-percent return on their equity. Certainly as a group they are not in financial difficulties.

INTENTION OF CONGRESS

It is clear that the Congress of the United States, in establishing the program, intended that rural electric cooperatives should serve rural areas, which were not receiving central station service and which could not be served economically otherwise. Despite this many of them are serving large industrial loads. Contrary to the expressed intent of Congress, rural electric cooperatives are serving customers inside corporate limits of cities and towns which our company has always been ready, willing, and able to serve. In fact, in Mississippi one rural electric cooperative presently serves over 250 customers within the corporate limits of the city of Jackson, Miss.—a metropolitan city of over 150,000 population.

INCREASING NUMBER AND AMOUNTS OF LOANS

Another facet of this problem is found in the increasing number and amounts of loans being made for generating and transmission cooperatives. Insofar as we know, there are no cooperative generating and transmission systems in the United States which generate all their requirements furnishing power to their cooperative customers at rates as low as the rates we sell electric power to our cooperate customers.

The national average at which generating and transmission cooperatives sold power to REA borrowers during the 12 months ending June 30, 1961, was 8.9 mills per kilowatt-hour, compared with our company's average cost to its cooperative customers of 6.76 mills per kilowatt-hour during the year 1962. The average price of power supplied by all power companies to REA borrowers during the 12 months ending June 30, 1961, was 7.8 mills per kilowatt-hour.

Despite these facts, a generating and transmission cooperative is being planned in Mississippi through an REA loan of over $16 million. In this situation, according to testimony, the electric cooperatives involved now receive power from the two investor-owned companies in Mississippi at prices lower than the price they can be supplied power from the proposed generating and transmission cooperatives. Further, the planned generating and transmission cooperative will duplicate expensive facilities already in place, thus placing an undue and unnecessary burden on the electric rate payers and on all those who pay Federal taxes.

Consequently, it is evident there is no justification for the appropriation of tax funds for generating and transmission systems in Mississippi.

The Mississippi Power & Light Co. believes that if the rural electric cooperatives would operate within the original intent of the Congress

when it established the Rural Electrification Administration, and made funds available so they could supply electricity in rural areas, then this would be a proper and satisfactory situation.

But, if the rural electric cooperatives are to be permitted to engage in the electric utility business on a full scale, competing with taxpaying businesses for all types of customers and electric power loads everywhere, then they should be governed by the same rules as the investor-owned electric utility companies. We respectfully suggest that if rural electric cooperatives are allowed to continue serving all electric power loads, are allowed to continue operating in municipalities and are encouraged to build generating and transmission systems, then they should be required to: (1) finance their operations on the same basis as investor-owned companies, which pay an average of about 24 cents of every dollar of revenue for taxes of various kinds.

SUMMARY

In summary, if the Congress continues to make appropriations for the rural electrification program, we believe the rural electric cooperatives should be confined in their operations to the limits originally intended by Congress.

If the rural electric cooperatives, through their actions assume a full electric utility status, then there can be no basis for further appropriations by Congress because they, the rural electric cooperatives, should secure money for financing and pay taxes on the same basis as the investor-owned electric utilities with whom they are competing.

In either of these cases, the amount of moneys provided by Congress for the rural electrification program could be substantially reduced.

Thank you.

Senator HOLLAND. Thank you, Mr. Gray.

Senator Stennis.

Senator STENNIS. I have no particular questions, Mr. Chairman. I have followed his statement, all of it.

Senator HOLLAND. I notice your rate is good, it is 26.7.

Mr. GRAY. Yes, sir, 6.76 mills is our average rate.

Senator HOLLAND. Thank you very much.

Senator STENNIS. Mr. Gray, your reference to the particular generating plant in Mississippi, the proposed one, that has already been passed on, has it not, here? It has been allowed?

Mr. GRAY. The loan has been approved. The Mississippi Public Service Commission has passed on it, has granted a certificate of convenience and necessity. It is being appealed to the courts.

Senator STENNIS. It is final except for the court action which is an appeal from the public service commission?

Mr. GRAY. From the public service commission ruling; yes, sir.

Senator STENNIS. That is the way I understood it.

Senator HOLLAND. Thank you, Mr. Gray.

Mr. GRAY. Thank you.

Senator HOLLAND. We have another citizen from your State, Mr. Stennis, Mr. Watson.

Senator STENNIS. I am glad to present Mr. Watson, as well as Mr. Gray to the committee. I have talked to Mr. Watson, too.

Senator HOLLAND. I am going to ask you to take over from now on. I am going to ask the other witnesses to put your statement in. Do not expect to read all of them. Put them in and just state a résumé because the statements will speak for themselves.

I have already called your attention to the fact that there is generally just 1 member of the committee here, there are 16 members of the committee. It will all be printed. There are 27 members of the full committee. They will all get to it. Eventually the Senate will get to see it and the observation is that frequently these items become matters of general public interest. There is great demand for the hearing record.

(NRECA rebuttal appears on p. 304.)

Senator HOLLAND. Thank you, gentlemen, for your courtesy today.

Senator STENNIS (presiding). Mr. Watson, we are glad to have you, sir, and you may proceed in your own way.

MISSISSIPPI POWER CO.

STATEMENT OF A. J. WATSON, JR., PRESIDENT

PREPARED STATEMENT

Mr. WATSON. Thank you, Mr. Chairman.

In deference to the time limitation, I would like for my full statement also to be incorporated in the record.

Senator STENNIS. It will be so ordered.

(The statement referred to follows:)

My name is A. J. Watson, Jr., and I am president of the Mississippi Power Co. I appreciate very much the privilege of appearing before your committee.

The company's general offices and my office are located in Gulfport, Miss. I have been a full-time employee of the company for 33 years and have been president since 1958.

I am appearing before your committee to discuss my opposition to the appropriation of funds to cover loan authorizations under REA's electrification program for the year ending June 30, 1964, that are intended to be used for the construction of generating and transmission facilities.

Mississippi Power Co. began operation on January 1, 1925. We operate in the 23 southeastern counties in the State and provide electric service at retail to over 118,000 customers. Our investment in plants, lines, substations and other physical facilities is in excess of $120 million. In addition, we supply through 34 delivery points, at wholesale rates below the national average for such service, all of the electric requirements of 4 REA-financed electric cooperatives (Coast Electric Power Association, Dixie Electric Power Association, Pearl River Valley Electric Power Association, and Singing River Electric Power Association) and a portion of the requirements of 2 others (Southern Pine Electric Power Association and East Mississippi Electric Power Association). The remainder of the requirements of the latter two is supplied by Mississippi Power & Light Co. and TVA, respectively. During the calendar year 1962 our total supply to the co-ops was 290,277,094 kilowatt-hours, and the average price paid by them was 7.341 mills per kilowatt-hour. The average annual growth in kilowatt-hours requirements of these co-ops for the past 10 years has been 14.5 percent compounded annually. During the same 10-year period the company's total growth in territorial sales (including sales to the co-ops) was 10.7 percent per year compounded annually. It is, therefore, perfectly obvious that there could be no complaint about their rate of growth as compared with ours. They have been doing a good job in extending their lines and providing for increased usage in the areas in which they operate, and I commend them for their diligence. In fact, our most recent information indicates that more than 96 percent of the farms in their areas are receiving central station electric service.

The cooperatives that are operating in southeast Mississippi were organized in the middle and late 1930's. Since that time we have endeavored to assist

them in every reasonable way that we could. We have provided good service to them at reasonable cost; and when they were getting started we, when they sought it, provided engineering advice and counsel to them at no cost to them. Our attitude is now, as it was then, that they were created to provide electric service for the farms and rural residents that we and others like us as taxpaying, investor-owned companies could not as economically provide in the sparsely settled areas. The late Hon. Sam Rayburn, one of the sponsors of the legislation that created REA, during debate on the floor of Congress had this to say on April 19, 1936: "May I say to the gentlemen that we are not, in this bill, intending to compete with anybody. By this bill we hope to bring electricity to the people who do not now have it. This bill was not written on the theory that we were going to punish somebody or parallel their lines or enter into competition with them."

The fact that the cooperatives in Mississippi have almost complete freedom from all taxes—local, State, and Federal—and have available to them Government financing at subsidized rates of interest are the very factors which, together with the low rate at which they purchase power from our company, enable them to supply those areas which we could not serve. Regardless of these and other distinct and direct advantages, our residential rates, including those on rural lines that we financed, built, operate, and pay taxes on, are lower than those in areas supplied by them, in which we also operate.

The Mississippi Power Co. and our neighboring investor-owned utility, the Mississippi Power & Light Co., have been opposing since the early 1940's the construction of a generating plant and transmission system in southeast Mississippi. In 1942, a $2,100,000 commitment was made to a generating and transmission co-op to build a plant and transmission system in southeast Mississippi. The facilities proposed to be covered by that allocation were not built, but in 1958 there was an additional commitment made for $13,991,000 which, together with the old 1942 commitment, totals $16,091,000 which would be made available by REA to this G. & T. co-op to build a larger plant and transmission system in southeast Mississippi. This total commitment approved by the REA Administrator in July 1958 followed sincere and diligent, but unsuccessful, efforts on our part to negotiate on terms of a contract to supply these same requirements to member cooperatives. These cooperatives would not even attempt to negotiate. At their request we made a proposal to them that was intended (and we then so stated) as a basis to begin negotiations. They took it as our best and final offer and proceeded to use it as their asserted basis for needing their own plant and transmission system.

In Mississippi it is necessary that, before such facilities may be built, a certificate of convenience and necessity must be obtained after hearings before the Mississippi Public Service Commission. Lengthy hearings on this matter before that commission were concluded in December 1962 and the commission in March 1963 issued an order that would permit these facilities to be constructed. This order of the commission is being appealed because we do not believe that this expenditure of Federal funds is in the public interest.

During these hearings the managers of three of the four member cooperatives that would receive power initially from the G. & T. co-op (South Mississippi Electric Power Association) testified under cross-examination that the estimates of the supercooperative's engineers showed their cost of purchasing power under that plan would be approximately 25 percent higher than the rates at which our company is now supplying them and at which rates we are willing to continue to supply them under the latest proposals that we have made to them. They also admitted that this increased cost of power to supply their systems could be absorbed only by an increase in their rates to their member-consumers or a reduction in their net margins, and that either event would result in increased power costs to their member-consumers. This increased cost to the member-consumers must, therefore, be borne by them without redress to any regulatory body since the rates of the co-ops are not subject to any regulation except in the case of those customers which they serve that are within the corporate limits of a municipality, less than 2 percent of the total they now serve.

The complete disregard for the economics involved in the attempted justification of such expenditures of taxpayers' funds can only be explained as a desire to construct tax-exempt, subsidized facilities to be used as a basis for later interconnection with other similar Government-owned or sponsored installations that would form a huge Government-owned or controlled power system duplicating or supplanting facilities which private investment is willing and able to provide under regulated rates and conditions of service.

I firmly believe that this committee should put restrictions on the use of funds that are appropriated for REA to lend that would make it impossible for these funds to be used to duplicate or replace investor-owned, taxpaying facilities at least without first giving the owner of the facilities to be duplicated or replaced a chance to review and be heard fairly and impartially on the economic feasibility and comparison.

Looking far beyond my responsibility for the welfare of the customers, employees, and investors in the company that I represent, no matter what the nature of any business may be, I strongly oppose using funds received through the taxation of corporations and individuals to destroy the very business that helps to provide these taxes. Such a philosophy and procedure is economically unsound, discriminatory, and punitive and, in my humble judgment, is not in keeping with those principles of free, unfettered, and independent initiative and enterprise that made America the greatest Nation in history.

In view of the unjustified manner in which these loan funds are being used, and of the urgency of reducing nonessential governmental expenditures or use of funds in order to reduce or preferably eliminate budget deficits, I respectfully urge this committee to withhold recommending any appropriation of funds for lending by the REA to construct generating plants and transmission lines until the detailed requirements for such loans are justified to your committee. Such justification should require complete and unbiased pertinent information, including economic comparisons with investor-owned, taxpaying sources and taking fully into account the loss of taxes as well as the cost of administration and interest subsidy to the Government.

In my opinion, loans for generating capacity should not be made where there is an adequate supply of power available from investor-owned, taxpaying sources at publicly regulated rates and conditions of service at least until all interested parties have been given notice by the Administrator and have had an opportunity to present pertinent information and be heard in connection therewith.

GENERAL STATEMENT

Mr. WATSON. I have prepared a rather brief summary of what I had in mind but I am going to go even farther than that.

Senator STENNIS. You may use such time as you need. I will stay here until all have testified.

Mr. WATSON. Mr. Gray referred to the generating plant and transmission system that had already been approved in Mississippi and is now appealed to the courts.

In reference to that I would like to add that the complete disregard for the economics involved in it and the attempted justification for such expenditures of taxpayers' funds can only be explained as a desire to construct tax exempt subsidized facilities to be used as a basis for later interconnection with other similar Government-owned or sponsored installations that would form a huge Government-owned or controlled power system duplication and supplanting facilities which private investment is able and willing to provide under regulated rates of conditions of service.

Looking far beyond my responsibility for the welfare of the customers, employees, and investors in the company that I represent, no matter what the nature of any business may be, I strongly oppose using funds received through the taxation of corporations and individuals to destroy the very business that helps to provide these taxes. Such a philosophy and procedure is economically unsound, discriminatory and punitive and, in my humble judgment, is not in keeping with those principles of free, unfettered, and independent initiative and enterprise that made America the greatest nation in history.

RECOMMENDATION

In view of the unjustified manner in which these loan funds are being used, and of the urgency of reducing nonessential governmental expenditures or use of funds in order to reduce or preferably eliminate budget deficits, I respectfully urge this committee to withhold recommending any appropriation of funds for lending by the REA to construct generating plants and transmission lines until the detailed requirements for such loans are justified to your committee. Such justification should require complete and unbiased pertinent information, including economic comparisons with investor-owned, taxpaying sources and taking fully into account the loss of taxes as well as the cost of administration and interest subsidy to the Government.

Senator STENNIS. You are suggesting there the justification of each installation before the congressional committee?

Mr. WATSON. That or at least a justification for the amount of loans that is requested, more information than seems to be given the committee at the present time.

Senator STENNIS. Your entire statement, Mr. Watson, will be included in the record and following the statement will be Mr. Watson's remarks.

Mr. WATSON. Thank you.

Senator STENNIS. Thank you very much for your appearance. I am sorry you had to wait so long.

(NRECA rebuttal appears on p. 304.)

ALABAMA POWER CO.

STATEMENT OF ALVIN W. VOGTLE, JR., EXECUTIVE VICE PRESIDENT

PREPARED STATEMENT

Senator STENNIS. We are glad to have you.

Mr. VOGTLE. I am going to skip through this statement in order to conserve time.

However, I would like to request permission for it to be included in the record.

Senator STENNIS. Mr. Vogtle's entire statement will be included in the record at this point, Mr. Reporter.

(The statement referred to follows:)

Gentlemen, this opportunity of appearing before you is deeply appreciated. I am appearing here today on behalf of Alabama Power Co., with which I have been associated for nearly 23 years and of which I have been executive vice president since August 1, 1962.

Mr. Walter Bouldin, the president of Alabama Power Co., has already appeared as a witness today and, in the interest of saving time, I wish to adopt his statement as a part of my statement. Some of his remarks were directed toward the situation which we are facing today in Alabama, and there are only a few details which I believe it will be necessary for me to add.

Alabama Power Co. is an electric public utility serving in 55 of the 67 counties of Alabama and serving directly over 672,000 customers, including more than 122,000 rural customers. For this rural service we have built about 26,000 miles of rural distribution lines, 2,700 miles of which have been classified as urban as customer density along these lines has increased. Our company has received numerous awards for its work in the promotion of rural electrification.

Alabama Power Co. has always owned and maintained sufficient generating capacity to supply the needs of its customers, including the rural electric distribution cooperatives. At the close of World War II, it had in operation generating capacity of 699,500 kilowatts installed in five steamplants and six hydroplants. In the years since World War II, it has made numerous generating capacity additions, both in steam and hydro, to serve the increasing power requirements from its system. These additions, including the 500,000-kilowatt capacity available to Alabama Power Co. from the steam generating plant with a capacity of 1 million kilowatts constructed recently by Southern Electric Generating Co. (of which Alabama Power Co. is one-half owner), total 1,976,700 kilowatts of capacity. Alabama Power Co. had, as of the end of 1962, an installed generating capacity of 2,661,200 kilowatts (including the capacity available to it from Southern Electric Generating Co.).

These examples show that Alabama Power Co. has always planned and provided generating capacity adequate in amount and properly timed to meet fully its obligation with respect to power requirements which are reasonably to be anticipated and which actually occur. The figures which I have given show that the capacity of generating facilities on our system is almost four times as large as it was in 1945. These facilities have been constructed through the years with the specific plan and purpose of maintaining sufficient capacity to provide not only for the needs of directly supplied consumers of Alabama Power Co. but also for the needs of the rural electric cooperatives in Alabama which it serves. Alabama Power Co. has in the past, is now, and intends to be in the future fully capable of discharging its responsibilities with respect to supplying electric power requirements of all its customers, including the rural electric cooperatives now served by it. As evidence of its ability to fulfill its intentions for the future, the company now has under construction, as a joint project with Mississippi Power Co., two units of the Greene County steamplant with a combined rating of 500,000 kilowatts. Sixty percent of this plant and a similar proportion of its capacity will be owned by and for the use of Alabama Power Co. Additional hydroelectric generation is under construction at three locations on the rivers of Alabama.

During the same period of time in which these generating units were constructed, Alabama Power Co. has expanded its large and fully interconnected transmission system. Our company now owns and maintains 6,284 miles of transmission lines, an increase of 2,588 miles of such lines since 1945. Many of these lines were built to supply either in whole or in part, the needs of the rural electric cooperatives which we serve and include provisions for the expanded requirements of these cooperatives. This transmission system is fully capable of providing a firm and reliable source of electric power and is interconnected with other transmission systems in Alabama and adjoining States to the east, west, and south.

The economies of large generating units as compared to smaller units are well known. The need for large-scale generation has been recognized and encouraged by the Federal Power Commission, as evidenced by recent statements of several of its members. Small generating stations operated by cooperatives cannot achieve the economies available from large generating plants to produce lower costs for their customers; and these small generating stations, by their relatively inefficient operation, waste important natural resources.

The economies of interconnected and coordinated system operation are more fully realized when utilities are interconnected over large areas. For example, Georgia Power Co., in the eastern time zone, has a system peak demand which occurs at a time different than that of Alabama Power Co., located in the central time zone. Interconnected and coordinated operation by these companies results in a diversity of load which permits substantial reductions in generating capacity required to supply such load. Interconnected and coordinated operation also permits a reduction in reserve capacity requirements in an area.

In a similar manner, diversity of loads due to system peak demands which occur in different seasons is used to mutual advantage. A recent interconnection agreement between Florida Power Corp., the system of which peaks in the winter, and our company and others, the systems of which peak in the summer, enables all parties to take advantage of this diversity and thereby reduce the total capacity requirements of the area. The economies resulting from diversity in loads because of time and seasonal differences cannot be realized fully in small, relatively isolated systems of generating and transmission cooperatives.

Not only does Alabama Power Co. have sufficient generating and transmission capacity to supply the power requirements of all cooperatives in Alabama which

it serves, but it has consistently provided electric power to such cooperatives for a price less than the cost for which they could generate and transmit it for themselves. Alabama Power Co. has supplied Alabama Electric Cooperative, Inc., with its deficit power requirements since that cooperative acquired certain small capacity generating facilities from Alabama Water Service Co. in 1944 with its first REA loan. Such power has been supplied under negotiated contracts approved by the Alabama Public Service Commission. Under the latest of such contracts, dated March 30, 1955, which is still in force, Alabama Power Co. is firmly committed to supply Alabama Electric Cooperative, Inc., with all power needed by it in excess of the power it is able to generate with the limited generating facilities it owned and operated as of March 30, 1955. The cooperative is committed by the terms of such contract to purchase from Alabama Power Co. its power requirements in excess of the capacity of such generating facilities. Notwithstanding such contract, such cooperative constructed with the proceeds of a prior REA loan and placed in operation in September of 1959, an additional steam generating unit which substantially reduced the quantity of energy it would otherwise have purchased from Alabama Power Co. under the terms of such contract. Despite this clear violation of the contract on the part of the cooperative, Alabama Power Co., by letter dated October 27, 1959, offered to enter into a new 5-year agreement with the cooperative to supply such cooperative all of its power requirements in excess of its then existing generating capacity, including the 1959 addition, at the present low rates which have produced an average cost of power to it from Alabama Power Co. over the 5-year period from 1957 to 1961, inclusive, of 6.59 mills per kilowatt-hour. Despite this low cost of electricity from Alabama Power Co., Alabama Electric Cooperative, Inc., received approval from REA in November 1961, of a $20,350,000 loan for the purpose of enabling such cooperative to construct a 66,000-kilowatt generating plant and approximately 710 miles of transmission lines (many miles of which will duplicate transmission lines of Alabama Power Co.) with related substations and connections.

The plan submitted by Alabama Electric Cooperative, Inc., to REA as support for such loan shows that such cooperative proposes to serve with the expanded generating and transmission system to be constructed with the proceeds of such loan all the power to seven distributing electric cooperatives, two of which are now served entirely by Alabama Power Co., three of which are served in large part by Alabama Power Co., and two of which are served by Gulf Power Co. The five of such distributing cooperatives which Alabama Power Co. is now serving have been furnished electric power by Alabama Power Co. under contracts entered into for each delivery point at which the service is made. These contracts for as far back as 1944 have provided for an initial term of 5 years and continue thereafter from year to year until terminated by 6 months' written notice given by either party prior to the anniversary date. All of such contracts have been submitted to and approved by the Alabama Public Service Commission and reflect a reasonable and low power rate which produced an average power cost to such cooperatives of only 6.08 mills in 1961. While some of these contracts have been in existence for more than 5 years and are now on an extended basis, none of them have been terminated by Alabama Power Co. Moreover, Alabama Power Co. has sought to extend these contracts for an additional 5-year term and has given assurance that no increase in the present rate schedule will be made during such 5-year term. This offer to extend was made in March of 1959, more than 20 months before Alabama Electric Cooperative, Inc., filed its loan application with REA and is still open for acceptance by such distributing cooperatives.

It is interesting to note that the customers to be served by Alabama Electric Cooperative, Inc., with the facilities to be built with the funds sought from REA are now receiving "central station service." Such a deliberate flouting of the Federal law should not be countenanced.

In order for Alabama Electric Cooperative, Inc., to conform to the State laws in Alabama relating to loans from REA, it was necessary for that cooperative to seek approval from the director of finance of the State of Alabama. Alabama Power Co. intervened in the proceedings before such director, and an extensive hearing was conducted. It was established by evidence adduced by Alabama Power Co. that the cost of power delivered from the proposed expanded system of such cooperative to be built with the proceeds from the loan from REA would be substantially more than the cost of power obtained by the distributing cooperatives under the terms of existing contracts with Alabama

Power Co. A witness for the cooperative stated a conclusion (which was proved to be untenable) that its cost of delivered power from its proposed expanded system would be 7.18 mills per kilowatt-hour. He also stated that the distributing cooperatives' cost of power from Alabama Power Co. was 7.22 mills per kilowatt-hour—a difference which, even if it existed, would amount to about 16 cents per year for each customer in the affected area.

It was also established at the hearing by evidence adduced by Alabama Power Co. that the distributing cooperatives now being served by Alabama Power Co. and Gulf Power Co., but which would be served entirely by Alabama Electric Cooperative, Inc., if approval of the loan was finally granted, would be charged over $4 million more if they purchased their power needs from Alabama Electric Cooperative, Inc., rather than from Alabama Power Co. and Gulf Power Co. for the period 1965–74. The same witness for the cooperative, in referring to the rates to the distribution cooperatives charged by Alabama Power Co., characterized them as "abnormally low"—a remarkable admission under the circumstances.

Under the three criteria established by the Rural Electrification Administration for making loans for generating and transmitting facilities, there is clearly no need for such loans in Alabama. Those criteria, relating to the availability of power, the cost of power, and the security and effectiveness of the REA-financed systems, clearly establish the lack of need for such loans in our State. In Alabama, our company has ample capacity, can supply power at a lower cost, and has offered to continue for at least a 5-year period the already low rates under which rural electric cooperatives have been served for almost 10 years. In view of the circumstances under which the unjustified loan to Alabama Electric Cooperative, Inc., was authorized by REA, I hope that this committee will conclude that no amounts for such loans in Alabama should be appropriated until REA has justified to the Congress its request for funds for each proposed generating plant and transmission line project.

Thank you very much.

GENERAL STATEMENT

ACTIVITIES OF ALABAMA ELECTRIC COOPERATIVE, INC.

Senator STENNIS. Gentlemen, I am entirely willing, if you have the time, to stay here as long as may be needed. Senator Holland had this other matter that he had to go to. I had another matter earlier in the afternoon that I just had to attend to in connection with the Military Preparedness Committee. So I am here to stay.

Mr. VOGTLE. As I said, I am going to be short. You have not been in the room, as you pointed out, all day. There has been a great deal of discussion about Alabama Electric Cooperative, Inc., which serves in Alabama and is now expecting to further its operations in the State of Florida.

We are quite concerned with the activities of that cooperative and it is largely that matter about which I want to make a statement.

AUTHORIZED LOAN

It has applied for and received authorization for a loan from REA. This was done in November 1961, in the principal amount of $20,350,000 with which to build a generating station in Alabama and transmission and associated facilities.

We have opposed that before the Director of Finance in the State of Alabama because we have a forum there in which we are accorded the right to intervene and to protest. We did so and what I am about to tell you is largely taken from the trial of that case.

Not only does Alabama Power Co. have sufficient generating and transmission capacity to supply the power requirement of all the cooperatives in Alabama which it serves but it has consistently pro-

vided electric power to such cooperatives for a price less than the cost for which they could generate it and transmit it for themselves.

Alabama Power Co. has supplied Alabama Electric Cooperative, Inc., with its deficit power requirement since that cooperative acquired certain small capacity generating facilities from Alabama Water Service Co. in 1944 with its first REA loan. Such power has been supplied under negotiated contract approved by the Alabama Public Service Commission.

Under the latest of such contracts, dated March 30, 1955, which is still in force, Alabama Power Co. is firmly committed to supply Alabama Electric Cooperative with all the power needed by it in excess of the power it is able to generate with the limited generating facilities it owned and operated as of March 30, 1955.

I interpolate at this point that we have no restrictive clauses such as have been described here today.

The cooperative is committed by the terms of such contract to purchase from Alabama Power Co. its power requirements in excess of the capacity of such generating facilities. Notwithstanding such contract, such cooperative constructed with the proceeds of a prior REA loan and placed in operation in September of 1959 an additional steam generating unit which substantially reduced the quantity of energy it would otherwise have purchased from Alabama Power Co. under the terms of such contract.

VIOLATION OF CONTRACT

Despite this clear violation of the contract on the part of the cooperative, Alabama Power Co., by letter dated October 27, 1959, offered to enter into a new 5-year agreement with the cooperative to supply such cooperative all of its power requirements in excess of its then existing generating capacity, including the 1959 addition, at the present low rates which have produced an average cost of power to it from Alabama Power Co. over the 5-year period from 1957 to 1961, inclusive, of 6.59 mills per kilowatt-hour.

Despite this low cost of electricity from Alabama Power Co., Alabama Electric Cooperative, Inc., received approval from REA in November, 1961, of a $20,350,000 loan for the purpose of enabling such cooperative to construct a 66,000-kilowatt generating plant and approximately 710 miles of transmission lines (many miles of which will duplicate existing transmission lines of Alabama Power Co.) with related substations and connections.

PLAN SUBMITTED TO REA

The plan submitted by Alabama Electric Cooperative, Inc., to REA as support for such loan shows that such cooperative proposes to serve with the expanded generating and transmission system to be constructed with the proceeds of such loan all the power to seven distributing electric cooperatives, two of which are now served entirely by Alabama Power Co., three of which are served in large part by Alabama Power Co., and two of which are served by Gulf Power Co. The five of such distributing cooperatives which Alabama Power Co. is now serving have been furnished electric power by Alabama Power Co. under contracts entered into for each delivery point at which the service is made. These contracts for as far back as 1944 have provided

for an initial term of 5 years and continue thereafter from year to year until terminated by 6 months' written notice given by either party prior to the anniversary date. All of such contracts have been submitted to and approved by the Alabama Public Service Commission and reflect a reasonable and low power rate which produced an average power cost to such cooperatives of only 6.08 mills in 1961.

While some of these contracts have been in existence for more than 5 years and are now on an extended basis, none of them have been terminated by Alabama Power Co. Moreover, Alabama Power Co. has sought to extend these contracts for an additional 5-year term and has given assurance that no increase in the present rate schedule will be made during such 5-year term. This offer to extend was made in March of 1959, more than 20 months before Alabama Electric Cooperative, Inc., filed its loan application with REA, and is still open for acceptance by such distributing cooperatives.

CUSTOMERS TO BE SERVED

It is interesting to note that the customers to be served by Alabama Electric Cooperative, Inc., with the facilities to be built with the funds sought from REA are now receiving central station service. Such a deliberate flouting of the Federal law should not be countenanced.

In order for Alabama Electric Cooperative, Inc., to conform to the State laws in Alabama relating to loans from REA, it was, as I have stated, necessary for that cooperative to seek approval from the director of finance of the State of Alabama. Alabama Power Co. intervened in the proceedings before such director, and an extensive hearing was conducted. It was established by evidence adduced by Alabama Power Co. that the cost of power delivered from the proposed expanded system of such cooperative to be built with the proceeds from the loan from REA would be substantially more than the cost of power obtained by the distributing cooperatives under the terms of existing contracts with Alabama Power Co.

Of course there was a dispute on that point. There had to be. Otherwise, in my opinion, the cooperative could not have justified a loan from REA. So they brought in an expert witness from Muscatine, Iowa. He stated a conclusion which the record will show to be completely untenable. I am not going to take the time to document that at this moment, but Alabama Power Co. showed that his conclusion that the cost of delivered power from Alabama Electric Cooperative's expanded system would be 7.18 mills per kilowatt-hour was completely untenable. He also stated that the distributing co-ops' cost of power from the Alabama Power Co. was 7.22 mills per kilowatt-hour. That is a difference of four-hundredths of a mill. To repeat this important point, their own expert witness putting forward the best possible case he could, was only able to state that the cost of power to the distributing co-ops from the expanded system of Alabama Electric Cooperative was four-hundredths of a mill under that which he said was the distributing cooperatives' cost of power from Alabama Power Co.

Of course, we disputed that and I am confident that we proved his conclusions to be erroneous. But this difference, even if it existed,

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would only amount to about 16 cents per year for each customer in the affected area.

EXPERT ENGINEERING WITNESS

Then, this expert engineering witness introduced a totally new concept, one which ought to deserve real thought. We had shaken his estimate so badly on the cost of power from AEC to these distributing cooperatives and also his expected or estimated cost of power from Alabama Power Co. to the distributing cooperatives that he made this amazing statement. He referred to the rates being charged by Alabama Power Co. to the distributing cooperatives, the current rates at that time, and he characterized them as abnormally low. His idea was that sometime in the future, since they were so low, Alabama Power Co. would have to raise them.

All I can say to you is that I have heard of loans for these generating plants being approved on the basis that they would reduce the cost of power of the G. & T. cooperative below the rate at which it could buy power from the private supplier but I have never heard of one being justified because the private supplier's rates were too low.

RECOMMENDATION

In view of the circumstances under which the unjustified loan to Alabama Electric Cooperative was authorized by REA, I hope that this committee will conclude that no amount for such loans in Alabama should be appropriated until REA has justified to the Congress its request for funds for each proposed generating plant and transmission line project.

Senator Stennis, I have one other request if I may make it. The G. & T. loan approved to Alabama Electric Cooperative was for the first time as Mr. Bouldin stated earlier today based on the new third criteria that Alabama Power Co. is an unfriendly supplier of power. That assertion has been completely refuted. It was completely refuted last year before this committee and I would like the record to show that the data on it would be found in the hearings before the subcommittee of the Committee on Appropriations, U.S. Senate, 87th Congress, 2d session; on H.R. 12648, commencing at page 1049 and extending through page 1069.

One final statement: This morning, I believe in your absence, a witness for NRECA, in referring to the distributing cooperatives in Alabama served by Alabama Power Co., referred to them as "his people." I would like to state that we consider them "our people" and we are going to fight to keep them "our people" as much as we can.

Thank you.

Senator Stennis. Thank you very much, Mr. Vogtle.

(NRECA rebuttal appears on p. 310.)

UTAH POWER & LIGHT CO.

STATEMENT OF E. A. HUNTER, VICE PRESIDENT

PREPARED STATEMENT

Senator STENNIS. Are you Mr. Naughton?

Mr. HUNTER. My name is E. A. Hunter, vice president of Utah Power & Light Co. and the Western Colorado Power Co., Mr. Naughton, the president, was unable to be here today.

Senator STENNIS. You may proceed in your own way with Mr. Naughton's statement or one of your own.

Mr. HUNTER. I have an 11-page statement here of Mr. Naughton. I would like to have that inserted in the record as if read.

Senator STENNIS. At this point you will insert the testimony by Mr. Naughton.

(The statement referred to follows:)

Mr. Chairman and committee members, I am E. M. Naughton, president and general manager of Utah Power & Light Co. and the Western Colorado Power Co. These companies for 50 years have served most of the State of Utah, southeastern Idaho, southwestern Wyoming, and southwestern Colorado. We have invested $320 million in electric facilities to serve our one-quarter million customers.

The reason for my appearance before this committee today is to suggest that the amount of authorization for borrowing from the Treasury in the 1964 budget be substantially reduced below the $425 million requested by the Rural Electrification Administration. We believe that the Treasury should continue to loan money to REA to provide funds to construct distribution and transmission facilities to serve the electric load growth of present REA members or to extend facilities to serve new farm customers. We feel strongly, however, that the REA Administration should not be authorized to borrow money to make loans which would be used for the construction of unnecessary large generating plants and high-voltage transmissions systems to form super co-ops.

We are in agreement with the original intent of the Rural Electrification Act which was passed in the 1930's and was intended to provide a source of funds for the purpose of making electricity available to persons in rural areas not then receiving electricity. I think the REA's as well as the investor-owned utilities have done a good job in providing electric service to rural America. As this committee well knows, practically every rural area in America now has electric service available to it and some 97 percent of the farms in the United States have electric service. In fact, the job was almost completed 6 years ago with 95 percent of all farms electrified. Inasmuch as practically all of the farms in the United States now have electric service, it would appear logical to assume that REA loans should be substantially reduced rather than increased.

In the beginning, REA loans were relatively small and in our area were used to construct transmission and distribution facilities into areas that our company was unable to serve because of the sparseness of population. The REA's purchased their power supply from us wholesale under reasonable and regulated rates and distributed it to their members. We worked with the REA's in building up rural loads and in all respects enjoyed very amicable relations.

In recent years however, in our area as well as nationally, many of the loans to electric cooperatives have been for the purpose of serving nonfarm customers and industry and not the farmer. Some five out of six new customers added by the borrowers are these nonfarm customers.

Furthermore, many of the loans being made to cooperatives are for the purpose of constructing generating plants and high-voltage transmission lines. Such plants usually displace service previously obtained from investor-owned utilities. I believe that many of these loans are without proper justification. Therefore, I suggest that the REA Administrator be required to justify to Congress such proposed loans and unless he does so to the satisfaction of Congress, he would not be authorized to borrow money from the Treasury for the purpose of making such loans.

I would also suggest that Congress examine the policy involved in connection with G. & T. loans. Not only with reference to REA policy but overall congressional electric power policy. Evidence is mounting that REA is becoming a tool for carrying out programs of unrestricted power expansion of other agencies even though such agencies are specifically, and properly so, prohibited by Congress from so doing.

The loan made to Colorado-Ute Electric Association in western Colorado is a precise example of this deviation of REA.

Four REA co-ops which originally formed Colorado-Ute bought all their requirements from us from their inception in 1939. In 1959 when their total load was some 22,000 kilowatts, they constructed their own generating and transmission system including a steamplant with a capacity of 38,000 kilowatts. Their power costs, however, instead of being reduced as they had hoped, were increased and the four REA members had to pay more for their power than they paid when they purchased their requirements wholesale from us.

Colorado-Ute has now enlarged its REA membership to 12 members with a load of some 80,000 kilowatts and capacity of 100,000 kilowatts. The annual growth is only about 6,700 kilowatts so there is ample capacity to last for a number of years. In addition, the Colorado-Ute, exercising its rights as a preference customer under reclamation law, has been allocated power from the Bureau of Reclamation's billion-dollar Colorado River storage project with a capacity in excess of 1¼ million kilowatts immediately adjacent to Colorado-Ute's territory. In spite of this, the REA Administrator on his own authority from funds authorized under a blanket appropriation has approved a loan of $22 million to Colorado-Ute for the construction of a 150,000-kilowatt steamplant at Hayden in northwestern Colorado. It is reported that this is only the first unit in a plant to have an ultimate capacity of 600,000 kilowatts. Colorado-Ute admits that the 150,000 kilowatts is beyond its ability to use and that a minimum of 100,000 kilowatts would be transmitted to the Salt River Power District located in Arizona some 700 miles away over transmission lines planned and now being built by the Bureau of Reclamation. The Salt River District serves a part of Metropolitan Phoenix, Ariz., and surrounding territory which has an excellent economy and certainly is not in need of Government-subsidized power. As a result of this loan, a very prosperous power district in Arizona serving a concentrated area with a high level of economy and always able to finance its own construction, would stand to benefit as a result of 2 percent REA money. This is certainly far from the original intent of the REA Act.

One of the most disturbing aspects of the construction of the Colorado-Ute plant is the apparent collusion between the Bureau of Reclamation and the REA Administration. Congress has always refused to permit the Bureau of Reclamation to build steam electric plants. However, the Bureau of Reclamation, in an attempt to economically justify the construction by the Bureau of a controversial 345,000-volt line between its million-kilowatt Glen Canyon hydroplant in northern Arizona and Phoenix, has worked with REA for the construction of the Colorado-Ute Hayden plant. Without the Colorado-Ute plant or a similar steamplant to provide load for the controversial Phoenix line, such line could not have been made to appear economically feasible. An investor-owned utility in Arizona wanted to build and had offered to build this line. If it had been permitted to build the line, the taxpayers of this Nation would have been saved some $15 million.

Protests against the construction of the Colorado-Ute plant were filed before the Public Utilities Commission of Colorado, which in that State exercises jurisdiction over REA co-ops, by the Western Colorado Power Co. and the Public Service Co. of Colorado. During the extensive hearings and afterward, it is quite clear that the Bureau of Reclamation and the Interior Department had great interest in the construction of the Colorado-Ute plant. The Commissioner of Reclamation appeared as a witness in behalf of the plant, and after the hearing had been concluded, the Secretary of Interior appeared in Denver, gave a news conference and openly attempted to influence the decision of the Colorado commission.

The findings of the Public Utilities Commission of the State of Colorado in its decision dated February 21, 1963, should offer proof positive that the Bureau of Reclamation was one of the motivating forces behind the plan to construct the Colorado-Ute plant. The Colorado commission's decision on page 7 states:

"If application No. 19098 is narrowed down to a classical application for a certificate of public convenience and necessity to construct a generating plant

and attendant facilities, the question here to be determined would be materially simplified. However, a careful review of the testimony of Bureau witnesses and the record herein made and with consideration being given to the theory of protestants, the issues herein are broadened and go a great deal further than the authorization to build facilities at Hayden. Rather, in truth and in fact, it is our opinion that in addition, it is a joint application of the Ute and the Bureau to firm up Colorado River storage power."

The commission further found on page 30: "It may well be, as has been inferred in this case, that Ute is, in effect, the 'chosen instrumentality' of the Bureau of Reclamation to build a plant which the Bureau itself has not been authorized to build by Congress."

The Colorado commission's decision also clearly established that ample power was available from other sources and at reasonable rates. In fact, the Bureau of Reclamation's Colorado River storage project could supply all of the Colorado-Ute's requirements through 1970 and at a cheaper price than from Colorado-Ute's Hayden plant. Further, the commission found that Colorado-Ute's reasonable future power needs could be satisfied by purchasing hydroelectric power from the Colorado River project through the mid 1970's and that this source of power is stable and the price reasonable.

Also during these hearings the Commissioner of Reclamation (p. 587 of the transcript) testified that Colorado River power would be sold at a rate of 6 mills per kilowatt-hour and that the price would be firm over at least a 35-year period (transmission costs to some members might be an additional mill). Colorado-Ute witnesses gave testimony that the cost of power from the Hayden plant would exceed 8 mills per kilowatt-hour delivered and would be sold to REA member co-ops for 10 mills.

In view of this evidence, it is quite clear that the loan for the construction of the Colorado-Ute Hayden plant is a flagrant violation of the REA Act.

In addition I'd like to point out that the Bureau of Reclamation in its load estimates used to prove economical feasibility of its Colorado project has always included Colorado-Ute loads. If such loads be supplied from outside sources, the economic well-being of the Colorado project would certainly be impaired.

Another type of completely unjustified loan is that being made to REA cooperatives for the purpose of buying the electric facilities of small investor-owned taxpaying utilities. In such cases it is the practice of REA co-ops to pay about twice the actual value of the property. In Utah for example, the Moon Lake Electric Association, an REA co-op, paid about $1.25 million to acquire the facilities of the Uintah Power & Light Co., an investor-owned electric utility in eastern Utah. The value of the property was only some $600,000. We also made an attempt to buy the property but were outbid by the REA as the amount we could pay above its actual value was subject to State public service commission jurisdiction. The result of this sale is that property of an operating company will be taken from the tax base. Use of REA funds to outbid an investor-owned utility that pays some $12 million for local, State, and Federal taxes is manifestly unfair.

The three principal cities served by the purchased investor-owned utility (largest has a population in excess of 1,500) served notice on both Moon Lake REA and the REA Administrator that the cities did not desire to do business with Moon Lake and should the sale be made, electric service franchises would not be given to the REA. It does not appear probable that the cities will alter their position. It is also probable that REA members may have to pay higher rates to help repay the excess amount paid for the property.

We believe that such loans as cited above are outside of the scope of the REA Act and if these are representative of the type of loan that REA is basing its request for authorization to borrow $425 million of taxpayers money from the Treasury, then obviously REA is asking for too much money.

We believe that the purpose for which REA was created can in most cases be accomplished by limiting the REA authority to borrowing funds for distribution and transmission facilities to supply load growth and new farm customers. For this reason we would respectfully urge that the authority granted to the REA to borrow Treasury funds be limited to $205 million to cover distribution loans and only such additional amounts for generation and transmission as the REA Administrator can justify by individual and specific projects to this committee.

GENERAL STATEMENT

Mr. HUNTER. There is one important feature of the statement I would like to highlight with a brief oral statement.

Senator STENNIS. Certainly.

Mr. HUNTER. Evidence appears to continue to accumulate that REA is becoming a tool for carrying out the programs of unrestricted power expansion of other agencies even though Congress has specifically prohibited these agencies from carrying out these programs. I would like to recite as evidence of what I am referring, the loan to the Colorado-Ute Electric Association in western Colorado which has been approved by the Administrator.

LOAN TO COLORADO-UTE ELECTRIC ASSOCIATION

This loan is to provide for the installation of 150,000 kilowatts of new steam electric power in northwestern Colorado. A minimum of 100,000 kilowatts of power out of this plant will be transmitted to the Salt River Power District in the Phoenix, Ariz., area about 700 miles away over transmission lines planned and now being built by the Bureau of Reclamation. The Salt River district, which is in the area, serves a part of metropolitan Phoenix, Ariz., and surrounding territory, has an excellent economy and certainly is not in need of Government-subsidized power or by subterfuge the use of this 2-percent Government money.

One of the most disturbing aspects in the construction of this Colorado-Ute plant is the apparent collusion between the Bureau of Reclamation and the REA. Congress has always refused to permit the Bureau of Reclamation to build steamplants. However, the Bureau in an attempt to economically justify the construction by it of a controversion of 345,000-volt line between Phoenix, Ariz., and the Bureau's 1 million-kilowatt Glen Canyon powerplant in northern Arizona, has worked with the REA for the construction of this Hayden plant. Without this plant, which is necessary to provide load for this Bureau line, such line could not have been made to appear economically feasible.

PROTESTS FILED

Protests against the construction of the Colorado-Ute plant were filed by the Western Colorado Power Co. and the Public Service Co. of Colorado before the Public Utilities Commission of Colorado, which in that State exercises jurisdiction over the REA co-ops.

During the extensive hearings and afterward it became quite clear to the Bureau of Reclamation and the Department of the Interior had a very great interest in construction of the Colorado-Ute plant.

The Commissioner of Reclamation appeared as a witness in behalf of the plant and after hearings had been concluded the Secretary of the Interior appeared in Denver, Colo., gave a news conference, and very openly attempted to influence the decision of the Public Service Commission.

FINDINGS OF COLORADO PUBLIC UTILITIES COMMISSION

In its decision the Colorado Public Utilities Commission I believe gives proof positive that the Bureau of Reclamation was one of the

motivating forces behind the construction of this plant. In its findings the commission stated, and I would like to quote:

However, a careful review of the testimony of Bureau witnesses and the record herein made and with consideration being given to the theory of protestants, the issues herein are broadened and go a great deal further than the authorization to build facilities at Hayden. Rather, in truth and in fact, it is our opinion that in addition, it is a joint application of the Ute and the Bureau to firm up Colorado River storage power.

The commission further found on page 30—

It may well be, as has been inferred in this case, that Ute is in effect, the chosen instrumentality of the Bureau of Reclamation to build a plant which the Bureau itself has not been authorized to build by Congress.

Further the commission also found that Colorado-Ute by exercising its right as a previous customer could satisfy its power needs by purchasing power from the Bureau of Reclamation Colorado River project.

During the hearings the Commissioner of Reclamation testified that Colorado River storage project power would be sold at a rate of 6 mills, and parenthetically, I would like to say that the transmission cost to get power from the Bureau points of delivery to the customers would be less than a mill, so that the total cost to the member co-ops would not exceed 7 mills.

The Colorado-Ute witness gave testimony in the hearing that the cost of power from the Hayden plant would exceed 8 mills per kilowatt-hour delivered to the REA member co-ops and they planned to sell it for 10 mills.

REQUEST TO COMMITTEE

In the light of this I would request that this committee eliminate all funds for G. & T. loans from the amount that is authorized by the REA Administrator to borrow from the Treasury of the United States.

That concludes my presentation.

Senator STENNIS. Thank you very much. We appreciate your coming here to testify.

(NRECA rebuttal appears on pp. 319 and 321 and Utah Power & Light Co. rebuttal on p. 332.)

Senator STENNIS. I believe this is Mr. Ralph Sargent.

PUBLIC SERVICE CO. OF COLORADO

STATEMENT OF RALPH SARGENT, VICE PRESIDENT

PREPARED STATEMENT

Mr. SARGENT. That is correct, vice president of Public Service Co. I am appearing for Mr. Robert T. Person, president of the company, who had every intention of being here but was unable to do so at the last minute. I believe you already have a copy of Mr. Person's statement.

STATEMENT OF ROBERT T. PERSON

I would like to request that Mr. Person's statement be incorporated in and made a part of the record.

Senator STENNIS. At this point we will put in Mr. Robert T. Person's statement.

(The statement referred to follows:)

My name is Robert T. Person. I am president of Public Service Co. of Colorado, an investor-owned private utility company having over 20,000 shareholders, one-third of which reside in our company service area.

The company, and its subsidiaries, supplies electric service to some 414,000 customers and natural gas service to some 356,000 customers throughout various parts of the State of Colorado, and in and around the city of Cheyenne, Wyo.

During the year 1962, total taxes paid by our company, including Federal and State income taxes, amounted to $23,483,000, which gives us the distinction of being the largest taxpayer in the State of Colorado.

For each dollar of revenue collected from our customers for gas and electric utility service, approximately 18 cents is paid by the company in taxes. Taxes paid by our company exceed operating payrolls for our 4,400 employees and are more than double the dividends paid on common stock. These tax payments to support government at all levels are collected from our customers through charges made for services rendered.

My appearance here today is therefore in the interest of our customers, employees, and shareholders. These taxpayers as individuals and as a group have a direct and vital interest in the mounting operating cost of the Federal Government.

Of special concern at this this time is the amount of new loan authorizations sought by REA for the rural electrification program for the fiscal year 1964. I particularly want to protest the amount sought for generation and transmission type loans and the present method of authorizing public funds for such purposes.

Last year, the amount requested by REA for rural electrification loans was $345 million, a $100 million increase over the preceding year. In spite of strong protests, and the raising of serious questions with regard to the changing aspects of the program, Congress authorized $400 million; $200 million of this was for generation and transmission type loans, and $55 million was added as a reserve authority for the same type loans.

For the fiscal year 1964, $425 million is sought, of which $75 million is to be placed in reserve.

One of the most important problems before this session of the Congress is the unprecedentedly high budget sought by the administration for operation of the Federal Government for fiscal year 1964. Every attempt should, and undoubtedly will, be made by the Congress to reduce unnecessary and wasteful expenditures of public funds. In our opinion, one place that the Congress can definitely reduce expenditures is in the rural electrification program, and in particular, that part of the program which is currently being used to finance additional generation and transmission facilities by REA borrowers.

We do not question the fact that under the REA Act, the REA Administrator is authorized, under certain circumstances, to make generation and transmission type loans to REA borrowers. We do, however, contend that—

(1) In many cases, loans of this type, made by REA, are unnecessary, and consequently wasteful of public funds;

(2) In some cases, loans of this type have been used as a device to bypass Congress and finance Federal construction of steam-generating plants in a manner where direct appropriation for such plants, if sought before the appropriate committees of the Congress, would unquestionably be denied;

(3) Loans made by REA for generating plants and the related transmission facilities are made in a veil of secrecy which precludes the Congress and the public from being advised as to how public funds are being spent for this program and whether or not the expenditure of such funds for these purposes are necessary;

(4) Loans currently made by REA in this program are made under arbitrary standards of feasibility established by the Administrator which preclude consideration of availability of alternative sources of power;

(5) Revenues from the sale of power from REA G. & T. plants are preferentially exempt from income taxation—this loss results in a substantial burden on other taxpayers;

(6) All loans made by REA are at below cost, subsidized 2 percent interest rates; this is a direct and unnecessary loss to the Nation's taxpayers;

(7) Repayment of REA loans do not cover administrative costs of REA—this additional subsidy has already cost the Nation's taxpayers some $110 million since REA's inception.

We appeared before this committee last year, and I well recognize that there is today a growing awareness in the Congress, and particularly in this committee, of much of what I have just stated.

I think it is particularly significant, however, to emphasize the fact that the REA, with the ever-increasing percentage of loans being made for generation and transmission facilities has become, in fact, the largest spender of all the Federal power programs—larger than the Corps of Engineers or the Bureau of Reclamation.

These latter two Federal agencies, however, must submit to Congress detailed explanations for every project request, including both new and authorized projects under construction.

Ironically, the REA, which is the biggest power spender, furnishes Congress no detailed justifications for its annual budget requests of hundreds of millions of dollars, except for those of administrative expenses.

As matters now stand, once the Administrator has received congressional approval of REA's yearly appropriation, he has virtually a free hand in how the money is loaned. It is no wonder that Government power proponents seek to divert Federal funds into the REA G. & T. program rather than having such facilities built by the Bureau of Reclamation or the Corps of Engineers: One, there is little or no congressional control, and two, the 2-percent interest rate is below that charged against power installations constructed by the Bureau or the Corps.

In the case of REA loan applications to finance generation and transmission systems, the Administrator makes practically no attempt to analyze whether existing sources of supply are adequate, dependable, and available at reasonable costs.

This type analysis must be made before the Administrator or anyone else can intelligently and legitimately decide whether granting of the loan will be in the public interest or a waste of millions of taxpayers' dollars.

On the contrary, cost analyses and other details of these loan applications are shielded in a cloak of secrecy from Congress, from the press, general public, and suppliers of electricity in the area who must have this information in order to determine whether they can supply the power required at reasonable costs.

There has been much criticism voiced of late by the press of what is called news management. In our opinion, the secrecy surrounding the REA G. & T. loans falls in the same category as managed news. Last year, after considerable criticism of the lack of public information in the administration of the REA program, REA announced certain purported changes in its secrecy policy. These changes are a fiction. The situation in REA is no better today than it was a year ago.

Congress itself should be more fully advised before large generation and transmission loans are approved by the REA Administrator. Under the present procedure, Congress does not have effective financial control of the millions of dollars being expended in the rural electrification program.

Last year we brought to the attention of this committee the proposed Colorado-Ute G. & T. loan in Colorado which was then pending before the Administrator. At the time we testified, our comments to you represented only our fears and expectations of what we anticipated would occur. Since that time, all of our fears and expectations have been proven to have been well-founded and true and correct.

You will recall that this matter involved an application by Colorado-Ute Electric Association, Inc., of Montrose, Colo., to borrow REA funds to finance the construction of a steam electric generating plant in northwestern Colorado. The plant was to be integrated with the transmission system of the Bureau of Reclamation and the Colorado River storage project. We contended that the principal beneficiaries of the plant were to be the Salt River power district, in Phoenix, Ariz., a non-REA borrower, and the Bureau of Reclamation, rather than rural electric consumers.

On March 5, 1962, in spite of protests by our company and other interested parties made directly to the Administrator, and even before we had concluded our testimony with respect to this loan before Congress, the REA Administrator approved the loan to Colorado-Ute of approximately $21 million to finance the construction of the plant and related transmission facilities. The loan was to be augmented by an advance to Colorado-Ute of some $9 million from the Salt River power district. It, of course, was no coincidence that the approval of this loan was announced before we could conclude our testimony, since it was apparent that this loan could not survive congressional surveillance. The haste

with which the Administrator approved this loan, however, points up a few of the basic infirmities in the entire lending program and the lack of bona fide consideration given by the Administrator to these loans.

We were later able to determine without question that at the time this loan was approved, the REA did not even know where the proposed plant would be built, who all of the eventual customers would be, what would be the source and the cost of fuel, and how the power from the plant would be transmitted to the various load centers. It was not until some 2 months after the loan was approved that a study was concluded to determine the location of the plant. It was not until almost 4 months later that arrangements were worked out with the Bureau of Reclamation for the utilization of needed transmission lines, and it required approximately 5 months thereafter for Colorado-Ute to agree upon the price and the terms of a satisfactory coal contract.

It is, therefore, apparent that in his haste to approve this loan, the Administrator neglected to perform his statutory duty of making a full and complete investigation of the need for and the feasibility of the proposed facilities to be financed with public funds.

Actual advancement of the funds to Colorado-Ute by the REA was held up pending Colorado-Ute's obtaining approval from the proper State authority to construct the plant and transmission facilities. This is a requirement of the Rural Electrification Administration Act.

On May 11, 1962, Colorado-Ute filed an application with the Colorado Public Utilities Commission requesting such authority.

The matter was heard by the State commission during the summer and fall of 1962. Our company appeared as a protestant, as did the Western Colorado Power Co. There were many witnesses and many days of hearings. When concluded, the record taken in the case was the largest ever to be made in a proceeding before this State commission.

The only Federal Government witnesses who appeared were two representatives of the Bureau of Reclamation. One of these was Mr. Dominy, the present Commissioner of Reclamation.

Our company's principal contentions before the commission which should be of direct interest to this committee were as follows:

(1) The REA loan was illegal under the Rural Electrification Administration Act.

(2) There was insufficiency of coal reserves to support the plant, and the coal contract was not firm.

(3) The plant was not necessary as alternative sources of power were available on a reasonable basis.

(4) There was ample power available from the Colorado River storage project.

(5) The distribution co-ops of Colorado-Ute have a preference right to purchase such power.

(6) Such power could be purchased at substantial savings to such co-ops as against purchasing power from the Hayden plant of Colorado-Ute.

(7) The ultimate loser, if this plant is built, will be the electric consumer member of the distribution co-ops.

(8) Certain of the transmission lines proposed would duplicate existing transmission lines of the company.

(9) Substantial loss of revenue to our company would result directly attributable to the construction of the proposed plant.

On February 21, 1963, the commission by a 2-to-1 decision, purported to grant authority to Colorado-Ute to construct the plant. Authority to construct certain of the transmission facilities was denied.

Subsequently, petitions for rehearing were denied (2 to 1) and a petition to review the order and decision of the commission has been filed by our company and Western Colorado Power Co. in the State district court at Montrose, Colo. The matter is now pending before this court.

We understand that the REA has now released certain of the loan funds to Colorado-Ute to enable commencement of the construction of the plant. This raises two extremely significant points which I would like to discuss.

First, as earlier noted, the original approval of this loan was made prior to the time certain basic information was available to the Administrator upon which he could reasonably determine whether or not the loan was sound and the plant actually needed. The Administrator has now actually released funds to the borrower when some of the same vital information has still not yet been determined. The Colorado commission retaned jurisdiction of the matter pending

a satisfactory solution to the problem of how the power from the proposed plant would be transmitted to some of the individual members of Colorado-Ute. The commission was not satisfied with and did not approve the transmission line proposal made by Colorado-Ute and further hearings must be had with respect to this point or contractual arrangements must be made by Colorado-Ute to utilize other electric suppliers' transmission lines to market this power. Until this is done, neither Colorado-Ute nor the Rural Electrification Administration is in any position to establish the costs of marketing such power or whether the power can be marketed at all. This, of course, has a direct bearing upon the ability of the borrower to repay the loan and upon the entire feasibility of the project. We cannot conceive of any banker advancing funds when such basic elements of feasibility or practicality have not been determined.

The second point is that, until this matter is finally resolved by the courts, the Administrator is taking an undue risk in advancing funds, because should the court reverse the commission, the construction of the plant would be halted while only partially completed with no means for repayment of the loan to REA.

We have been advised by counsel for the company that the Administrator has no authority to advance loan funds until judicial review of this case has been concluded and all other aspects of the project have been determined and approved, either by judicial action or negotiated contracts. Our counsel so notified the Administrator prior to his releasing such funds. A copy of our letter to the Administrator is attached hereto as attachment A.

While we disagree with the result reached by the two majority opinions of the Colorado commission, we believe that the following observations contained in such opinions clearly point out how REA funds are to be utilized in this project:

"* * * a careful review of the testimony of the Bureau witnesses and the record herein made and with consideration being given to the theory of protestants, the issues herein are broadened and go a great deal further than the authorization to build facilities at Hayden. Rather, in truth and in fact, it is our opinion that in addition, it is a joint applicaton of Ute and the Bureau to firm up Colorado River storage power.

* * * * * * *

"It may well be, as has been inferred in this case, that Ute is in effect, the 'chosen instrumentality' of the Bureau of Reclamation to build a plant which the Bureau itself has not been authorized to build by Congress. * * *

* * * * * * *

"Ute and its member cooperatives are preference customers for power from this project, and preference power for the upper division States will in all likelihood not be fully utilized until the mid-1970's. This source of power is stable and the price is reasonable."

* * * * * * *

"It is further to be noted that the effect of the building of the Hayden plant by Ute will be to deprive Ute and its member Colorado distribution cooperatives of their preference right to purchase power from the Colorado River storage project. * * *

The Commission in its decision made the following additional points which should be of interest to this committee:

(1) Private electric companies in the area cannot compete with Colorado-Ute because they do not enjoy the income tax advantages and the 2-percent money from REA.

(2) The question of whether or not the public interest is served by rural electric cooperatives enjoying such preferential treatment is not for the State commission to decide but is properly argued before Congress.

(3) The Federal Government will loose approximately $1 million a year on the Colorado-Ute loan simply because the Government is paying 4 percent to borrow the money which it loans to Ute at 2 percent.

(4) The Commission refused to rule on the legality or illegality of the REA loan, stating that the State commission is not the proper forum for such determination.

In our opinion, there are two aspects of the commission decision which stand out.

The first is that State regulatory commissions are placed in a most difficult position without more adequate congressional surveillance and control over the REA G. & T. lending program, when matters such as the proposed Colorado-Ute

plant come before such commissions for consideration. They have little or no control over the important public policy questions involved. State commissions cannot perform for Congress the function of scrutinizing the REA program.

The second aspect of this matter is the clear establishment of the fact that the plant proposed to be constructed by Colorado-Ute in this instance is in truth a Bureau of Reclamation steamplant. To our knowledge, Congress has never authorized expenditure of public funds to the Bureau to build a steamplant to firm up a Bureau hydroelectric project. Yet, in this instance, it is plain that under the guise of the REA lending program, public funds are proposed to be used for just such a purpose.

Our primary concern is the magnitude of the program apparently going on. This type of situation is not limited to Colorado, nor are the plants proposed to be constructed through this device small or insignificant. They are large generating plants designed and located to be an integral part of a Federal transmission network. In the case of Colorado-Ute, the plant to be constructed is 150,000 kilowatts. This is only the initial unit, however, of what is ultimately expected to be a plant of 600,000 kilowatts.

The evidence is clear that the Department of Interior and the Department of Agriculture are today acting in concert to push construction of large steam electric generating plants, utilizing REA funds from the Department of Agriculture, to be operated in connection with the Department of Interior hydroelectric dams and transmission systems.

Perhaps it is no mere coincidence that these very same two Departments have recently published new regulations which would prevent private electric utilities from building transmission lines or generating plants upon the public domain, if such construction is deemed to be in conflict with the "national power marketing policy of the United States." Under the published rules, the Secretary of Interior is set up as the sole judge of what such policy is. On this point, the committee will be interested in the March 25 editorial appearing in the Wyoming State Tribune, attachment B.

Obviously, the situation demands congressional attention. I for one cannot believe that we have come to the point in this country where Congress itself would knowingly condone the aggressive expansion of a national federalized electric power system in open and direct competition with our traditional full taxpaying private enterprise utilities. Nevertheless, the latter is exactly what is going on, and much of the program is masquerading behind the legitimate objectives of the REA program.

Action must be taken to make certain that the rural electrification program is being administered in the manner intended by Congress and in the best interests of all of the American people rather than for the very few who form the policy of the cooperative movement and who today may be in high places of governmental responsibility in the Departments of Interior and Agriculture.

As we stated last year, and repeat again here, the most effective and immediate way such action can be assured is through the appropriation process pending a complete review of the REA program by Congress.

Specifically we recommend that this committee require the REA to itemize and justify in detail all proposed G. & T. projects costing more than $5 million. Until this is done, approval for any new lending authority for generation and transmission facilities should be denied.

[Attachment A]

LEE, BRYANS, KELLY & STANFIELD,
ATTORNEYS AT LAW,
Denver, Colo., March 21, 1963.

Re Colorado-Ute Electric Association, Inc.

Mr. NORMAN M. CLAPP,
Administrator, Rural Electrification Administration,
Department of Agriculture, Washington, D.C.

DEAR MR. CLAPP: This firm is general counsel for Public Service Co. of Colorado, and the undersigned has represented that company in connection with the hearings on the application of Colorado-Ute Electric Association, Inc., before the Public Utilities Commission of the State of Colorado for a certificate of public convenience and necessity to construct a steam electric generating plant at Hayden, Colo.

The evidence in that proceeding indicated that the Rural Electrification Administration had authorized a loan to Colorado-Ute Electric Association, Inc., in the amount of $22,876,000 with which to construct the proposed 150,000-kilowatt steam electric generating plant near Hayden, Colo., and the transmission and substation facilities required thereby. As you are no doubt aware, the Public Utilities Commission of the State of Colorado on February 21, 1963, by a 2-to-1 decision, purported to grant Colorado-Ute Electric Association, Inc., a certificate of public convenience and necessity to construct a portion of such project, and denied it a certificate of public convenience and necessity to construct certain of the necessary transmission lines.

You are hereby notified and advised that the statutes of the State of Colorado provide that any party to an action before the public utilities commission of this State shall have 20 days within which to petition for a rehearing of any decision of the commission and that the filing of such a petition for rehearing suspends the effectiveness of the decision. The statutes of the State of Colorado further provide that in the event the petition for rehearing is denied by the public utilities commission, said parties shall have 30 days within which to file an action for review of the decision of the public utilities commission with the district court.

I enclose herewith a copy of the petition for rehearing filed by Public Service Co. of Colorado with the public utilities commission of this State on March 13, 1963, and the filing of this petition as a matter of law suspends the effectiveness of the commission decision. You are further notified and advised that it is the intention of Public Service Co. of Colorado to appeal this decision of the public utilities commission to the district court in the event the petition for rehearing is denied, and that such appeal will be made within the aforesaid statutory period allowed for that purpose.

Section 4 of the Rural Electrification Act of 1936, as amended, provides in part as follows:

"* * * That all such loans shall be self-liquidating within a period of not to exceed thirty-five years. * * * That no loan for the construction, operation, or enlargement of any generating plant shall be made unless the consent of the State authority having jurisdiction in the premises is first obtained. Loans under this section and section 5 shall not be made unless the Administrator finds and certifies that in his judgment the security therefor is reasonably adequate and such loan will be repaid within the time agreed."

The above-noted section of the Rural Electrification Act prohibits you from advancing any funds to Colorado-Ute Electric Association, Inc., for the construction of the proposed Hayden plant and related transmission and substation facilities until consent of the State authority having jurisdiction is obtained. The Public Utilities Commission of the State of Colorado is the appropriate authority in the State of Colorado whose consent must be first obtained, and in our opinion, and we have so advised our client, such consent has not been obtained.

Your attention is directed to the fact that the proposal submitted to you by Colorado-Ute Electric Association, Inc., in connection with its loan application and the application before the public utilities commission requested funds and authority to construct said Hayden steam electric generating plant together with certain transmission lines and related substation facilities. The Public Utilties Commission of the State of Colorado did not authorize the construction of all transmission facilities requested by the applicant, Colorado-Ute Electric Association, Inc., or all of the transmission facilities contained in the proposal submitted to you and upon which your loan approval was based. What is known as the Bayfield-Shiprock 115-kilovolt line requested by Colorado-Ute Electric Association, Inc., was found by the Public Utilities Commission of the State of Colorado to not be required by public convenience and necessity and authorization for the construction of the same was denied. As a result, consent of the State authority having jurisdiction in the premises has not been obtained for the proposed Hayden project and any advancement of funds to Colorado-Ute Electric Association, Inc., will be in violation of and contrary to section 4 of said Rural Electrification Act of 1936.

In addition, the Public Utilities Commission of the State of Colorado refused to authorize the construction of certain other transmission lines which would be necessary in order for Colorado-Ute Electric Association, Inc., to market the power generated at the proposed Hayden plant to its members. These transmission lines were known as "alternative lines" in view of the fact that if con-

structed they would duplicate existing transmission lines of Public Service Co. of Colorado, and Colorado-Ute Electric Association took the position before the Commission that it wished to either construct such lines or negotiate wheeling agreements with Public Service Co. of Colorado.

The Public Utilities Commission of the State of Colorado stated in its decision that Colorado-Ute Electric Association, Inc., should enter into negotiations with respect to the use of transmission lines of other companies to market power to its members and retain jurisdiction of the entire proceedings so that it could enter further orders as might be required in this respect.

As noted above, said act of 1936 requires "That all such loans shall be self-liquidating within a period of not to exceed thirty-five years, * * *" and that no loan shall be made until the "Administrator finds and certifies that in his judgment the security therefore is reasonably adequate and such loan will be repaid within the time agreed." In view of the decision of the Public Utilities Commission of the State of Colorado which did not authorize the needed transmission lines to market power from the proposed Hayden plant, it is impossible for you to determine if such loan will be self-liquidating within a period of not to exceed 35 years, or for you to certify that the loan will be repaid within the time agreed, or that the security is reasonably adequate, until such time as the method of marketing this power to Colorado-Ute's members is finally determined.

Your attention is further directed to the fact that such decision recognizes that the proposed Hayden plant is for the benefit of the Bureau of Reclamation rather than for persons in rural areas not receiving central station service, and that an adequate supply of electric energy at reasonable prices is otherwise available to Colorado-Ute and its proposed members.

The entire proposed Colorado-Ute Hayden project raises serious and definite legal issues relating to the power and authority of the Rural Electrification Administration to loan the funds contemplated. In the even the petitions for rehearing of this proceeding are denied, Public Service Co. of Colorado will raise such legal issues in the district court and such other appellate courts as may be indicated. You are, therefore, cautioned that any advance of funds to Colorado-Ute Electric Association, Inc., prior to the time all review proceedings are exhausted could result in an eventual loss of public funds of the United States. In this connection, we direct your attention to a statement of the Circuit Court of Appeals of the United States for the Fourth Circuit in the case of *Greenwood County* v. *Duke Power Co.*, 107 F. 2d 484, where the court stated at page 489 with respect to an almost identical situation:

"* * * the mere pendency of the suit raising such questions was sufficient to prevent advancement of funds by an officer of the United States, irrespective of the granting of the temporary injunction. * * *"

I enclose herewith a copy of the above referred to decision of the Public Utilities Commission of the State of Colorado so that there can be no question in your mind as to the further actions required of Colorado-Ute Electric Association, Inc., before the law authorizes you to advance loan funds for the construction of any part of the proposed Hayden project.

Very truly yours,

LEE, BRYANS, KELLEY & STANSFIELD,
By BRYANT O'DONNELL.

Enclosures.

cc. Hon. Peter H. Dominick.
Hon. Gordon Allott.
Hon. Byron G. Rogers.
Hon. Donald Brotzman.
Hon. J. Edgar Chenoweth.
Hon. Wayne N. Aspinall.

[Attachment B]

[From the Cheyenne (Wyo.) State Tribune, Mar. 25, 1963]

A DANGEROUS NEW EDICT

Government by decree took another step forward Saturday with the announcement that the Secretaries of Agriculture and Interior have approved regulations giving them powerful new authority over granting permission to the crossing of public lands by the transmission lines of utility companies.

Despite protests against the inclusion of these regulations in the Federal Register, Secretary of Agriculture Orville Freeman and Secretary of Interior

Stewart Udall gave their approval to the new edicts. They hailed it as a great new step forward in conservation practices. What it does, in fact, however, is to give them virtually dictatorial powers over private electric generating companies.

Henceforth, according to these new rules, no power company may be granted permission to string its transmission lines across any Federal land if these two Departments of Government deem that the project—that is, we would assume, the total concept of the company's service—conflicts with the public power program; or if an excess of the private or non-Federal power concern's generating capacity is not devoted to public power purposes.

In other words, a private utility is no longer a private utility; it is a private-Government utility. This hybrid critter cannot exist, in our opinion. Eventually this edict must either be reserved or else private utilities must cease to be such and we will have embarked upon Government monopoly of the power industry. State-owned industry means socialism.

This radical new encroachment upon private enterprise has been allowed to develop very subtly and quietly. A minimum of press mention was made of the announcement over the weekend although it is in our estimation of the greatest concern to the people of this country and especially those of Wyoming and other Western States. It is of special interest here in Wyoming because some 50 percent of our land surface is public land. Private utilities which seek, henceforth, to string their transmission lines across these Government lands will be subjected to this scrutiny. They must either conform or die.

The announcement in Washington carried in a rather obscure story by UPI Saturday praised the new regulations as providing for two "basic conservation aspects."

They promote, said the Washington announcement, the joint use of transmission capacity "with resultant economies to non-Federal as well as Federal marketers of energy." They also minimize the area of public lands to be used for powerline construction.

We suggest that the real purpose of this outrageous action is to give the proponents of Government power total control over our private utilities especially in the West and particularly in Wyoming.

We would like to note here that two western Republican Governors, Clifford P. Hansen of Wyoming and John A. Love of Colorado, noted this sneak play and formally submitted protests against it in the strongest possible terms, to no avail.

There is no appeal from Government by decree.

Congress should and must look into this encroachment on our system of free, private enterprise.

GENERAL STATEMENT

Mr. SARGENT. I have one or two observations, if I may, that I would like to make.

I think the significant thing, if I may say so, sir, is that what the committee has before it is actually the lending authority request of the Rural Electrification Administration for fiscal year 1964. That amounts to approximately $425 million as I understand it. As I understand it, a portion of that is in the reserve fund, but approximately $225 million of that——

Senator STENNIS. What do you mean "reserve fund"?

Mr. SARGENT. It is a contingency amount, as I understand it.

Senator STENNIS. All right. Thank you.

Mr. SARGENT. As I understand it, this year the Rural Electrification Administration is asking for some $225 million for G. & T. loans. This exceeds the $200 million that was authorized last year by the Congress.

Now, we do not know how the Rural Electrification Administration proposes to use that money. The only thing we can do is to bring to the attention of this committee what the program is under the current lending program of the Rural Electrification Administration.

EXAMPLES OF USE OF LENDING AUTHORITY

What we have attempted to bring before the committee here today is the various examples of how the lending authority is being used by the Administrator that we know about. We don't know how he intends to use the money that actually is before you for consideration. But we think, though, because of the fact that our witnesses from all over the country have, in my mind, amply demonstrated that this lending authority is being used to build unnecessary plants, it is being used as a device to bypass Congress, it is being used as a device to further the collusion between the TVA, SEPA, the Southwestern Power Administration, the Bureau of Reclamation, I think it must be obvious to the committee that the only answer to this thing is that this committee should not authorize any lending authority, to Rural Electrification Administration for 1964, and let the Administration use its carryover authority that it already has had from previous years.

I think this committee should take that position until the committee is satisfied that the administration of the REA program is proceeding as it was intended by Congress.

That, in essence, sir, is what we have been trying to bring before the committee today.

Now, more specifically, following up Mr. Hunter's comments on the Colorado-Ute situation, let me say that our company appeared last year before this committee and we brought to the attention of the committee the fact that a loan to Colorado-Ute was anticipated which Mr. Hunter described. Actually, during our appearance before congressional committees the REA Administrator announced approval of that loan, before we could even complete our appearances before the congressional committees. What has come out since then, though, since this matter has come before the Public Utilities Commission of the State of Colorado, is that at the time the Administrator approved the loan to Colorado-Ute to construct this plant that Mr. Hunter described, he did not know the location of the plant he had approved, he did not know about the coal contract, he did not know about the final transmission arrangement, how the power was to be delivered from this plant. As a matter of fact, it was not until some 2 months after the loan was approved that a study was concluded to determine the location of the plant. It was not until almost 4 months later that arrangements were worked out with the Bureau of Reclamation for the utilization of needed transmission lines. It required approximately 5 months thereafter for Colorado-Ute to agree on the price and the terms of a satisfactory coal contract.

Now what has happened since then, to bring you up to date, as Mr. Hunter has said, the matter came before the commission and the commission by a 2-to-1 decision granted to Colorado-Ute a certificate to construct the plant. Somewhat similar to the situation which you have in Mississippi.

PETITIONS FOR REHEARING

Petitions for rehearing of that decision were filed by the companies and were denied 2 to 1. Subsequent to that the two companies took the decision of the commission to court. In connection with the proceedings before the court, we asked the court for a motion to stay the

order of the commission which would have had the effect of preventing the commencement of construction of the plant pending a review by the court of the validity of the commission decision.

This motion for stay was denied by the court on the grounds that the companies could not show damage from the commencement of the construction of the plant but the only time they could show damage would be when the plant was in operation. So the court said that Colorado-Ute could proceed at its own peril to commence the construction of the plant.

Subsequent to that, the REA Administrator has advanced $4.2 million to Colorado-Ute to commence construction of the plant. Colorado-Ute had announced that it has every intention to commence construction of the plant.

The point I want to bring to the attention of the committee is simply this. If the district court in Colorado, or Colorado Supreme Court, reverses the order of the commission, this will leave a half-completed plant on the hands of the Federal Government and with no apparent assurance to the Congress that the public funds which have been advanced by the Administrator can be recouped.

I believe that this is something that this committee should be aware of.

PUBLIC UTILITY COMMISSION DECISION

I think the other thing this committee should be aware of is the fact that the commission decision denies Colorado-Ute's authority to build certain transmission facilities. So that as of right now the Administrator cannot certify that the loan can be repaid in 35 years or that there is adequate security for the loan because if he does not know how the power can be marketed, how can he certify that the money he has advanced will be repaid?

The commission, as a matter of fact, has retained jurisdiction of this proceeding to make a further determination as to what transmission facilities are required.

I want to come back to this Public Utilities Commission decision particularly because I realize that in the State of Mississippi you also have a similar regulatory situation. While we disagree with the decision of the commission, and I am reading from page 10 of Mr. Person's statement, Senator, I think the committee should note the following points which were made in the commission's decision in addition to those made by Mr. Hunter.

POINTS IN COMMISSION'S DECISION

1. The private electric companies in the area cannot compete with the Colorado-Ute because they do not enjoy the income tax advantages and the 2-percent money from REA.

2. The question of whether or not the public interest is served by rural electric cooperatives enjoying such preferential treatment is not for the State commission to decide but is properly argued before Congress.

3. The Federal Government will lose approximately $1 million a year on the Colorado-Ute loan simply because the Government is paying 4 percent to borrow the money which it loans to Ute at 2 percent.

4. The commission refused to rule on the legality or illegality of the REA loan, stating that the State commission is not the proper forum for such determination.

The point that I want to emphasize from these observations is simply this, that when matters of this type come before these State regulatory commissions, these State commissions are placed in an extremely difficult position without more adequate congressional surveillance and control over the REA generation and transmission lending program, because the State commissions actually have little or no control over the important public policy questions that are involved. And the State commissions cannot perform for Congress the function of scrutinizing the REA program. I think this is definitely borne out by this situation that we have in the State of Colorado.

I believe, sir, that that completes the statement that I have to make. I will only say this, that I am sure that as this committee realizes, and takes into consideration, the collusion we have been talking about here, which is obvious between REA and the Bureau, where REA funds are being used to expand the Federal system of the Bureau, I think the committee should also be aware of the fact that these same two Departments, the Department of Agriculture and the Department of the Interior, are seeking now to impose upon the private companies in this country by new regulations, issued with respect to rights-of-way for transmission lines over public lands, restrictions on those very companies from expanding their facilities. I think that this is something that must be taken into consideration by this committee as it determines how much the lending authority sought by the REA for 1964 should be this year.

Thank you very much.

Senator STENNIS. Thank you very much.

(NRECA rebuttal appears on p. 321.)

Senator STENNIS. Mr. Kreutzer.

THE LIQUEFIED PETROLEUM GAS ASSOCIATION

STATEMENT OF ARTHUR C. KREUTZER, VICE PRESIDENT AND COUNSEL

PREPARED STATEMENT

Senator STENNIS. You have your own statement?

Mr. KREUTZER. I have my own statement.

The statement is a summation of our position. I will ask that it be incorporated in the record together with the appendix on source material attached to it. I won't read it but I would like to stress two or three points covered in the statement.

Senator STENNIS. You certainly may.

You proceed in your own way.

(The statement referred to follows:)

My name is Arthur C. Kreutzer. I am vice president and counsel of the Liquefied Petroleum Gas Association. The Liquefied Petroleum Gas Association is a national trade association, having as members the producers of liquefied petroleum gas, the manufacturers of equipment and appliances using liquefied petroleum gas and the distributors and dealers. The associa-

tion has over 2,200 member companies and 34 affiliated State associations. The membership represents approximately 85 percent of the industry's volume of business. Its membership is predominantly at the distributor and dealer level. The association's position as set out in this statement would also reflect the position of other industry companies including some 25,000 small dealers who may not be engaged full time in liquefied petroleum gas sales but who are equally concerned with the problem, in that they handle some liquefied petroleum gas as part of their business in their stores of various types. The employment and economic well-being of over 75,000 employees is also intimately involved in the liquefied petroleum gas dealers business and the problem presented.

I am today appearing before this committee on behalf of this industry to express opposition to the budgetary request of $425 million for electrification loans, representing a $25 million increase over 1962, as an action at variance with current Presidential recommendations, and to the establishment of a Rural Electrification Administration loan account on the basis that this is a device that seeks to perpetuate present REA policy and dedicate existing loan funds to this lending policy.

In explanation of liquefied petroleum gas industry's specific concern let me first briefly relate that liquefied petroleum gas is the generic name for propane, butane and their mixes. Liquefied petroleum gas, commonly known as LP-gas or bottled, is a fuel used in the household, on the farm and in a variety of commercial and industrial usages as a source of heat, power, or refrigeration. Approximatley 50 percent of total usage is in the household or on the farm. The liquefied petroleum gas dealer competes with the REA co-op in serving the rural community with this fuel for many similar uses. Liquefied petroleum gas has demonstrated in these uses, at a minimum, equal economy and adaptability for the farm. As taxpayers, it is disturbing to us to see the rural electrification program distorted beyond its original praiseworthy objectives. As taxpayers, and competing businessmen, it is doubly disturbing to find the rural electric co-op competing with the aid of Government subsidization through 2 percent loan financing and tax exemption.

The 981 REA co-op active borrowers at the end of 1961 served 4,883,392 consumers.[1] The liquefied gas dealer at the end of 1961 served an estimated 6,500,000 rural consumers. Private enterprise, whose development is over approximately the same span of time, serves an equal number of rural customers with a modern fuel. There is one important difference. These customers of fuel supplying private enterprise must bear in their fuel cost the cost of governmental subsidization for another segment of population.

While we are competitors of the REA co-op, we emphasize that we are not dedicated to the destruction of a program of bringing electricity to the rural home. We do suggest that the primary objective of bringing electricity into the rural home has been satisfied and it is time for a revaluation of the justification and need for governmental subsidization. Competitors of the REA co-op do not stand alone in this belief, and we have the company of such a distinguished agricultural group as the American Farm Bureau.[2] Even some of the REA co-ops[3] are coming to this point of view. Again, over 2 years ago we find Kenneth Scott, then Director of the USDA Credit Services, stating "these borrowers (REA) aren't flimsy little outfits any more, they're healthy, going business concerns." We recommend that their maturity be recognized.

The rural electric cooperative is a purchasing co-op organized for the purpose of furnishing electricity with financing provided through loans obtained from the Rural Electrification Administration. Its original purpose and function is related to the Rural Electrification Administration Act of 1936. The Rural Electrification Administration was created by Congress in 1936 as part of the depression emergency programs. It authorizes the Administrator to make loans for rural electrification for the purpose of financing the construction and operation of generating plants, electric transmission and distribution lines or systems for the furnishing of electric energy to persons in rural areas who are not receiving central station service (section 4). It also authorizes loans for the purpose of financing the wiring of the premises of persons in rural areas and the acquisition and installation of electrical and plumbing appliances and equipment (section 5). The term "rural area" is defined as any area of the United States

[1] 1961 annual statistical report, rural electrification borrowers, REA Bulletin 1–1.
[2] Resolution adopted at 1962 annual meeting, Atlanta, Ga.
[3] Fortune magazine, February 1963.

not included within the boundaries of any city, village, or borough having a population in excess of 1,500 inhabitants. The REA is a lending agency or the banker for the rural electric cooperative.

Reports on the status of the REA co-op and its activity demonstrate, particularly as related to its original objectives of electrifying the farm, that governmental aid is no longer justified and its continuance is unfair to all taxpayers. As examples, we cite from USDA reports, REA releases, and newspaper reports: 98 percent of the farms are now electrified [4]; 75 percent of new connections in 1959 were nonfarm [5]; 54 percent of total power sales in 1958 were nonfarm [6]; 50 percent-plus of REA co-op members are nonfarmers [7]; REA co-ops are serving industrial and commercial customers in increasing numbers [8]; REA co-ops are merchandising appliances and contracting for electrical work, etc.[9]; REA co-ops fortified by Government subsidization offer free installations, appliances, etc.[10]; and REA co-ops are reinvesting funds at higher interest rates than those paid to the government.[11]

In the case of the liquefied petroleum gas industry, REA co-ops have gone to the extreme of offering prospective customers a cash bounty to switch from one fuel to another [12] (illustrations of these activities also appear in vol. 3, hearings before the Committee on Ways and Means, House of Representatives, 87th Congress, May 1961, on President's 1961 tax recommendations).

On November 27, 1962, the report of the committee on Federal credit programs headed by Secretary of the Treasury Douglas Dillon was presented to President Kennedy. On February 11 President Kennedy transmitted these recommendations to the Secretary of Agriculture, among others, with the suggestion that departments be guided" by the principles outlined in the report in administering their present programs and especially in proposing any new or expanded credit authority." We suggest that congressional action relative to the REA that does not take into consideration the content—and intent—of this report would be most untimely. Both the proposed budget, and in particular the substantial appropriation increase, are not in harmony with this report. Again, before developing legislation that may have the effect of setting up a bank or revolving fund for REA loans the recommendations of this report should be considered.

It is our concept that the proposed budget and creation of an REA loan account would be at variance with the recommendations of this report. As a starting point it is recognized that "the allocation of credit for essentially private purposes should be a function of private markets" (p. 7). We do not ques-

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[4] Ninety-seven percent of farms were electrified in 1959. REA estimates as quoted in Rept. 1365 of the Senate Appropriations Committee on the Food and Agriculture Act of 1962. Also USDA release 3448, February 1961. Additions since to 98 percent.

[5] Report of the Administrator of the Rural Electrification Administration (1959), USDA—"REA electric borrowers have connected all but a relatively few persons presently located in their service areas who desire electric service. Most of the 131,505 new connections during the fiscal year were new establishments, and about 75 percent of them were nonfarm rural consumers." (Testimony before Senate Subcommittee on Appropriations on the appropriation request of the Rural Electrification Administration for 1963.)

[6] Report of the Administrator of the Rural Electrification Administration (1959), USDA—"Nonfarm consumers accounted for 54 percent of total power sales in 1958." (Testimony before Senate Subcommittee on Appropriations on the appropriation request of the Rural Electrification Administration for 1963.)

[7] John M. George, NRECA president, address, NRECA 1959 convention—"More than 50 percent of the members are not full-time farmers." (Testimony before Senate Subcommittee on Appropriations on the appropriation request of the Rural Electrification Administration for 1963.)

[8] REA USDA Miscellaneous Publication No. 811; Wall Street Journal, Jan. 19, 1959; interview with Norman Clapp, REA Administrator, Electrical World, May 22, 1961; miscellaneous newspaper and magazine reports (including Barron's, May 28, 1962; Fortune, February 1963), to name a few:

A $30,000 loan for ski lift at Chestnut Hills resort at Hanover, Ill.

A $125,000 loan for screening and gravel-crushing equipment, Capital Electric Cooperative, Inc., Bismarck, N. Dak.

A $120,000 loan to Central Iowa Power Cooperative for line to pipe and tile company and general reports of usage in motels, drive-in theaters, etc.

[9] Policy No. 24 of the Sun River Electrification Association, Fairfield, Mont., states, "The cooperative shall commence a consumer service program to stimulate and supplement the existing electrical contracting and electric service business within its service area.

"The consumers' service programs shall consist of the cooperative actively engaging in the installation of electrical materials and the servicing of existing electrical materials for the cooperative's consumers."

[10] REA co-op advertising in many areas. Samples appear in mentioned Ways and Means Committee hearing report.

[11] Testimony before Senate Subcommittee on Appropriations, 1958, Richmond (Va.) News-Leader, Feb. 26, 1959. (Also housing loans to employees at 4 percent (Des Moines (Iowa) Sunday Register, Mar. 17, 1963).)

[12] Publication of Guadalupe Valley Electric Cooperative (Texas), April 1961.

tion that Federal credit may be required where a credit gap exists. However, the credit gap of 1936 that necessitated direct Federal lending is questioned in today's picture. The REA co-ops have reached business maturity. In 1961 the REA borrowers had total assets of nearly $3¼ billion, had revenue of over $700 million and earned a net profit (net margin) of $93,684,965. During the period 1957 to 1961 this net increased 36 percent. To further quote the committee report:

"Both farmers and other rural residents have been able to share more promptly in the benefits of electric power and telephone services by virtue of long-term Federal loans to rural cooperatives. This varied credit assistance to farmers has helped to make possible the great strides in agricultural productivity that have occurred in the last few decades. * * * To cite these varied and significant accomplishments is not to endorse, in every detail, either the mode of operation of existing programs, or their indefinite extension. The needs for specific types of credit assistance are certain to change over time, as the economy changes and as the ability of the private market to provide particular types of credit develops" (p. 6).

As a second choice, if private credit is not readily available "Government guarantees or insurance of private loans should usually be the first alternative considered" (p. 12). While we doubt its necessity, as a final solution, if direct loans are to be continued, the loans should be self-supporting "the interest charge for direct loans should be compared to the sum of (1) the prevailing market yield on Government securities of comparable maturities, (2) an allowance for administrative costs, and (3) an allowance for expected losses" (p. 48).

Rather than continue sanction for an obsolete program through new and increased appropriation and this REA loan account here is a time for adjustment. Bills [13] are now pending before Congress that advance the last alternate. The quoted report points out that "opportunities should arise for gradually shifting the credit aspects of these programs to meet the recommendations more fully" (p. 4). The establishment of the REA loan account is a move in the opposite direction.

The members of our industry are justifiably concerned with the continuance of the REA program in its present form. Unquestionably, competitive position with the REA co-op is involved. However, our comment is not directed at this competition, but at a Federal subsidized lending program that creates imbalance in this competition—and provides financial support for REA co-op activities but briefly described herein. We suggest balancing the competitive scales and in the implementation of this suggestion we are supported by impartial Presidential Committee quoted herein.

We submit that it is not in the public interest to continue to unnecessarily subsidize fuel requirements of one segment of the population and require other consumers to bear this cost.

Again, competition with taxpaying private enterprise that is fostered through this subsidized program continues to gnaw away at tax-producing business. Here is inequity, coupled with the more tangible tax erosion. Here is a circumstance whose correction will both reduce Federal expenditures and enhance opportunity for increased tax revenue.

We urge that at a minimum the REA program be placed on a self-supporting basis while looking toward ultimate divorcement of Federal credit assistance. This committee can with effect move in that direction through refusing to expand present programs and avoiding establishment of an REA loan account within the present concept of the REA program.

GENERAL STATEMENT

Mr. KREUTZER. First of all, the opponents here are in a different area of fuel supply or energy supply than we are. While we object to the appropriations for the REA generation and transmission loans we also object to other areas for which REA loans are used. We are in somewhat of a strange position of being here with the private power people because they are our competition as well as the REA's. However, in this instance, we are on their side.

[13] H.R. 115, 1837, House 5065.

Senator STENNIS. Sometimes we people in political office say that or it is said about us, that politics makes strange bedfellows. I am not going to say that about you and the power company but it is nice for you to work together.

Mr. KREUTZER. It is quite unusual. We are representative of small business to a major degree. The liquid petroleum gas dealer is a small businessman. I also would like the record to show that support for the position we are expressing has been indicated by the National Retail Merchants Association. Particularly in the area of REA Co-op appliance sales which are fostered by the Federal subsidies that they obtain through their interest rates and lack of taxation.

REA CO-OP COMPETITION

As far as the significant features that appear in our statement, apart from the tremendous REA Co-op competition which is accorded the LP gas dealer by virtue of the subsidies of 2 percent money and no taxes, we realize that the committee has before it the question of an REA appropriation.

We do note that in the testimony up until now no mention has been made of the report of the President's Committee on Federal Credit programs. We mention this in our statement and we would respectfully request the committee give attention to the recommendations addressed to the President by Secretary Dillon's committee in summary, Secretary Dillon's committee recommended that credit programs and direct loans, such as the REA, be placed on a self-supporting basis. We suggest that the committee bear this in mind, also a substantial increase has been requested for REA appropriations in the budget, comparing to 1961 when the requested appropriation was $311 million.

There is another factor which is of significance and that is in the agricultural message submitted by President Kennedy, there is a suggestion that an REA loan account be set up. While that makes sense in a bookkeeping procedure, nevertheless it may tend to set aside or dedicate funds that are now in existence. Coupled with the appropriation requested this would aggravate the situation.

OBJECTION TO INCREASED APPROPRIATIONS

In brief, our position is that we are objecting to any increased appropriations for the REA at this time, because of the effect it has on small businessmen. By continuing to expand REA co-ops business is being taken away from the small businessmen and is put in the hands of the REA co-ops which are nontaxable.

Secondly, the small businessman is deeply disturbed when he finds his tax money being used to subsidize his competition. The privately owned power companies speak of the erosion of their business that is created through REA generation and transmission loans. The situation of the small businessman is really aggravated when he is faced with the problem of fighting loss of business to REA co-op competition.

Thank you for your courtesy.

Senator STENNIS. Thank you, sir. We are glad to have you here and glad to have your statement.

Thank you.

STATEMENT OF ROBERT L. SHORTLE

Senator STENNIS. The subcommittee has also received a statement from Mr. Robert L. Shortle, area manager of the Mississippi Valley Association, New Orleans, La., in regard to generation and transmission loans and leasing arrangements between REA borrowers and the Southwestern Power Administration. The statement will be printed in the record at this point.

(The statement referred to follows:)

My name is Robert L. Shortle. I am area manager of the Mississippi Valley Association at New Orleans, La.

The Mississippi Valley Association founded in 1919 has since that time been dedicated to vigilant and aggressive action in the proper development and wise management of the natural resources of our country.

Consistent with the established policy of the Mississippi Valley Association, the 44th annual meeting of this association in St. Louis, Mo., February 3, 4, and 5, 1963, established its platform for the year 1963. More than 2,000 members of the association from 34 States were present for this annual meeting and without a dissenting voice the following resolution was adopted as a part of the platform:

"We oppose the use of continuing funds by the Department of Interior for the purpose of enabling rural electric cooperatives to build generating plants and high voltage transmission lines for direct sale or lease to the Department of Interior. Such loans avoid the clearly expressed intent of Congress to control the operations of these two agencies through annual appropriation bills."

Under date of February 18, 1963, the Rural Electrification Administration, Washington, D.C., announced its approval of a loan to the Upshur Rural Electric Cooperative Corp. of Gilmer, Tex., in the amount of $9,170,000 for the construction of a generating plant to be located at Ore City, Tex., and a transmission line from Ore City, Tex., to Brown, Okla.

In the referenced announcement it was stated that a preliminary agreement has been reached between the Upshur Cooperative and the Southwestern Power Administration for an interconnection at the SPA's switching station near Brown, Okla., a distance of 190 miles with 70 miles of the transmission line located in Texas. The 120 miles of the transmission lines to be built in Oklahoma will be leased to the Southwestern Power Administration for $250,000 per year to be paid out of the SPA continuing fund.

The preliminary agreement made between Upshur and Southwestern Power Administration is in conflict with the platform position of the Mississippi Valley Association cited above. Our platform position is nothing more than the legislative policy formulated by Congress with the passage of the Flood Control Act of 1944. Accordingly, we respectively request the Committee on Appropriations of the Senate through this subcommittee to:

1. Prevent the SPA-Upshur lease agreement from being consumated because it is in conflict with long-standing legislative policy. This can be accomplished by refusing to include funds for this lease agreement in SPA continuing funds.

2. Require the Rural Electrification Administration to remove all secrecy surrounding all generating and transmission loans so that assurance is had that administrative and legislative policies and requirements are adhered to.

3. Require prior legislative approval of each REA generating and/or transmission loan. Other departments of the Government are required by the Congress to secure prior approval for public works projects, and it appears no more than reasonable that this requirement should be applied to REA.

Our request is based on the fact that more than adequate electric service is available through a private enterprise electric utility with whom proper contracts can be executed to furnish needed or desired service by the Upshur Cooperative.

(NRECA rebuttal appears on p. 265.)

STATEMENT OF M. S. LUTHRINGER, PRESIDENT CENTRAL ILLINOIS PUBLIC SERVICE CO., SPRINGFIELD, ILL.

Senator STENNIS. The next one here is from Mr. M. S. Luthringer, president of Central Illinois Public Service Co., Springfield, Ill.

We will put the statement in the record at this point.

(The statement referred to follows:)

CENTRAL ILLINOIS PUBLIC SERVICE CO.,
Springfield, Ill., April 1, 1963.

Re REA appropriations request.

HON. SPESSARD HOLLAND,
Chairman, Subcommittee on Department of Agriculture, and Related Agencies, Senate Appropriations Committee, New Senate Office Building, Washington, D.C.

DEAR SIR: Central Illinois Public Service Co. renders electric service in 531 communities in central and southern Illinois. Five-sixths of these—87 percent—have populations of less than 1,500 which would make them "rural areas" within the definition of the Rural Electrification Act.

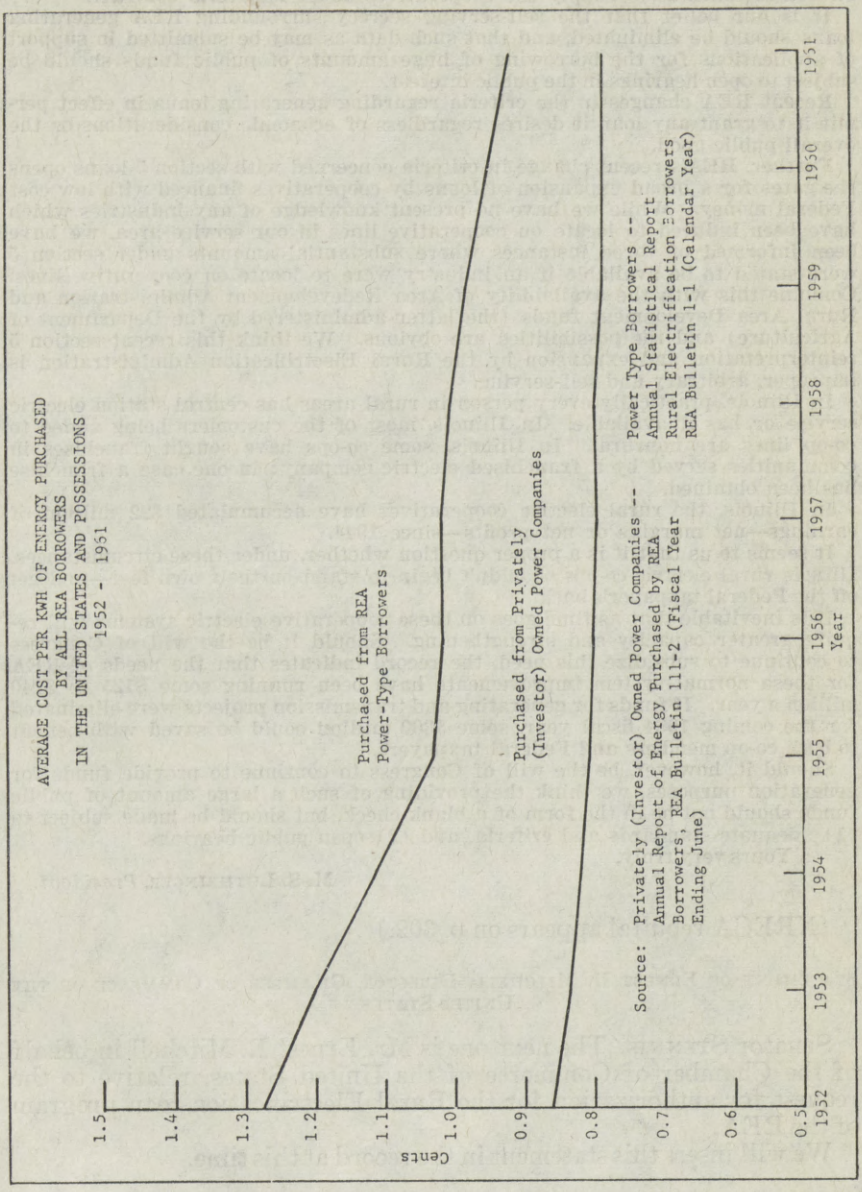
The company is presently selling electricity wholesale to 19 rural electric cooperatives—all REA borrowers—at some 100 points of delivery. Sixteen of these cooperatives are provided service under 10-year agreements which can be terminated by either party at the close of 1969 (or any year thereafter) on 3 years prior written notice. These contracts were the result of 2½ years of negotiation between representatives of the co-ops and the companies, and were offered to all 19 co-ops in 1959. The cost of power from CIPS to these 16 cooperatives for 1962 ranged from 7.67 to 8.70 mills per kilowatt-hour; the average was 8.33 mills.

The cost of power in 1962 from CIPS to these three other cooperatives under an emergency service rate averaged 10.65 mills. Under the 10-year contract rate, their power cost in 1962 would have averaged 8.22 mills. These three co-ops are members of the Southern Illinois Power Cooperative which is presently constructing with REA funds the first two units (each of 33-kilowatt-hour capacity) of a generating project in southern Illinois scheduled to go into operation this summer.

The publicity attending the REA announcement of the granting of this loan to Southern Illinois Power Cooperative gave lower cost as a reason. Yet, the engineering representative of the firm of engineers for this SIPCO project later stated, under oath, that the estimated generating cost of power from this Southern Illinois Power Cooperative generating plant for the first 10 years of its operation averaged 8.72 mills, materially higher than this same power would have cost under long-term contracts from CIPS. This despite the special privileges enjoyed by this super co-op, including 2 percent Federal money and complete exemption from Federal income tax.

Incidentally, had Central Illinois Public Service Co. enjoyed just these two special privileges possessed by co-ops—2 percent capital funds and complete exemption from Federal income taxes—it could have in 1962 (1) provided every CIPS residential electric customer with all of his electricity free for the entire year (2) made no change in its rates or charges to any other CIPS customers and (3) have been just about as well off earnings-wise.

It is the conviction of this company, and the record attached clearly shows, that power generated in such super co-op plants (financed by REA with the below-cost money and which escape bearing any of the costs of defending our Nation and operating our Federal Government through complete Federal income tax exemption) is uneconomic and higher cost power: and that the farmer eventually will pay for it.


AVERAGE COST PER KWH OF ENERGY PURCHASED
BY ALL REA BORROWERS
IN THE UNITED STATES AND POSSESSIONS
1952 - 1951
Purchased from REA
Power-Type Borrowers
Purchased from Privately
(Investor) Owned Power Companies
Cents
1.5
1.4
1.3
1.2
1.1
1.0
0.9
0.8
0.7
0.6
0.5
1952
1953
1954
1955
1956
1957
1958
1959
1950
1951
Year
Source: Privately (Investor) Owned Power Companies -- Annual Report of Energy Purchased by REA Borrowers, REA Bulletin 111-2 (Fiscal Year Ending June)
Power Type Borrowers -- Annual Statistical Report Rural Electrification Borrowers REA Bulletin 1-1 (Calendar Year)

97-162—63——16

The tremendous difference between the estimated cost and actual cost per kilowatt-hour of the Corn Belt Power Cooperative in Iowa is a case in point. Here the actual costs were about double the estimated, and higher than that power could have been purchased from Iowa-Illinois Gas & Electric, which had offered to continue to supply the cooperatives under long-term contract.

It is our belief that the self-serving secrecy surrounding REA generating loans should be eliminated, and that such data as may be submitted in support of applications for the borrowing of huge amounts of public funds should be subject to open hearings in the public interest.

Recent REA changes in the criteria regarding generating loans in effect permit it to grant any loan it desires regardless of economic considerations or the overall public good.

Further, REA's recent change in criteria concerned with section 5 loans opens the gates for a broad expansion of loans by cooperatives financed with low cost Federal money. While we have no present knowledge of any industries which have been induced to locate on cooperative lines in our service area, we have been informed of three instances where substantial amounts under section 5 were stated to be available if an industry were to locate on cooperative lines. Combine this with the availability of Area Redevelopment Administration and Rural Area Development funds (the latter administered by the Department of Agriculture) and the possibilities are obvious. We think this recent section 5 reinterpretation and expansion by the Rural Electrification Administration is improper, arbitrary and self-serving.

In Illinois, practically every person in rural areas has central station electric service or has it available. In Illinois, most of the customers being added to co-op lines are nonrural. In Illinois, some co-ops have sought franchises in communities served by a franchised electric company: in one case a franchise has been obtained.

In Illinois, the rural electric cooperatives have accumulated $22 million of earnings—net margins or net profits—since 1944.

It seems to us that it is a proper question whether, under these circumstances, Illinois rural electric co-ops shouldn't begin to stand on their own feet—and get off the Federal taxpayer's back.

It is inevitable that as time goes on these cooperative electric systems will require greater capacity and strengthening. Should it be the will of Congress to continue to subsidize this need, the record indicates that the needs of REA for these normal system improvements have been running some $125 to $140 million a year. If funds for generating and transmission projects were eliminated for the coming 1964 fiscal year, some $300 million could be saved with benefit to both co-op members and Federal taxpayers.

Should it, however, be the will of Congress to continue to provide funds for generation purposes, we think the providing of such a large amount of public funds should not be in the form of a blank check, but should be made subject to (1) adequate standards and criteria, and (2) open public hearings.

Yours very truly,

M. S. LUTHRINGER, *President.*

(NRECA rebuttal appears on p. 302.)

STATEMENT OF ERNEST R. MITCHELL, DIRECTOR, CHAMBER OF COMMERCE OF THE UNITED STATES

Senator STENNIS. The next one is Mr. Ernest R. Mitchell in behalf of the Chamber of Commerce of the United States, relative to the request for authorization for the Rural Electrification loan program of the REA.

We will insert this statement in the record at this time.

(The statement referred to follows:)

This statement is made in behalf of the Chamber of Commerce of the United States, of which I am a Director. I am also a member of the Chamber's Natural Resources and the Government Operations and Expenditures Committees.

My statement relates to the request for authorization to borrow $425 million from the U.S. Treasury in fiscal year 1964 for the rural electrification loan program of the Rural Electrification Administration.

The national chamber recommends that the fiscal year 1964 loan authorization for the electrification program be reduced to an amount which would make available approximately $183 million for rural electrification loans. This would result in a $245 million reduction from the $425 million requested. The $183 million which we support would include $180 million in new loan authorization and a carryover of $3 million from prior year authorizations.

We are not advocating that the electrification loan program be discontinued. The national chamber supports the program to the extent necessary to bring adequate electric service to the Nation's farms where this service is not now available. The loan authorization requested for fiscal 1964 exceeds the amount required to adequately provide electrical service to the Nation's farms. The excess permits financing of projects which should be specifically reviewed by the Congress.

The 1964 authorization request is an increase of $25 million over that authorized for 1963; an increase of $180 million over the 1962 authorization; and $255 million above the 1961 level.

An increase in the amount of dollars that will be expended from the loan authorization is also proposed for fiscal 1964. The budget estimates that the electrification program of the REA will spend $310 million of its authorization during 1964. This will represent an estimated increase of $80 million over 1963, $115 million over 1962, and $127 million over 1961.

The annual increases in authorizations and allocations for expenditures since 1961 are not warranted by the mileage of the new lines put in service. It is reported by REA that only 19,000 miles of additional REA-financed electrical lines will be energized each year in 1963 and 1964. In 1961, a total of 17,000 miles of lines were put in service. The 1962 total was 19,000.

Nor are the increases warranted by the expected increase in the cumulative number of consumers to be served by REA-financed electric cooperatives. It is estimated by REA that in fiscal 1964, 4,254,000 consumers will be served by such cooperatives. This represents an estimated increase of only 120,000 consumers over the previous year.

To evaluate these facts properly, one must keep in mind that today 97 percent of the American farms have central-station service. The major objective of the rural electrification program should be to assist in bringing adequate electric service to those few remaining farm families who do not have the advantage of adequate service.

This is the principal mission of the rural electrification program. The use of Federal funds to accomplish other objectives warrants examination by Congress and the public. The increasingly large share of the funds of the electrification program that have been used for generation and transmission loans during the past few years indicates a need for a critical examination and congressional definition of what constitutes adequate electric service. Table I shows that while in 1951 generation and transmission loans amounted to only about 23 percent of loans granted, today they represent 60 percent or more.

Table I

	Percent
1951	23.1
1961	55.3
1962	59.4
1963—estimated	60–65

We believe many generation and transmission loans have gone beyond the purpose of REA—to service farmers. Because of secrecy surrounding REA loan applications, it is impossible for nearly everyone, including Congress, to determine whether a loan application is designed to bring electric service to farm families or for other purposes. This secrecy has been the source of much of the current controversy surrounding such REA electrification loans.

The House Agriculture Committee, in its report on the Food and Agricultural Act of 1962, stated that testimony revealed growing public concern over the failure of the REA to disclose information on various phases of its operation. The committee went on to say that the public is entitled to know how public funds are being used and that the REA should approach the consideration of loans in a manner designed to provide the public with information wherever possible.

In addition to REA disclosure, there should be appropriate congressional review of REA loans in order to fully evaluate the programs, which are the public's business.

This is essential because funds from the REA loan authorization account are being used, in some cases, primarily to provide steam-electric power to supplement Federal hydroelectric generating facilities. This circumvents the need for Federal agencies to obtain congressional authorization to build electric steam generation plants. This is public business on a large scale that should have the fullest examination and evaluation by Congress.

This raises the major policy question of whether the Federal Government should undertake the responsibility to meet further electric power needs of those now receiving some power generated by Federal facilities.

We believe that this is a policy issue that the Congress should positively resolve, and that it should not be decided by passively permitting or ignoring practices that imply a responsibility not specifically sanctioned by Congress.

The granting by REA of loans for construction of steam electric facilities to be integrated with existing Federal power sources would, by default, establish the policy that the Federal Government does have such a utility responsibility. This policy, carried to its logical conclusion, would preempt the electric power market to the exclusion of the private sector of our economy. This would impair the future development of the investor-owned electric power industry. Such a policy would not be in the best interest of the taxpayer, the general public, or the business community.

We urge that Congress take appropriate action to require specific congressional authorization of REA loans. Many of these loans finance facilities that have been as large as projects sponsored by other Federal agencies and requiring specific congressional authorization.

For example, on May 10 of last year, the Basin Electric Power Cooperative of Bismarck, N. Dak., received an REA loan for $36 million to finance construction of a 200,000-kilowatt steam-generating plant and 15 miles of 230-kilovolt transmission line. While this loan was granted without specific congressional authorization, Bureau of Reclamation projects do require specific authorization. For example, the Bureau's proposal for the 90,000-kilowatt Burns Creek Dam in Idaho, in which approximately 98 percent of the cost would be allocated to power facilities, and which would cost around $52 million, has failed, on several occasions, to receive the required congressional authorization.

Another example: On June 15, 1961, the REA approved a $60,225,000 generation and transmission loan at the normal REA interest rate of 2 percent to the Hoosier Cooperative Energy, Inc., of Osgood, Ind. This loan received no specific congressional authorization. Yet the $35 million project of the Army Corps of Engineers for Rend Lake, Ill., involving flood control, municipal, and industrial water supply and stream pollution control did require specific congressional authorization.

The Omnibus Rivers and Harbors Act of 1962 (Public Law 87–874) provided the required specific authorization for the Federal construction and operation of hydroelectric generating facilities in connection with the Bradley Lake, Cook Inlet, Alaska project. The cost of facilities necessary to provide 64,000 kilowatts of installed capacity is estimated at $41,634,000.

In addition, specific congressional appropriations must be made to finance each Bureau of Reclamation and Army Corps of Engineers project.

Loans for generation and transmission projects should be consistently subject to congressional review and require specific authorization and appropriations.

We support REA's primary mission to bring central station service to farm families. Beyond this there should be a thorough review of the REA program which would be in line with the "Report of Executive Committee on Federal Credit Programs," dated November 27, 1962.

The report states that (p. 7):

"Upon occasion, agencies might discharge their educational or innovative responsibilities so effectively that the special support can be withdrawn entirely, and its functions assumed by an efficient, competitive, and self-reliant private market that it helped to foster."

Many local electric cooperatives have reached a stage of development where the incentives provided by the Federal Government no longer are needed.

Between the end of 1957 and end of 1961, nearly 1,000 borrowers increased their composite net worth from 15 percent to 21 percent of total assets. Operating revenues of all REA borrowers increased 35 percent in the same period. Between 1957 and 1961, the annual net margins ("profits") increased 36 percent. Deficits in 1961 were reported by only 3 percent of the 961 borrowers.

The REA role should be limited to those few instances where it can be clearly shown that Federal assistance is needed to achieve the primary objective of the Rural Electrification Act.

Our recommendations are supported by the report on Federal credit programs which states in part (p. 45):

"The executive branch should regularly appraise the major Federal credit programs to determine (1) whether a valid need remains for the type of assistance provided, (2) whether other types of aids would be more appropriate, or (3) whether private lenders should be expected to meet all essential requirements. *Such reviews could well be coordinated with the budget process* * * *" [Emphasis supplied.]

We urge the subcommitee to reduce the amount authorized for fiscal 1964 by $245 million. We also urge the subcommitte members to support amendments to the REA Act to require specific congressional authorization of generation and transmission loans.

The Administration has recommended the establishment of a "Rural Electrification Administration loan account." We recognize that this is not in the purview of the Appropriations Committee. However, we would urge that no appropriation for REA be made subject to such an account.

As described in the budget, it would reflect the net costs of REA loan programs by showing them as the excess of the aggregate of the loans to be made over the amount of loan payments received. An REA loan account as proposed would tend to diminish congressional control over REA operations. It would not conform with practices considered essential in measuring the impact of Government fiscal operations. Loans and self-liquidating investments repayable in dollars should appear in the budget on a gross receipts and gross disbursements basis the same as other cash receipts and expenditures.

Committee Recess

Senator Stennis. I believe that completes the roster for today. That is of the committee. There is no more testimony today.

The committee will stand in recess until 10 o'clock in the morning.

(Whereupon, at 5:35 p.m., Thursday, April 4, 1963, the committee adjourned until 10 a.m., Friday, April 5, 1963.)

Material Received Subsequent to Hearings

(The following information was requested on p. 86.)

National Telephone Cooperative Association,
Washington, D.C., April 15, 1963.

Hon. Spessard L. Holland,
Chairman, Subcommittee on Department of Agriculture and Related Agencies, Senate Committee on Appropriations, Washington, D.C.

Dear Senator Holland: Per your request of April 4, 1963, this is to supply the statistics on progress of the REA telephone program.

As of December 31, 1962, there were 3,688,100 occupied farms in the United States according to the U.S. Department of Agriculture. Of these occupied farms, 65.9 percent had what may be termed "adequate and reliable" telephone service. As of this same date, 74 percent had telephone service of some sort—the percentage difference due to the existence of outmoded, but operating, magneto systems.

The many conflicting definitions of a rural area make compilation of data on rural establishments a difficult task, and I have no statistics available on telephone service to rural establishments in general.

I trust this will answer the questions you pose.

Sincerely yours,

DAVID C. FULLARTON, *Executive Manager.*

(The following information is supplied in response to requests on pp. 141 and 142:)

ALABAMA POWER CO.,
Birmingham, Ala., April 19, 1963.

Hon. SPESSARD L. HOLLAND,
Chairman, Subcommittee on Department of Agriculture and Related Agencies, Senate Appropriations Committee, New Senate Office Building, Washington, D.C.

DEAR MR. HOLLAND: At the time of my testimony before your committee with respect to proposed REA appropriations, you requested me to supply, for the record, three specific items of information. Attached are the following which I believe will fulfill your request:

Attachment A: Alabama Power Co. sale of electrical energy to REA cooperatives, fiscal year 1961 (table includes energy sold, gross price received, and price received per kilowatt-hour).

Attachment B: Alabama Electric Cooperative sale of electrical energy to distribution cooperatives, fiscal year 1961 (table includes energy sold, gross price received and price received per kilowatt-hour).

Attachment C: Alabama Power Co. dividends paid to stockholders, 1958–62, inclusive (table sets out data by class and type of stock and additionally, for prospective, includes net plant investment and provision for taxes).

My testimony before your committee used as the cost to cooperatives for energy sold to them by Alabama Power Co. the figure of 6.8 mills. This 6.8-mill figure was derived by adding to the 6.2 mills shown on attachment A the additional 10 percent for transformation that should be added to the actual charge made to the co-ops by Alabama Power Co. to make the Alabama Power Co. rate comparable to the rate for service from Alabama Electric Cooperative to its co-op customers.

The information supplied in attachments "A" and "B" is for fiscal year 1961, which is the latest published data available on Alabama Electric Cooperative sales. For comparison, we have supplied the information on Alabama Power Co. sales for the same period.

Should you or your committee desire further or supplemental information, we will be glad to supply it.

Let me again express my appreciation for the opportunity of appearing before your committee.

Yours very truly,

WALTER BOULDIN.

[Requested on p. 141]

ATTACHMENT A

Alabama Power Co. (A. P. Co.)—Sale of electrical energy to REA cooperatives, fiscal year 1961 (ended June 30, 1961)

	Energy purchased from A. P. Co. (kilowatt-hours)	Price paid to A. P. Co. for energy	Price paid to A. P. Co. per kilowatt-hour for energy purchased
Distribution cooperatives:			
Clarke Washington Electric Membership Corp	31,562,100	$191,444	$0.61
Baldwin County Electric Membership Corp	26,348,100	159,157	.60
Pioneer Electric Cooperative, Inc	25,610,500	152,714	.60
Dixie Electric Cooperative	18,614,500	107,066	.58
Pea River Electric Cooperative	12,994,700	80,180	.62
Southern Pine Electric Cooperative	15,849,400	94,703	.60
Tallapoosa River Electric Cooperative, Inc	25,242,700	149,633	.59
Black Warrior Electric Membership Corp	39,741,500	243,735	.61
Central Alabama Electric Cooperative	39,746,300	237,353	.61
Wiregrass Electric Cooperative, Inc	23,803,500	147,751	.62
Coosa Valley Electric Cooperative, Inc	12,811,400	76,818	.60
Tombigbee Electric Cooperative, Inc	15,458,100	108,252	.70
Total distribution co-ops	287,782,800	1,748,806	.61
Power type cooperatives: Alabama Electric Cooperative, Inc.	56,424,000	385,654	.68
Total all cooperatives served	344,206,800	2,134,460	[1].62

[1] See attached letter.

Source: 23d Annual Report of Energy Purchased by Rural Electrification Borrowers.

[Requested on p. 142]

ATTACHMENT B

Alabama Electric Cooperative (A.E.C.)—Sale of electrical energy to distribution cooperatives, fiscal year 1961 (ended June 30, 1961)

Distribution cooperatives	Energy purchased from A.E.C. kilowatt-hours	Price paid to A.E.C. for energy	Price paid to A.E.C. per kilowatt-hour of energy purchased
South Alabama Electric Cooperative	29,524,800	$257,185	$0.87
Pea River Electric Cooperative	17,858,300	156,286	.88
Southern Pine Electric Cooperative	21,216,300	182,097	.86
Wiregrass Electric Cooperative, Inc	15,579,000	139,807	.90
Covington Electric Cooperative, Inc	56,295,500	514,709	.91
Total	140,473,900	1,250,084	.89

Source: 23d Annual Report of Energy Purchased by Rural Electrification Borrowers.

[Requested on p. 142]

ATTACHMENT C

Alabama Power Co.—Dividends paid to stockholders, 1958–62, inclusive

	1962	1961	1960	1959	1958
Common stock	$17,900,000	$16,800,000	$15,500,000	$13,600,000	$12,600,000
Preferred stock:					
4.2-percent series	1,528,800	1,528,800	1,528,800	1,528,800	1,528,800
4.6-percent series	460,000	460,000	460,000	460,000	460,000
4.92-percent series	393,600	293,013			
Total preferred	2,382,400	2,281,813	1,988,800	1,988,800	1,988,800
Total dividends to all stockholders	20,282,400	19,081,813	17,488,800	15,588,800	14,588,800
Net plant investment (at year-end)	555,945,000	529,224,000	500,644,000	460,685,000	422,707,000
Provision for taxes	28,382,950	24,308,944	24,059,357	23,684,241	22,134,402

(The following is supplied in response to request on p. 156:)

GULF POWER CO.,
Pensacola, Fla., April 19, 1963.

Hon. RAYMOND L. SCHAFER,
Senate Appropriations Subcommittee, Department of Agriculture and Related Agencies, Washington, D.C.

DEAR MR. SCHAFER: During the course of my testimony before the committee on Thursday, April 4, 1963, I was requested by Senator Holland to furnish for the record the rates of Gulf Power Co. to two Florida cooperatives as compared to the rates of the Alabama Electric Cooperative to those same Florida cooperatives.

The material to be put into the record is attached.

Respectfully yours,

R. L. PULLEY, *President.*

"Question. What was the overall average cost per kilowatt-hour to these two cooperatives at the two delivery points?

"Answer. The overall average cost per kilowatt-hour to the two cooperatives was 6½ mills."

From the testimony of R. F. Ellis, Jr., vice president of Gulf Power Co., appearing at page 3008, volume 31, of the record of testimony before the Alabama Department of Finance in the matter of the petition of Alabama Electric Cooperative to issue and deliver $20,350,000 of notes to the United States.

"Under plan 1, which provides for expansion of generation and transmission to serve the entire cooperative load, estimated average power cost for the 11-year period, 1963–73, is 7.28 mills per kilowatt-hour."

From synopsis page of "Report on Power Supply for Alabama Rural Electric Association of Cooperatives, 1959" by Stanley Engineering Co., received in evidence before Alabama Department of Finance as an exhibit for petitioner at volume 31, page 2961, of the record in the matter of the petition of Alabama Electric Cooperative to issue and deliver $20,350,000 of notes to the United States.

LETTER OF TRANSMITTAL

NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION,
Washington, D.C., April 22, 1963.

Hon. SPESSARD L. HOLLAND,
Chairman, Subcommittee on Agriculture and Forestry, Committee on Appropriations, U.S. Senate, Washington, D.C.

DEAR CHAIRMAN HOLLAND: When we testified before your committee the morning of April 4, we preceded 12 power company witnesses who appeared before you that afternoon.

We asked that we permitted to answer any charges which the power companies might make against the rural electrics.

We pointed out that we were in the impossible position of a defendant whose only chance to speak is before he has heard his accusers, except as you might grant us permission to respond after we knew what we were charged with.

You granted our request, and said that our rebuttal would be included in the hearings.

After listening to and studying the power company testimony, our people feel very strongly that we could not let their misstatements and untruths go unanswered. Their charges were carefully designed to do us irreparable harm if they were left unanswered.

Each of the G-T co-ops attacked by the power company witnesses prepared a rebuttal statement, which is submitted as an exhibit to my covering statement dealing with the charges leveled at us by Mr. Walter Bouldin in his capacity as vice president of the Edison Electric Institute, and with the charges by the other power company witnesses.

We appreciate the necessity your committee has of moving ahead with its work. In cooperation with that effort we are filing our rebuttal statement for inclusion in the printed hearings. However, if your committee should determine it necessary to hold further hearings at which power company witnesses appear, we respectfully request that we also be scheduled to give additional testimony.

Sincerely yours,

CLYDE T. ELLIS,
General Manager.

STATEMENT OF CLYDE T. ELLIS, GENERAL MANAGER, NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION, REFUTING CHARGES MADE BY POWER COMPANY WITNESSES

Mr. Chairman and members of the committee, you gave us permission to answer the power companies' charges made before your committee against the rural electrification program and you requested of us certain further information. This is our refutation and the information.

GENERAL REFUTATION

At this point I state categorically that all of the charges which we know about which were made before either or both the House and Senate committees by the power companies against the REA-financed rural electrification program are false or unfounded.

What is their motive?

Why all of these charges? Why have these power company presidents and vice presidents taken the time and effort to appear before this committee? Why have the companies expended millions of dollars in propaganda campaigns to put these charges before the American public?

The answer is a simple desire for even more excessive profits. Greed, I presume, is a more descriptive term for their motivation.

Certainly, Mr. Bouldin and his fellow power company executives would like to hold tightly to every bit of the market represented by rural electric systems. This means dollars in their pockets.

However, we suggest that they be honest about this desire and not cloak it under hypocritical slogans. We do not object to these companies seeking profits. But we think they should be frank with this committee and with the public and admit that this is the driving force behind their attacks on REA.

These companies also are motivated by a desire to use this committee to eliminate any yardsticks which might measure the costs of producing and distributing electric power. As this committee knows, these same companies have long maintained a bitter campaign against the Federal wholesale power program and the type of development represented by the Tennessee Valley Authority, the Bonneville Power Administration, the Bureau of Reclamation, the Southwestern Power Administration, and the Southeastern Power Administration. These wholesale power marketing programs, limited as they are, provide an important yardstick to measure the cost of power, a fact which has meant billions of dollars of savings for all American consumers.

Generation and transmission cooperatives, likewise, are a yardstick factor, a mild regulatory factor, for the power industry. Now, the power companies have turned their big guns against the G. & T.'s.

If they are successful in these campaigns, there will be virtually no yardstick, no test, no measurement of power company operations and prices. There will be nothing left ultimately but the commercial power monopolies—total monopoly, uncontrolled.

The consequence would be severe for the American consumer. It would mean an almost immediate increase by billions of dollars in the cost of power to the consumer nationwide. Power companies are raising rates now, whereas we believe they should be lowering them.

The end of the G. & T. program would, of course, have an especially destructive effect on rural areas of the Nation.

It would mean that rural citizens would forever be saddled with high power rates and poorer service, with no alternative available. This would be particularly sad for those areas now seeking to revitalize their economy.

This committee, I am sure, is quite familiar with the power companies' device known as the "dual rate contract." This device means that the power company charges the co-ops one rate for power distributed by the co-op to farm or residential consumers and another higher rate to larger or industrial users. By this device the power companies, of course, hope to prevent the co-ops from serving the larger users and to siphon them off for themselves.

The end result of this would be the slow economic destruction of the cooperative—as well as of the rural areas. It would be a severe, and unnecessary, burden on rural areas, and particularly on those areas now struggling to maintain a viable economy.

Through the utilization of this dual rate contract—a purely selfish device—the power companies have become one of the biggest roadblocks to rural area development and to efforts to provide jobs for the unemployed.

The only effective weapon I know against these dual-rate devices is a healthy and adequate generation and transmission loan program by REA. Without such a program, the co-ops and the rural areas are forever at the mercy of the power companies.

Any restrictions which this Congress might write into the G. & T. program will be interpreted by the power companies as a green light for such tactics as dual rates. And it will undoubtedly mean the birth of a whole new set of devices aimed at the eventual elimination of rural electric systems.

We suggest that it is not in the public interest to extend the monopoly position of these giant electric power companies.

We shall show in this statement and in the attachments that the power companies, far from suffering any impairment due to the G. & T. program or any other cause, are prospering at exorbitantly high levels. (See exhibit A, "How They Have Prospered," and "Industry Net Income Rebounds in 1962.")

We shall show that all purchasers of electricity from the power companies—not only rural electrics but urban consumers as well—are contributing to the power company prosperity by being overcharged in amounts running into billions of dollars. (See exhibit B, "Excess Earnings and Your Light Bill.")

Though the power companies spent several hours in making their charges, we shall answer here within reasonable limits of space each of the major charges they made, and shall include as a part of this statement specific answers submitted by the cooperatives which they attacked by name.

Mr. Chairman, we offer to support our answers with whatever further documentation the committee may require.

We offer to submit our statements under oath, and, furthermore, challenge the power companies to make the same charges they have already made to the House and Senate committees under oath, for I believe that in doing so they would be committing perjury and libel.

Seldom has a committee of Congress been subjected to so much misleading information. These power companies have made a deliberate attempt to mislead the members of this committee. Mr. Chairman, I respectfully suggest that you call back these power company witnesses and ask that they explain the discrepancies in their testimony.

1. Power Company Charge

"The G. & T. loans are being made contrary to the intent of the Rural Electrification Act, which authorizes loans by the Administrator only for the purpose of bringing electric service to persons in rural areas who are not already receiving central station service."

George A. Schreiber, executive vice president of the New Mexico Public Service Co., stated that "the REA is now promoting a new concept of operations * * *." He stated that "four out of five new customers being connected to REA systems are nonrural in character."

Co-op answer

The charge is untrue.

The original REA Act has been amended by Congress several times, changing somewhat each time the original purposes. Among these changes there was, for example, the elimination of the restrictive formula with regard to allocation of funds among the States, a provision of the act which had the effect of restricting loans for generation and transmission.

While a higher percentage of new consumers being served by the co-ops do not depend on the farm for the major part of their income, they are mostly rural residents.

The statement about what the Rural Electrification Act authorizes, likewise is misleading.

Section 4 of the act reads in part:

"The Administrator is authorized and empowered * * * to make loans for rural electrification * * * for the purpose of financing the construction and distribution lines or systems for the furnishing of electric energy to persons in rural areas who are not receiving central station service * * *."

Section 4 also contains another specific reference to generation:

"And provided further, that no loan for the construction, operation, or enlargement of any generating plant shall be made unless the consent of the State authority having jurisdiction in the premises is first obtained."

The right of REA to make loans for generation and transmission has been clear from the beginning of the program, and has been used almost from the beginning. This right has continually been reaffirmed by Congress in the appropriations procedure.

The power companies have challenged this right many times in presentations before the REA Administrator, before committees of the Congress, before State commissions, before the Comptroller General, and in the courts, but never successfully.

As recently as February of this year and involving the Colorado-Ute plant which the power company witnesses attacked, the Colorado Public Utility Commission rendered a decision upholding the co-op. The commission declared, among other things, that selecting its own source of power is the right and privilege of every utility—"be they investor-owned or consumer-owned or municipal."

(See exhibit O, statement by John J. Bugas.)

The right of the Administrator to make generation loans and the right of the cooperative and others to borrow such money applies to keeping rural consumers served with electricity as well as to providing initial service to them.

2. Power Company Charge

"Loans are being made to build unnecessary generating plants. There is an ample supply of power available to the co-ops from investor-owned, taxpaying utilities."

Co-op answer

No REA loan has ever been made for an "unnecessary" generating plant.

Under the rigid REA criteria for G. & T. loans, loans cannot be made unless (1) adequate power is not available from other sources; (2) power costs would be less from the G. & T. than from other sources; or (3) the security of the co-op is threatened by a hostile alternate supplier.

Only two loans have ever been made under the third criterion. One was in Alabama where Mr. Bouldin's Alabama Power Co. has long demonstrated active hostility to the co-op and the other was in Texas where the Southwestern Electric Power Co. has an equally offensive record.

(See exhibit M, statement by Basil Thompson, and exhibit C, statement by J. L. Johns.)

It must be noted, however, that no loan—even including the two just mentioned—has ever been made that did not meet either criterion No. 1 or criterion No. 2, or both.

In all cases REA requires that the prospective G. & T. borrower secure the last, best offer of a possible alternative supplier. The loan is not made if this

offer is lower than the cost of power from the plant to be financed by the loan and the other terms are equal.

"Ample supply of power" becomes an illusion when the power companies attach unbearable restrictions on the use of the power by the purchasing co-op. The companies often demand that co-ops sign the "dual rate" contracts previously referred to. The purpose of such a requirement, of course, is to prevent the co-op from serving the better loads which locate in their service areas but which the power company wants to serve directly. Power is also not always available where it is needed and many co-ops have difficulty in securing satisfactory points of delivery from the power companies, and on other decent terms.

3. Power Company Charge

"These G. & T. loans, if the costs are properly computed, are not making electricity available at lower cost."

Co-op answer

This is not true. Power company representatives constantly compare their rates which do not include all the costs of delivering the power with G. & T. rates which do cover all of the costs of delivering the power to the co-ops.

In published REA reports of the cost of energy purchased by its borrowers, which the power companies frequently quote, the rate charged by the power companies does not include the expenses incurred by the rural electric systems for transmission, transformers, and other expenses which must be added to the total cost of power.

The rates listed for the G. & T. systems, on the other hand, are gross cost which includes net margins returnable to consumers. It includes the cost of services which are not generally rendered by other types of supplier, such as the cost of delivery to designated load centers, ownership, operation and maintenance of transmission and transformer facilities, and other technical services.

The real cost of service by cooperative borrowers is below the average for all power company suppliers.

Despite the knowledge of these facts, power company representatives continue to make this erroneous comparison. For example, Mr. Alvin W. Vogtle, Jr., executive vice president of the Alabama Power Co., in his testimony before the Senate committee made an alleged comparison of rates charged by the company and by the Alabama Electric Cooperative. Never did he point out that figures he used are not comparable.

Mr. Basil Thompson, general manager of the Alabama Electric Cooperative, in his rebuttal to the power company (see exhibit M), points out the difference. On page 9, for example, he notes that "Alabama Electric Cooperative provides, operates, and maintains transmission and substation facilities required to serve its member systems, including the furnishing of voltage regulators, and meters current delivered to its consumers on the low side of the substation, meaning that Alabama Electric absorbs transformation costs.

"Distribution cooperatives served by Alabama Power Co. provide, own, operate, and maintain all required substation facilities, and, in some cases, transmission facilities, and therefore must bear the expenses of operating and maintaining the above facilities."

4. Power Company Charge

"Every G. & T. loan granted involved not only an interest loss to the Federal Government, but results in serious impairment of State and Federal tax revenues."

Co-op answer

This statement is very misleading. There are sound reasons for the low-interest, long-term loan terms Congress wrote into the Rural Electrication Act. The country and the Government have come out ahead. The program is paying off in the national interest.

When Congress wrote the REA Act it recognized that the power companies were not extending electricity into thinly populated rural areas. It also recognized that the rural electric cooperatives could not serve everyone in the rural areas at the original higher interest rate, which was running at about 2.6 percent in 1944.

Therefore, Congress in the Pace Act amendment in 1944 made it clear that in return for a 2-percent interest rate, rural electric systems were expected to pro-

vide "area coverage"—that is, electric service to everyone in their areas who wanted service. We call this the area coverage convenant.

This program, including the area coverage covenant, is working. Without low-cost money, I am confident that nowhere near 98 percent of rural America would have electricity today.

The rural electric systems are operating under a number of severe handicaps in their areas.

First of all, their territory is extremely thin. On the average, rural electrics serve only 3.3 consumers per mile of line compared to 33 served by the Nation's power companies—10 to 1.

Second, their revenue is also relatively small. On the average, the power company revenue per mile of line runs about 15 times the rural electric revenue.

Third, they are restricted as to the consumers they may serve—they are prohibited, for example, from serving anyone having service and they are prohibited from bringing service even to the unserved in towns of over 1,500.

Fourth, in only rare instances do they have any guarantee of territory. Consequently, they are subject to having their consumers pirated and they have no recourse.

Fifth, in the case of hundreds of rural electric systems they have to depend upon hostile power suppliers for their wholesale power.

These are illustrations of the handicaps under which the rural electrics must operate. That the REA program has been successful in extending service to rural people under those conditions is remarkable but it is even more important that those people now connected with electric service be permitted to obtain the same dependable, reasonably priced electricity that is available to the rest of the U.S. population.

Interest costs for the rural electric consumers are higher than for power company customers. In 1960, for example, interest on long-term debt absorbed 7.7 percent of the rural electrics' total operating revenues. In contrast, this took only 6.1 percent of the total operating revenues of the class A and B electric utilities.

Who is subsidizing whom?

The REA program was launched because it was in the national interest to extend dependable electric service at reasonable cost into rural America on an area coverage basis. Because it was in the national interest, Uncle Sam invested funds in the program. Since the beginning, the loans total more than $4.1 billion. The farmers and other consumers served by the rural electric systems began immediately to invest their own money into the systems thus replacing the REA loans.

Up to the present time the members of these systems have invested $1.2 billion by paying off loans in this manner. On this investment these people are receiving no interest at all—merely electric service they could get in no other way.

The members have invested another $300 million in their electric plants and in working capital and reserves to meet operating contingencies. They receive no interest or dividends on this investment, either.

So, the farmers and other rural folk have put $1½ billion of their own money into the program as against Uncle Sam's outstanding investment of $2.9 billion.

Their investment includes $900 million in loans paid off on schedule, $200 million in advance payments, and $26 million in REA-Treasury 2-percent notes.

In the face of this, the power companies which have collected $1½ billion in Federal taxes which they have yet to forward to the U.S. Treasury and which they are using on an interest-free basis, have the nerve to come before congressional committees and try to discredit the farmers' rural electric co-ops' patriotism, thrift, and good business operation in doing a job that the power companies could not or would not do.

Rural electrification has vastly expanded the tax base at the Federal, State, and local levels. This has produced millions in new tax revenues. Rural electric consumers have invested in electrical appliances and equipment $4 for every dollar REA has loaned. This has generated expenditures on the part of rural electric consumers of more than $16 billion for appliances, plumbing, wiring, and all kinds of electrical equipment. Today these same consumers are buying electric appliances at the rate of over $1 billion annually, which means that rural electrification is providing thousands upon thousands of jobs for factory workers. This is a completely new sector of the economy resulting from the rural electric program.

The rural electric systems pay millions of dollars in taxes. In most States, they pay all taxes except Federal and State profit taxes. And they don't pay these because they are nonprofit businesses and have a legal responsibility to return any margins to members.

On the other hand, the power companies merely collect taxes from their consumers. They are virtually guaranteed a certain return over and above their taxes. Mr. William Lynch, president of the Electric Institute, trade association for the electric utilities, in his recent testimony before the House Ways and Means Committee, flatly admitted that it is the consumer who pays the taxes, not the power companies. The rural electrics in the aggregate, are the largest single customer of the power companies, and they, along with all other utility consumers, bear the taxes which the power companies boast about paying.

5. Power Company Charge

"Every G. & T. loan is impairing investments made by the investor-owned utilities."

Co-op answer

Mr. Bouldin dismisses any documentation of this charge with the statement, "I need not labor the point that every G. & T. loan is impairing investments made by the investor-owned utilities." The reason is apparent and this statement demonstrates that greed is the primary motivation of the power companies.

A study of the 12 companies which testified against rural electrics reveals that they are prospering at a rate far greater than most businesses.

For example, from 1951 to 1961 their average number of consumers served increased 47 percent.

Their sales of electricity increased 112 percent.

Their total plant investment increased 146 percent.

Their common stock dividends increased 140 percent.

Their net income increased 130 percent.

Figures for each of the companies and a chart showing how the group prospered is submitted as a part of this testimony for the record (see exhibit A).

These figures make it obvious that nothing short of a total monopoly, with even greater profits, will satisfy these companies.

As a matter of fact, a comprehensive study by our economists shows that at least eight of the companies which testified have had excessive actual rates of return, when compared with the generally accepted fair rate of return of 6 percent.

Our economists studied the actual returns for 38 major utilities. The figures used were those filed by the companies themselves with the Federal Power Commission. The study revealed that, measured against the accepted 6 percent standard, these companies had overcharged their consumers a total of $1.3 billion in the 5-year period 1956–60.

This study report is submitted for the record as a part of this statement (exhibit B). Figures for the eight companies which testified here including their individual overcharges during the study period and the amounts of taxes they collected from consumers but did not pay to the Treasury are as follows:

	Estimated amount overcharged consumers, 1956–60 [1]	Taxes collected from consumers and kept by power company at Dec. 31, 1961 [2]
Alabama Power Co	$62,669,000	$31,110,551
Arkansas Power & Light Co	13,255,000	18,861,269
Public Service Co. of Colorado	20,341,000	15,774,830
Georgia Power Co	72,367,000	34,882,413
Public Service Co. of Indiana	18,962,000	27,431,000
Kentucky Utilities Co	18,982,000	6,554,188
Mississippi Power & Light Co	11,415,000	10,728,450
Utah Power & Light Co	7,009,000	778,000
Gulf Power Co	[3]	6,914,883
Mississippi Power Co	[3]	6,059,118
Public Service Co. of New Mexico	[3]	3,499,820
Southwestern Electric Power Co	[3]	8,936,300

[1] Calculated from power company data on file at the Federal Power Commission, assuming 6 percent as a fair rate of return. The calculations took into account taxes actually paid by the companies.

[2] Source: Power company data reported to the Federal Power Commission on form 1. These are the amount of tax moneys kept by the power companies under secs. 167 and 168 of the 1954 Internal Revenue Code. (I digress to say that these studies were made by professional economists and are, in my opinion, valid and reliable.)

[3] Not computed.

6. Power Company Charge

"The G. & T. loans are being made in secret proceedings which violate fundamental constitutional law."

Co-op answer

The charge is untrue, both with respect to the alleged secret proceedings, and with respect to any violation of any fundamental constitutional law.

The power companies claim, with reference to certain G. & T. loans, that because of this so-called secrecy that they had no opportunity to make a final bargaining offer to serve the distribution cooperatives with their wholesale power requirements.

REA specifically requires that before it makes a generation loan, the applying co-op or co-ops must furnish evidence that they asked the power company or companies in the area to make a final offer to supply said wholesale requirements. REA then has an opportunity to compare the power company terms with the estimated G. & T. terms before acting on the loan application.

This is always done and was done in each case complained of by the power companies.

For the specific documented co-op refutations see the following exhibits:

Exhibit C, statement by J. L. Johns, general manager, Upshur Rural Electric Cooperative Corp. (p. 265).

Exhibit D, statement by John R. Pentecost, general manager, Choctawatchee Electric Cooperative, Inc. (p. 270).

Exhibit E, statement by J. R. Miller, former coordinator and present director, Big Rivers Rural Electric Cooperative Corp. (p. 273).

Exhibit F, statement by H. L. Spurlock, manager, East Kentucky Rural Electric Cooperative Corp. (p. 293).

Exhibit G, statement by Norton Davis, general manager, Plains Electric Generation & Transmission Cooperative, Inc. (p. 295).

Exhibit H, statement by Harry L. Oswald, general manager, Arkansas Electric Cooperative Corp. (p. 297).

Exhibit I, statement by Frank E. Ratts, general manager, the Hoosier Energy Division, Indiana Statewide Rural Electric Co-operative (p. 298).

Exhibit J, statement by Ray Holt, president, Southern Illinois Power Co-op (p. 302).

Exhibit K, statement by J. T. Dudley, manager, South Mississippi Electric Power Association (p. 304).

Exhibit L, joint statement by W. T. Withers, president, Capital Electric Power Association; W. H. Morgan, president, Delta Electric Power Association; Rogers G. Davis, president, Southwest Mississippi Electric Power Association; S. H. Kyle, president, Coahoma Electric Power Association; C. C. Clark, president, Magnolia Electric Power Association; James W. Berry, president, Twin County Electric Power Association; and B. N. Simrall, Sr., president, Yazoo Valley Electric Power Association (p. 308).

Exhibit M, statement by Basil Thompson, general manager, Alabama Electric Cooperative, Inc. (p. 310).

Exhibit N, statement by E. J. Ballard, Jr., general manager, Moon Lake Electric Association (p. 319).

Exhibit O, statement by John J. Bugas, general manager, Colorado-Ute Electric Association (p. 321).

Exhibit P, statement by Walter Harrison, executive manager, Georgia Electric Membership Corp. (p. 327).

The charge of secrecy is being used by the power companies as a device to have this committee force REA to divulge confidential data supplied by the borrower. Much information already is readily available to the power companies about the loan applications. The attached exhibits referred to above document the fact that the companies knew that the terms, conditions, and rates which they were attemping to impose on the cooperatives were intolerable. Each of them knew that the co-op had, as a last resort, turned to REA for a G. & T. loan.

The REA Administrator is charged by law with the responsibility of making loans, and we submit that the administrator of no Government or private lending program is required to divulge confidential data submitted by the prospective borrower—especially data which could be used against the borrower by a competitor.

The companies have asked that this committee hold hearings on each G–T loan. We submit that they are really seeking two things: (1) access to engineering, financing, and other confidential data furnished by the borrowers to

REA, and (2) a propaganda forum which would make the hearings of this committee a stage for further vilification of a great program in order to advance the selfish interests of the power companies.

In addition to the information available from the co-op and from REA, the State Regulatory Commissions in many States study the G–T loans before any funds can be advanced because under the law G–T co-ops must have certificates of convenience and necessity before they can proceed with their construction.

In all of these instances all the facts supporting the loan application are examined in great detail.

In addition, the rural electric systems applying to REA for G–T loans must provide the companies with the necessary information about their power supply requirements in order to obtain the company offer that REA requires.

The companies have ample opportunity to obtain all the facts they need to make their power supply offers. They have no more right than a contract bidder would have to obtain information regarding alternative plans in order that they might work this information to their own advantage, and to the co-ops' disadvantage.

This is important because in rural electrification you have the unique situation in which the cooperatives must buy their wholesale supplies from the company that often is its nearest, fiercest, and biggest competitor. This gives the company a tremendous advantage, particularly if it is given all the co-ops' most intimate business plans, before the company makes its commitment to the co-op in the form of a firm offer.

7. Power company charge

In his attack on the G–T loan to the Upshur Rural Electric Cooperative of Gilmer, Tex., Mr. Robert Welsh, president of the Southwestern Electric Power Co. contended that the co-op's plan was illegal and contrary to Congressional policy.

Co-op answer

Mr. Welsh is wrong.

His principal argument, of course, was about Upshur's agreement to exchange power with the Southwestern Power Administration, a power marketing agency of the Department of the Interior.

All recent legislative history plainly gives full backing to such an agreement as that entered into between SPA and Upshur Rural Electric. The courts, likewise, have made it clear that SPA can legally enter into and carry out contracts with REA-financed electric cooperatives.

In the case of *Kansas City Power & Light Co. v. McKay*, it was held that contracts under which SPA would lease transmission facilities constructed by REA co-ops, and under which SPA would purchase the output of generating plants constructed by funds advanced to the co-ops by REA did not violate, but in fact were authorized by Section 5 of the 1944 Flood Control Act, 16 U.S.C. Sec. 825s, and that no power company has standing to question the discretionary acts of the REA Administrator or the Secretary, nor to operate free from competition.

Subsequently, in 1957, the report of the House Appropriations Committee (H. Rept. 2181, 84th Cong., 2d sess., pp. 3, 4) read:

"The committee * * * directs the Department to consider the applications for power and for integration of REA systems which have been presented to the Southwestern Power Administration and to report to the committee at the time of the hearing on the 1958 budget and the action taken."

Since that time, Congress has each year appropriated the amounts requested in the budget submissions by SPA for the Continuing Fund, which made possible the Upshur SPA Agreement. It has imposed no limitations on the use of these funds to support power supply and integration arrangements between SPA and rural electric cooperatives.

I respectfully direct the committee's attention to a detailed analysis filed by J. L. Johns, general manager of the Upshur Rural Electric Cooperative at Gilmer. This statement firmly establishes that such agreements entered into between Upshur Rural Electric and SPA have the full authority of Congress. (See exhibit C, statement by J. L. Johns.)

CONCLUSION

We believe this statement and the attached exhibits completely refute the charges of the power company spokesmen before this committee. They came here for one purpose, and that purpose is shockingly clear: To seek the destruction directly of the REA generation and transmission program, and indirectly, of the whole rural electrification program.

Make no mistake about their motives, which is two-fold: First, they seek an immediate increase in their own profits; and second, they seek a complete, ironclad monopoly of the generation and transmission of electric power in this country.

What this committee witnessed during these power company attacks was an amazingly candid expression of naked greed. Any person familiar with the long and vicious power company campaigns against the Federal wholesale power programs, the local publicly owned systems and the rural electric systems must come to the unescapable conclusion that these companies are ruthlessly determined to eliminate any vestige of competition in the electric power business, even competition by example.

They are not satisfied with their myriad of subsidies and special privileges. They are not satisfied to dominate the electric power industry. They want it all—everything. Such total monopoly over electric energy would be disastrous to our Nation, in my opinion.

The wisdom of this committee has made the remarkable achievement of rural electrification possible. The men who sit and have sat on this committee can look in almost any corner of rural American and see a living, dynamic monument to their public service. Nobody knows better than the members of this committee that the very forces which now seek the destruction of the rural electrification program are the same ones which have frustrated and opposed that program at every turn down through the years.

This wrecking crew is now hard at work on the foundation of the program built so carefully and laboriously by this committee and millions of rural Americans. We are confident this committee will not permit them to succeed.

EXHIBIT A

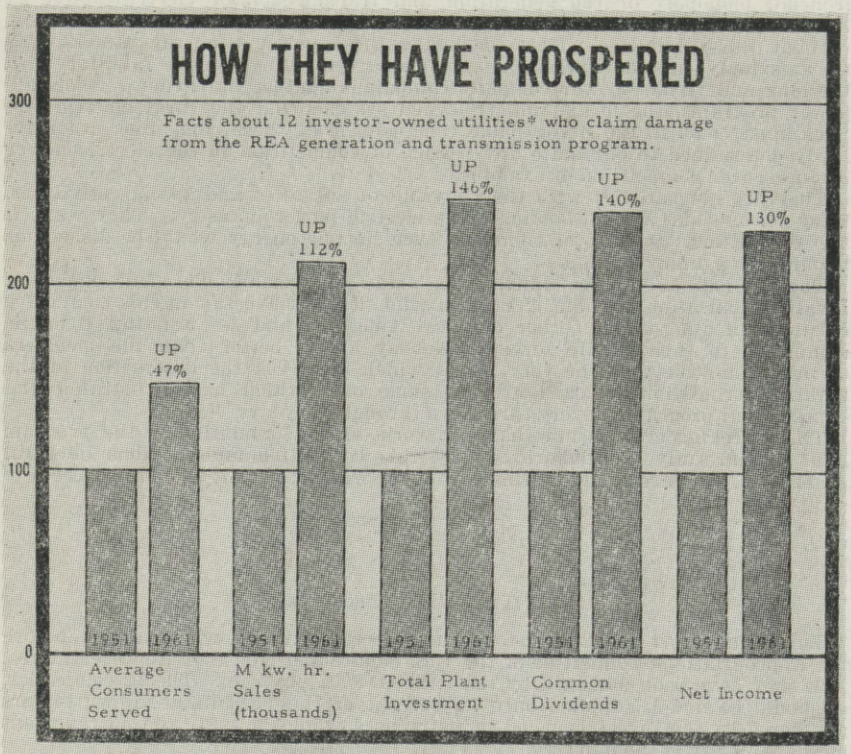
HOW THEY HAVE PROSPERED

This is a report on 12 investor-owned electric utilities who claimed, before the Appropriations Committee of the U.S. Senate and House of Representatives, that they have been damaged by the REA G. & T. program. The 12 companies, it should be noted, supplied only 7.2 percent of the 719 billion kilowatt-hours generated by the investor-owned industry as a whole in 1961, and so represent only a minority of the industry.

Far from being damaged by the G. & T. program, the 12 complaining companies showed a greater percent increase in net income and common stock dividends than the privately owned class A and class B electric utilities as a whole. Figures obtained from the Federal Power Commission's Report FPC S–155 for 1951 and 1961 reveal that while the total industry showed gains of 130 and 121 percent in these important categories, the complaining utilities increased here by 132 and 138 percent, respectively.

All data within were obtain from Moody's Public Utilities Manual, 1956 and 1962.

ROBERT O. MARRITZ,
Electrical Engineer, NRECA.



* (1951 totals indexed to 100 per cent for comparison with 1961 totals)

Alabama Power Company
Arkansas Power and Light Company
Utah Power & Light Company
Georgia Power Company
Gulf Power Company
Kentucky Utilities Company
Mississippi Power Company
Mississippi Power and Light Company
Public Service of Colorado
Public Service of Indiana
Public Service of New Mexico
Southwest Electric Power Company

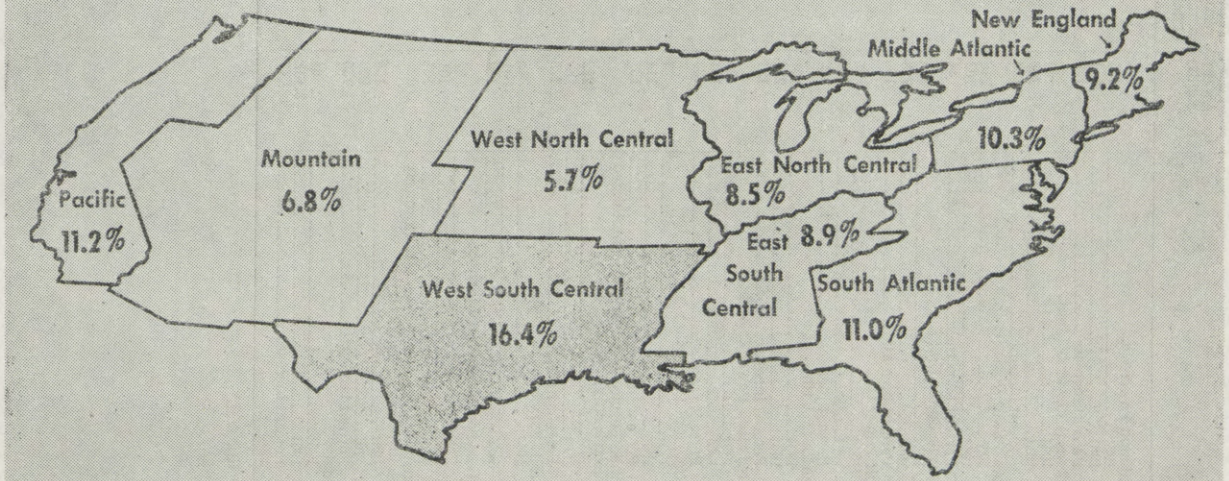
Data on 12 investor-owned utilities who claim that they are damaged by the REA G. & T. program (1951–61)

	Total customers (in thousands)	Total plant investment (in millions of dollars)	Million kilowatt-hour sales (in thousands)	Net income (in thousands of dollars)	Common dividends (in thousands of dollars)
Alabama Power Co.:					
1951	365	257	5,236	10,133	6,938
1961	654	679	11,745	21,646	16,800
Percent increase	179	265	225	213	242
Arkansas Power & Light:					
1951	242	148	3,298	4,668	2,900
1961	305	352	4,513	11,173	6,787
Percent increase	126	237	137	239	234
Utah Power & Light:					
1951	218	100	1,327	3,805	2,785
1961	163	232	3,860	9,014	6,458
Percent increase	34	232	291	236	232
Georgia Power Co.:					
1951	466	317	5,240	9,389	6,197
1961	723	694	11,984	20,801	16,700
Percent increase	155	201	229	222	269
Gulf Power Co.:					
1951	55	28	351	1,209	845
1961	101	94	1,444	4,013	2,918
Percent increase	182	339	411	332	345
Kentucky Utilities Co.:					
1951	191	99	1,454	3,820	1,948
1961	237	211	2,417	8,416	4,455
Percent increase	124	214	166	220	229
Mississippi Power & Light:					
1951	138	88	1,607	3,175	1,890
1961	184	137	2,227	6,003	3,719
Percent increase	133	155	139	189	197
Mississippi Power Co.:					
1951	83	41	561	1,930	1,256
1961	114	113	1,663	3,896	2,894
Percent increase	137	278	296	202	230
Public Service of Colorado (consolidated electric only):					
1951	222	159	1,464	6,918	3,754
1961	389	465	3,788	18,521	8,591
Percent increase	175	293	259	268	229
Public Service of Indiana:					
1951	312	202	2,825	8,323	5,778
1961	381	526	5,453	17,921	11,620
Percent increase	122	260	193	215	201
Public Service of New Mexico:					
1951	62	26	269	1,016	606
1961	101	86	1,059	3,954	2,182
Percent increase	164	326	393	389	360
Southwest Electric Power Co. (formerly Southwest Gas & Electric):					
1951	155	63	968	3,298	1,837
1961	210	162	2,280	7,871	5,100
Percent increase	135	256	236	239	278
Totals:					
1951	2,464	1,527	24,600	57,684	36,734
1961	3,618	3,750	52,433	133,230	88,224
Percent increase	[1] 47	[1] 146	[1] 112	[1] 130	[1] 140

[1] Up.

Electrical World
APRIL 8, 1963

MANAGEMENT NEWSLETTER



West South Central Utilities Take the Lead as Industry Net Income Rebounds in 1962

Last year the best ever for utility net incomes. Based on a sampling of 142 companies, representing roughly 95 percent of the total electric revenues for the utility industry, net incomes posted a 10.02-percent gain over 1961, as compared with a 5.4-percent gain in 1961 over 1960. The increase in 1962 got a boost from the new 3-percent investment tax credit, and the Internal Revenue Service's liberalized depreciation guidelines.

Every section of the country showed an increase in net income. However, the Mountain States, after spurting to the lead in 1961 with a 14.8-percent gain, relinquished its top position by dropping off to a 6.8-percent gain last year. Here's the region-by-region roundup of 1961 and 1962:

Region	Percent gain, 1962	Percent gain, 1961
New England	9.2	2.2
Middle Atlantic	10.3	8.9
East North Central	8.5	4.5
West North Central	5.7	5.0
South Atlantic	11.0	2.7
East South Central	8.9	4.8
West South Central	16.4	1.2
Mountain	6.8	14.8
Pacific	11.2	7.4

Here are net incomes for 142 operating electric utilities:

[In thousands of dollars]

Company	1962	1961	Company	1962	1961
Alabama Power [1]	22,856	21,646	Edison Sault Electric	371	331
Appalachian Power [1]	24,337	21,494	El Paso Electric	4,470	4,087
Arizona Public Service [2]	13,643	11,319	Empire District Electric	2,530	2,319
Arkansas Missouri	1,554	1,352	Fall River Electric Light [3]	984	862
Arkansas Power & Light [1]	11,375	11,173	Florida Power	15,620	13,601
Atlantic City Electric	9,088	8,211	Florida Power & Light	33,065	30,254
Baltimore Gas & Electric	23,500	22,772	Georgia Power [1]	24,460	20,801
Bangor Hydroelectric	1,708	1,593	Green Mountain Power	853	746
Blackstone Valley Gas & Electric [3]	2,296	2,084	Gulf Power [1]	4,466	4,013
Boston Edison	15,669	14,939	Gulf States Utilities	18,951	16,047
Brocton Edison	1,702	1,617	Hartford Electric Light	8,046	6,729
California Electric Power	5,746	5,505	Hawaiian Electric	5,963	4,818
California-Pacific Utilities	1,181	1,177	Houston Lighting & Power	27,397	21,532
Carolina Power & Light	16,345	14,709	Idaho Power	8,856	9,668
Central Hudson Gas & Electric	6,452	6,008	Illinois Power	23,114	22,217
Central Illinois Electric & Gas	4,698	4,393	Indiana & Michigan Electric [1]	14,600	12,029
Central Illinois Light	6,504	5,186	Indianapolis Power & Light	10,833	10,090
Central Illinois Public Service	13,110	12,235	Interstate Power	5,032	4,786
Central Louisiana Electric	4,570	4,028	Iowa Electric Light & Power	5,863	5,496
Central Maine Power	8,811	8,652	Iowa-Illinois Gas & Electric [2]	7,116	6,551
Central Power & Light [1]	12,879	11,179	Iowa Power & Light	6,056	5,568
Central Vermont Public Service	1,991	1,861	Iowa Public Service	5,409	5,030
Cincinnati Gas & Electric [2]	22,710	21,726	Iowa Southern Utilities	2,532	1,978
Cleveland Electric Illumination [2]	24,670	24,357	Jersey Central Power & Light [1]	9,944	9,309
Columbus & Southern Ohio [2]	11,142	10,884	Kansas City Power & Light	12,282	11,337
Commonwealth Edison	88,470	82,664	Kansas Gas & Electric	8,101	7,681
Community Public Service	2,351	2,160	Kansas Power & Light	9,441	9,093
Connecticut Light & Power	16,661	14,514	Kentucky Power [1]	3,170	1,881
Consolidated Edison of New York	90,636	76,352	Kentucky Utilities	8,937	8,417
Consumers Power [2]	45,097	40,241	Kingsport Utilities [1]	494	424
Dallas Power & Light [3]	13,339	10,693	Long Island Lighting	25,184	21,953
Dayton Power & Light	13,664	12,549	Louisiana Power & Light [1]	9,221	8,470
Delaware Power & Light	9,938	9,005	Louisville Gas & Electric	12,313	11,339
Detroit Edison [2]	42,911	39,765	Madison Gas & Electric	2,080	1,987
Duke Power	29,997	27,234	Maine Public Service	913	913
Duquesne Light	24,192	23,330	Metropolitan Edison [1]	11,779	10,439
			Minnesota Power & Light	4,916	4,703
			Mississippi Power [1]	4,517	3,896
			Mississippi Power & Light [1]	6,154	6,003
			Missouri Power & Light	2,224	2,009
			Missouri Public Service	3,040	2,737

See footnotes at end of table.

[In thousands of dollars]

Company	1962	1961
Missouri Utilities	877	808
Monongahela Power [1]	6,935	6,580
Montana-Dakota Utilities	5,746	5,162
Montana Power	14,477	13,310
Nevada Power	2,328	2,257
New England Electric System [4]	18,948	17,324
New England Gas & Electric [4]	5,075	4,743
New Jersey Power & Light [1]	3,367	3,235
New Orleans Public Service [3]	6,076	4,747
New York State Electric & Gas	18,529	17,487
Newport Electric	331	335
Niagara Mohawk Power	41,714	36,079
Northern Indiana Public Service	20,546	18,513
Northern States Power (Minnesota)	28,509	27,408
Northern States Power (Wisconsin)	2,623	2,662
Northwestern Public Service	1,415	1,449
Ohio Edison [5]	34,978	30,841
Ohio Power [1]	26,662	24,677
Oklahoma Gas & Electric	14,456	12,135
Orange & Rockland Utilities	4,495	4,146
Otter Tail Power	2,791	2,546
Pacific Gas & Electric	110,692	102,241
Pacific Power & Light	20,842	18,076
Pennsylvania Electric [1]	18,032	17,994
Pennsylvania Power & Light	25,984	25,525
Philadelphia Electric	47,581	46,596
Portland General Electric	9,025	7,880
Potomac Edison [1]	5,456	5,310
Potomac Electric Power	19,187	17,442
Public Service Electric & Gas	65,563	57,410
Public Service of Colorado	18,683	18,521
Public Service of Indiana	19,756	17,921
Public Service of New Hampshire	6,033	5,682
Public Service of New Mexico	4,489	3,954
Puget Sound Power & Light [2]	8,589	7,746
Rochester Gas & Electric	11,751	10,563
San Diego Gas & Electric	11,615	8,623
St. Joseph Light & Power	1,412	1,350
Savannah Electric & Power	1,967	2,154
Sierra Pacific Power	2,103	2,163
South Carolina Electric & Gas	10,621	10,116
Southern California Edison	60,569	54,183
Southern Indiana Gas & Electric	3,551	3,273
Southwestern Electric Power [1]	8,901	7,871
Southwestern Electric Service	497	480
Southwestern Public Service	13,584	11,234
Tampa Electric	8,261	6,890
Texas Electric Service [1]	20,371	18,351
Texas Power & Light [1 2]	19,713	16,972
Toledo Edison [2]	9,370	8,266
Tucson Gas, Electric Light and Power	4,257	3,373
Union Electric	29,053	28,455
United Illuminating	6,452	5,828
Utah Power & Light	10,350	9,561
Virginia Electric & Power	38,358	33,443
Washington Water Power	7,063	6,819
West Penn Power [3]	16,416	15,718
West Texas Utilities [1]	6,324	5,969
Western Light & Telephone	2,555	2,312
Western Massachusetts	4,595	4,171
Wheeling Electric [1]	536	574
Wisconsin Electric Power	19,848	18,515
Wisconsin Michigan Power	2,254	2,142
Wisconsin Power & Light	9,342	8,807
Wisconsin Public Service	8,054	6,925
Total—142 companies [6]	2,007,583	1,824,594

[1] All common shares owned by a holding company.
[2] Revised.
[3] Most common shares owned by a holding company.
[4] Holding company controlling operating companies.
[5] Includes Pennsylvania Power Co.
[6] For the 12 months ended Dec. 31, 1961, and Dec. 31, 1962.

The area showing the biggest increase was the West South Central, which was low region last year. In that 1 section, 11 utilities registered net income gains of over 10 percent, the largest being the 28 percent posted by New Orleans Public Service. The Mountain States, which showed an 8 percent drop from 1961, contained 2 of the 7 utilities which registered declines in the 1962 net income sample of 142 companies. These two companies were Idaho Power (—8.4 percent) and Sierra Pacific Power (—2.8 percent).

Total increase in net income for the industry was almost $183 million, as compared with the $94 million increase in 1961, and the $114 million increase in 1960. The utility showing the biggest jump last year was Consolidated Edison of New York, which boosted its net income by $14 million. Runner-up for the second year in a row was Pacific Gas & Electric with an $8.4 million increase. In third place was Public Service Electric & Gas, which registered an $8.1 million gain.

These seven companies made the largest net income gains:

Company:	*Percent increase*
Kentucky Power	68.5
San Diego Gas & Electric	34.7
Iowa Southern Utilities	28.0
New Orleans Public Service	28.0
Houston Lighting & Power	27.2
Tucson Gas, Electric Light & Power	26.2
Central Illinois Light	25.4

Other companies showing a 20 percent or over net income gain were: Dallas Power & Light (24.7 percent); Hawaiian Electric (23.8 percent); Indiana & Michigan Electric (21.4 percent); Southwestern Public Service (20.9 percent); Arizona Public Service (20.5 percent).

While these seven companies showed a net income decline:

Company:	*Percent decline*
Savannah Electric & Power	8.7
Idaho Power	8.4
Wheeling Electric	6.6
Sierra Pacific Power	2.8
Northwestern Public Service	2.3
Northern States Power (Wis.)	1.5
Newport Electric	1.2

These were the only companies showing declines in net income for 1962. One company (Maine Public Service) showed no change, and three companies showed a less than 1 percent increase. They are Pennsylvania Electric, California Pacific Electric, California Pacific Utilities, and California Public Service of Colorado.

On a percentage basis, however, Consolidated Edison posted an 18.7 percent income gain, well down on the list of those companies showing the largest net income gains for 1962. Pacific Gas & Electric registered an 8.3 percent increase and Public Service Electric & Gas showed a 14.2 percent gain.

The greatest percentage increase was shown by Kentucky Power, which upped its net income by 68.5 percent—from $1,881 million in 1961 to $3,170 million in 1962. The reason behind this increase was that interest during construction credit was about $1.7 million in 1962 as against approximately $380,000 in 1961—making an increase of $1.3 million in 1962 in this category.

It's interesting to note that in the 142-company sample, only 7 showed a decline, while 12 showed a 20 percent or over increase, and 49 companies showed increases of 10 percent or over, in their 1962 net incomes.

EXHIBIT B

EXCESS EARNINGS AND YOUR LIGHT BILL

(A report on a study of 38 major electric utilities by Charles A. Robinson, Jr., staff engineer and staff counsel, and Ronnie J. Straw, staff economist, National Rural Electric Cooperative Association, Washington, D.C., 1963)

METHODS USED TO DETERMINE AMOUNT OF OVERCHARGES BY 38 MAJOR ELECTRIC UTILITIES

1. All of the data can be found in "Statistics of Electric Utilities (Privately Owned) in the United States," FPC, 1955–60.

2. Find the rate base:

(*a*) Electric utility plant less reserves. (Balance sheet.)

(*b*) Electric utility operating income. (Income and earned surplus account.)

(*c*) Add into electric utility operating income the provision for deferred taxes on income. (Income and earned surplus account.) Adding this amount includes sections 167 and 168 of the 1954 Internal Revenue Code in the income account.

3. Divide electric utility plant less reserves into electric utility operating income plus provision for deferred taxes. This quotient is the actual rate of return.

4. Assume the rate of return of 6 percent as normal and subtract 6 percent from the rate obtained from the calculation.

5. The difference between the normal (6 percent) rate of return and the calculated rate of return is found. For example, the calculated rate of return of 7 percent minus 6 percent (normal rate) is 1 percent. Multiply electric utility plant less reserves by 1 percent to arrive at the revenue factor.

6. In computing revenue effects of a rate of return above the normal rate, consideration must be taken of the effect of income taxes. In order to produce $1 of allowable earnings after taxes, it is necessary to provide $2.08 of gross revenue of which $1.08 is for income taxes. Once the revenue return is computed, merely multiply the revenue return by 208 percent to obtain the total amount of overcharge paid by the consumers.

EXCESS EARNINGS AND YOUR LIGHT BILL[1]

"Our company is a regulated utility. Its rates are set by the public service commission." This is a favorite expression of investor-owned electric company representatives. The implication, of course, is that all regulated utility rates are per se reasonable and represent no more than cost of operation plus a reasonable profit.

What do we mean by "regulation"? Almost 300 years ago the Lord Chief Justice of England decided that when property is "effected with the public interest, it ceases to be a subject of private right only." This concept has, over the years, been accepted as an essential element of the law of property and of the principles of economics. When one commits his property to a use of public consequence he thereby grants to the public an interest in that use and he must submit to control by the public for the common good.

This right of the public to control private property affected with the public interest is exercised through the regulatory process. Thus, as was so well stated by the late Associate Justice of the Supreme Court of the United States, Louis D. Brandeis—

"The investor agrees, by embarking capital in a utility, that its charges to the public shall be reasonable. His company is the substitute for the state in the performance of the public service; thus becoming a public servant. The compensation which the Constitution guarantees an opportunity to earn is the reasonable cost of conducting the business. Cost includes not only operating expenses but also capital charges * * * by way of interest for the use of the capital" (*Missouri ex rel. Southwestern Bell Telephone Co.* v. *Missouri Commission* (1923, 262 U.S. 276)).

If regulatory theory were rigorously and effectively applied in all cases, the cost of electricity to the consumer would be reasonable in all cases. But, is the regulatory process as effective as the theory would lead us to believe?

Many observers of the electric utility industry strongly suspect that there is appreciable slippage between the theory of regulation and its application, and that as a result many utilities earn more than the reasonable rate of return to which they are lawfully entitled.

A few months ago, in a speech on the floor of the U.S. Senate, Senator Paul Douglas, of Illinois, observed:

"Ever since Congress passed the 1954 Internal Revenue Act, many public utilities have been reaping a bonanza at the expense of utility consumers. A number of utility regulatory jurisdictions * * * have permitted utilities to charge rates based on income tax allowances which far exceed their actual tax liability to the Treasury * * * " (Congressional Record, Feb. 12, 1962, p. 1987).

Senator Douglas was referring to the fact that by keeping two sets of books, one for tax purposes and one for rate purposes, the investor-owned electric companies have over the past few years been able to collect from their consumers, in the guise of Federal tax liability, $1.3 billion more than they have actually paid out in such taxes.

This $1.3 billion they retain as interest-free capital. Invested in plant expansion, the benefits could exceed $45 billion in the next 30 years.

Is it not reasonable to assume that under accepted regulatory theory, the Federal Power Commission, the State commissions, and the courts would insist that the benefits of this tax subsidy income be used to reduce the cost of power to the ultimate consumer?

Such, however, has not been the case. Under the decisions of the Federal Power Commission and the Federal courts, utility consumers have been wholly denied the benefits, in the form of lower rates, of Federal tax subsidy income. The benefits go 100 percent to the corporations themselves and to their security holders. See FPC Opinion No. 264 (1953) *Treatment of Federal Income Taxes as Affected by Accelerated Amortization*, 12 FPC 369; *In re Panhandle Eastern Pipeline Co.* (1954) 3 PUR 3d 369; *City of Detroit* v. *Federal Power Commission* (1955), 230 F. 2d 810; *In re Amere Gas Utilities et al.* (1956), 15 FPC 760; *Order No. 203* (1958), 19 FPC 826; *California* v. *Federal Power Commission* (1960), 281 F. 2d 567; *City of Lexington* v. *Federal Power Commission* (1961), 295 F. 2d 109; *Panhandle Eastern Pipeline Co.* v. *Federal Power Commission* (1962), U.S.C.A. D.C. No. 16,479.

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[1] Presented by Charles A. Robinson, Jr., staff engineer and staff counsel, National Rural Electric Cooperative Association, at NRECA annual meeting, Jan. 16, 1963.

Many State commissions and courts have also decreed that the consumer is not entitled to the benefit of the reduced Federal tax liability enjoyed by the companies. Many State commissions permit the companies to invest the tax savings in plant. Some, apparently, even allow them to be distributed as tax-free dividends to stockholders. (See (Wyoming) *In re Black Hills Power and Light Co.*, 26 PUR 3d 598, 1959; (Nevada) *In re Southern Nevada Power Co.*, L. & S. docket 195, 1958; (Florida) *Southeastern Telephone Co.*, 30 PUR 3d 492, 1959; (Oklahoma) *In re Oklahoma National Gas Co.*, 26 PUR 3d 149, 1957.)

During 1961, 22 power companies paid out $75 million in tax-free dividends to their stockholders. These 22 companies and 25 others had previously given their stockholders $426 million in tax-free dividends between 1954 and 1960.

To the extent that these benefits have flowed to the companies and their stockholders, to the exclusion of the consumers, the regulatory process has failed to protect the public. It has allowed the owner of private property dedicated to the public interest to receive much more than the cost of operating such property plus a reasonable profit.

It is, therefore, not surprising that a recent study by NRECA research economists indicates that many electric companies now enjoy a rate of return higher than has been found reasonable and fair by their own State regulatory commissions.

Of the rates prescribed or found reasonable by 39 of these commissions 88 percent fall between 5.5 and 6.5 percent. It is, therefore, startling that of the 38 electric utilities examined in the study, 63 percent earned an average rate of return during the 5-year period studied of more than 7 percent, 16 percent earned more than 7.8 percent and 8 percent earned more than 8.6 percent. One company averaged 9.4 percent or above.

In terms of maximum annual rate of return the Tucson Gas Electric Light & Power Co. earned 7.9 percent, notwithstanding the Arizona commission considers just and reasonable a rate between 5.1 and 6.5 percent. Yet, the Delaware Power & Light Co. earned 8.1 percent during at least one of the 5 years studied.

In Arkansas, Kansas, Kentucky, Louisiana, and Michigan, the just and reasonable rate is 6 percent. Yet, the Arkansas Power & Light Co. earned up to 7.2 percent during the study period. The Kansas Power & Light Co., and the Kentucky Utilities Co. earned up to 7.5 percent. The Louisiana Power & Light Co. reached 8.1 percent, and the Detroit Edison Co. attained a 6.8-percent rate of return.

Four of the companies studied achieved a rate of return in excess of 9.5 percent during one of the years studied—an unreasonably high rate of return by almost any standard. These were the Potomac Edison Co., the Montana Power Co., the Houston Power & Light Co., and the Southern Nevada Power Co.

The results of the NRECA study which shows these excessive rates of return are corroborated by other studies, particularly those conducted by Arnold Hirsch, a public utility consultant of Washington, D.C., and by Martin Toscan Bennett Associates, of Washington, for two Virginia municipalities.

You be the judge. Is application of the regulatory theory fully effective when electric utilities can earn 33 percent more than the rate deemed just and reasonable by their own State commissions?

Thus far we have limited this discussion to percentage rate of return without reference to the dollar amounts involved. Let's look at the dollar figures for a moment.

In 1960, the total utility plant investment less reserves of class A and B electric utilities exceeded $40 billion. Ten years from now, it will exceed $80 billion. A 1-percent difference in the rate of return on a $40 billion rate base is $400 million per year.

To state it another way, an overcharge of 1 percent by these companies would amount to enough money to purchase 130,000 new automobiles each year, 1.6 million new air conditioners, 1.6 million new sewing machines, 2 million automatic washers, or 1.3 million refrigerators.

Compared with what they should have charged according to the rate of return deemed fair and reasonable by State regulatory authorities, the 38 companies studied overcharged their consumers a total of $1.26 billion during the 5-year period studied. This amounts to an annual average overcharge by these companies of $250 million.

The magnitude of these annual overcharges will, of course, grow as the demand for electricity increases and the rate base of the industry is expanded commensurately.

These overcharges, in terms of percentage rate of return and in terms of dollars, constitute income on public utility property above and beyond all costs and reasonable profits. They constitute money taken from the pocket of the American consumer.

In 1961, the American people consumed some 880 billion kilowatt-hours of electricity. The latest estimate of the Federal Power Commission predicts that by 1980 our consumption will reach nearly 3 trillion kilowatt-hours annually; 3.4 times the 1961 requirement. If we can assume that the overcharges disclosed by our research economists will increase proportionately, then by 1980 those overcharges will reach about $1 billion per year.

Many of us who recognize these overcharges and the resulting bonanza to the companies, feel very strongly a real need to investigate and reappraise, not the regulatory commissions themselves, but the system and processes by which regulatory theory finds application in the industry.

We find it difficult to accept the aura of sanctimony with which regulated corporations surround themselves. We find it hard to believe that regulation is per se a cure-all for the imposition by utility companies of economic abuse on the public. Regulation is a complicated tool. It possesses a theoretical capability to protect the public; but like other tools must be kept clean, up to date, and capable of molding to its own contours the material upon which it is used.

Power company overcharges—Estimated totals for 38 electric utilities (based on taxes actually paid) for 5 years—1956–60

[Expressed in thousands of dollars]

Name of company	Estimated amount of overcharge					
	1956	1957	1958	1959	1960	Total
Alabama Power Co	$12,150	$13,640	$14,954	$11,933	$9,992	$62,669
Tucson Gas, Electric Light & Power Co	1,144	1,015	729	1,044	1,500	5,432
Arkansas Power & Light Co	3,142	5,429	3,696	988		13,255
Pacific Gas & Electric Co	11,419	6,056	9,754	17,175	31,990	76,394
Public Service Co. of Colorado	3,933	3,083	3,869	3,296	6,160	20,341
Connecticut Light & Power Co	5,662	3,779	4,685	1,150	1,869	17,145
Delaware Power & Light Co	1,540	1,088	3,710	4,483	3,044	13,865
Florida Power Corp	5,800	5,879	6,760	8,525	9,796	36,760
Georgia Power Co	12,821	14,871	14,383	15,313	14,979	72,367
Commonwealth Edison Co. (Illinois)			11,285	35,879	40,410	87,574
Public Service Co. of Indiana	4,625	5,033	3,158	3,431	2,715	18,962
Iowa Power & Light Co	4,269	1,817	1,550	1,638	1,196	10,470
Kansas Power & Light Co	3,196	2,508	2,871	3,531	2,960	15,066
Kentucky Utilities Co	2,665	2,281	4,571	4,838	4,627	18,982
Louisiana Power & Light Co	4,965	3,504	4,285	4,402	3,796	20,952
Central Maine Power Co			433	881	1,329	2,643
Potomac Edison Co	3,106	3,210	2,604	4,044	3,542	16,506
New England Power Co		2,731	5,838	4,185	2,317	15,071
Detroit Edison & Subsidiaries	11,917	9,685	1,719	3,598	9,306	36,225
Northern States Power Co	7,046	8,113	7,163	8,404	7,425	38,151
Mississippi Power & Light Co	4,233	2,677	1,742	817	1,946	11,415
Union Electric Co	7,060	6,008		5,927	4,304	23,299
Montana Power Co	7,760	7,010	7,935	7,965	8,721	39,391
Southern Nevada Power Co	823	1,215	1,913	2,454	2,608	8,413
Public Service Co. of New Hampshire	438	692		260		1,390
Public Service Electric & Gas Co. (New Jersey)	19,631	18,250	14,077	9,638	7,252	68,848
Long Island Lighting Co	6,990	8,927	7,769	7,631	6,613	37,930
Carolina Power & Light Co	3,233	5,910	5,758	6,717	4,813	26,431
Ohio Edison Co	16,058	16,596	14,302	15,500	14,388	76,844
Oklahoma Gas & Electric Co	4,635	4,242	5,631	5,548	6,777	26,833
Pacific Power & Light Co	7,502	4,994	2,256	7,117	8,942	30,811
Philadelphia Electric Co	15,956	14,767	5,481	3,058		39,262
South Carolina Electric & Gas Co	2,919	3,031	4,629	7,975	7,175	25,729
Black Hills Power & Light Co	38		248	385	150	821
Houston Light & Power Co	18,750	17,535	15,917	14,227	13,731	80,160
Utah Power & Light Co	1,371	1,869	1,198	1,254	1,317	7,009
Virginia Electric & Power Co	15,290	17,700	16,483	18,854	15,292	83,619
Appalachian Power Co	10,381	13,023	12,594	17,408	18,602	72,008
Total	242,468	238,168	225,950	271,473	280,984	1,259,043

Highest, average, and lowest rate of return earned by 38 electric utilities, 1956–60

[Percent]

Name of company	Highest	Average	Lowest
Alabama Power Co	7.8	7.5	7.0
Tucson Gas, Electric Light & Power Co	7.9	7.2	6.8
Arkansas Power & Light Co	7.2	6.4	5.6
Pacific Gas & Electric Co	6.9	6.5	6.2
Public Service Co. of Colorado	7.4	7.1	6.8
Connecticut Power & Light Co	7.3	6.6	6.2
Delaware Power & Light Co	8.1	7.4	6.6
Florida Power Corp	7.8	7.7	7.5
Georgia Power Co	7.7	7.5	7.4
Commonwealth Edison Co	7.3	6.6	5.8
Public Service Co. of Indiana	6.7	6.5	6.3
Iowa Power & Light Co	8.3	7.0	6.5
Kansas Power & Light Co	7.5	7.2	7.1
Kentucky Utilities Co	7.5	7.3	6.8
Louisiana Power & Light Co	8.1	7.4	7.0
Central Maine Power Co	6.3	6.1	5.8
Potomac Edison Co	9.9	9.3	8.5
New England Power Co	7.6	6.7	5.4
Detroit Edison and subsidiaries	6.8	6.4	6.1
Northern States Power Co	7.2	7.0	6.9
Mississippi Power & Light Co	8.0	6.9	6.3
Union Electric Co	6.9	6.5	5.9
Montana Power Co	9.7	9.4	9.1
Southern Nevada Power Co	10.0	8.9	7.9
Public Service Co. of New Hampshire	6.3	6.0	5.5
Public Service Electric & Gas Co	7.9	7.0	6.4
Long Island Lighting Co	7.5	7.2	6.9
Carolina Power & Light Corp	7.2	7.0	6.7
Ohio Edison Co	8.0	7.6	7.3
Oklahoma Gas & Electric Co	7.3	7.2	7.0
Pacific Power & Light Co	8.0	7.1	6.4
Philadelphia Electric Co	7.4	6.6	6.0
South Carolina Electric & Gas Co	8.7	7.9	7.3
Black Hills Power & Light Co	6.9	6.4	6.0
Houston Power & Light Co	9.7	8.4	7.6
Utah Power & Light Co	6.5	6.3	6.3
Virginia Electric Power Co	7.9	7.6	7.3
Appalachian Power Co	8.1	7.8	7.5

EXHIBIT C

STATEMENT OF J. L. JOHNS, GENERAL MANAGER, UPSHUR-RURAL ELECTRIC COOPERATIVE CORP.

Mr. Chairman and members of the committee, my name is J. L. Johns. I am general manager of Upshur-Rural Electric Cooperative Corp., Gilmer, Tex. The cooperative I represent is the one Mr. Welsh, president of Southwestern Electric Power Co., Shreveport, La., attacked in his statement before this committee on April 4, 1963.

I appreciate the opportunity to give this committee some facts relating to the loan Upshur has received from REA which Mr. Welsh is so violently opposing.

There has been a great show of concern and indignation at the loan made by REA to Upshur for the construction of a 33 megawatt steam-generating plant to be built near Ore City, Tex., and 190 miles of transmission lines to be constructed from Ore City to Brown, Okla., for interconnection with the Southwestern Power Administration. There is nothing very extraordinary and certainly nothing illegal about this agreement or the collateral agreement which Upshur has made with SPA for the interchange of power and leasing of its lines to SPA.

Upshur will interchange power according to this arrangement with SPA, and engineering estimates show Upshur will receive approximately $750,000 over the next 10 years; at the end of this period, we expect to be using the entire output of the 33 megawatt plant for our own loads. There is no profit to Upshur in the cost reimbursement. There are savings and other advantages in the interconnection with SPA and Upshur which benefit both, as is true in the case of virtually every other interconnection between electric systems in all parts of the country.

It should be clearly understood that Upshur is not profiting at the expense of SPA, but is merely being reimbursed for that part of its capacity which it is not presently able to use. The ultimate viability of the G. & T. plant does not at all depend on the contract with SPA.

Those who attack the construction of the Upshur plant say principally two things; namely:

(1) That the plant would not now be economically justifiable if SPA had not agreed to purchase excess Upshur power; and

(2) That the agreement between Upshur and SPA, which makes the plant justifiable, is illegal and against stated congressional policy.

As to the first statement, obviously, if a sizable quantity of power capacity remains unused over a period of several years, the economic soundness in building the generating plant is diminished. Under the agreement with SPA, however, Upshur is able to sell its temporarily excess capacity, and so those who oppose construction of Upshur must necessarily emphasize their second point that the agreement with SPA is illegal and contrary to congressional policy.

The most serious of the utilities' attacks on the Upshur loan was made by Mr. Welsh in his statement to the Senate Appropriations Subcommittee on Agriculture April 4, 1963. In attacking the SPA continuing fund, which fund enabled SPA to conclude the agreement with Upshur, Mr. Welsh cited selected excerpts from Senate floor debates, hearings, and reports of the Senate Appropriations Committee as the basis for his attempt to discredit the SPA-Upshur agreement.

All his citations, however, whether from congressional debate or committee reports, date back to 1954 or before. By contrast, all law and recent legislative history, from 1955 to the present, make clear beyond any question the ability of SPA to enter into and carry out contracts with REA financed electric cooperatives (16 U.S.C. 825s).

Even more explicit authority for a contract such as was consummated between SPA and Upshur is 15 S.S.C. section 825s–1, which provides for a continuing fund of $300,000 to be used by the Administrator of SPA to "cover all costs in connection with the purchase of electric power and energy and rentals for the use of facilities for the transmission and distribution of electric power and energy to public bodies, cooperatives, and privately owned companies: *Provided*, That expenditures from this fund to cover such costs in connection with the purchase of electric power and energy and rentals for the use of facilities are to be made only in such amounts as may be approved annually in appropriation Acts."

It seems clear from this that the SPA Administrator's authority to contract for the transmission, distribution, and sale of electric energy to preference customers is limited only by his annual budget authorization, and such authorization has been approved every year since 1952.

The House Committee on Appropriations, in its report for fiscal year 1956, made clear that SPA had authority to provide for "purchase of electric power and energy, and rentals for the use of transmission facilities * * * to reactivate valid and legal contracts which certain G. & T. cooperatives have with SPA. These contracts at their inception were examined by the Congress and funds were available to carry them out through the continuing fund for fiscal years 1950–53.

"The contracts in question have been tested in the courts. Ten private utility companies filed suit, attacking the legality of the contracts, in the U.S. District Court for the District of Columbia. The district court handed down opinions on June 17, 1953, upholding the legality of the contracts. The companies appealed this decision. The Court of Appeals for the District of Columbia on April 28, 1955, held that the companies had no standing to sue and directed the district court to dismiss the companies' suit" (H. Rept. 747, June 10, 1955, 84th Cong. 1st sess., pp. 5, 6a).

The litigation referred to is the case of *Kansas City Power and Light Company* v. *McKay*, D.C.D.C. 1953, 11 F. Supp. 402. In this case it was held that contracts under which SPA would lease transmission facilities constructed by REA co-ops, and under which SPA would purchase output of generating plants constructed by funds advanced to the co-ops by REA, did not violate, but in fact were authorized by, section 5 of the 1944 Flood Control Act, 16 U.S.C. section 825s.

Sections 825s and 825s–1 of title 16, allowing SPA to execute contracts leasing transmission facilities from rural electric cooperatives and engaging in contracts through which SPA would purchase the entire output of generating plants to be constructed by funds advanced to cooperatives by REA, have been held constitutional. *Kansas City Power and Light Company* v. *McKay, supra.*

The legality of contracts such as that between SPA and Upshur, and the statutes which enable such contracts have thus been quite clearly determined. They are certainly beyond question by Mr. Welsh, though he chose to ignore them in his attack on the continuing fund and contracts engaged in under its authorization.

Not only did Mr. Welsh neglect to mention the most significant litigation of an SPA-Upshur-type contract; he also neglected to read into the record a portion of the report of the House Appropriations Committee in 1957 (H. Rept. 2181, 84th Cong. 2d sess., pp. 3, 4) in which "The committee * * * directs the Department to consider the applications for power and for integration of REA systems which have been presented to the Southwestern Power Administration and to report to the committee at the time of the hearings on the 1958 budget the action taken."

From that time to date, Congress has annually appropriated the amounts requested in the budget submissions by SPA for the continuing fund. It has imposed no limitations on the use thereof to support power supply and integration arrangements between SPA and rural electric cooperatives. We can only conclude from this that while Mr. Welsh may be an expert on the subject of ancient legislative history, he is grievously ignorant of modern history.

Having shown beyond question that Southwestern's claims of "illegality" are unfounded, I would further like to add that the REA loan and contract with SPA would not have been necessary had it not been for the unfriendly actions and bad faith of the company. Upshur has made numerous good faith attempts to cooperate with Southwestern in solving Upshur's wholesale power requirements; however, past dealings with the power company have shown beyond question that it cannot be trusted to honor its commitments and so we have been forced to try to solve our wholesale power requirements in other ways.

In the early 1940's, a loan was obtained from REA to build a generating plant to supply power requirements of Upshur and several other cooperatives and construction was started on this project. World War II stopped this project. After the war, Southwestern made Upshur an offer to furnish it power, which offer engineering studies showed would be comparable to Upshur's cost of producing its own power. In addition, Southwestern agreed to pay all accumulated costs including interest, that had been incurred to that time in the construction of the G. & T. facilities. Upshur agreed to this arrangement, with the understanding that Southwestern would honor its commitments with Upshur. Unfortunately, however, Southwestern did not keep faith with promises made to Upshur and Upshur has been forced to attempt to solve its wholesale power requirements in numerous ways.

As a further example of Southwestern's bad faith in dealing with Upshur, I would like to inform the committee of the true story on the "dual rate" provisions in the latest contracts offered to the cooperative by the company. Mr. Welsh has said in a statement to this committee that this contract had no dual rate provision; that when the REA Administrator asked for removal of the provision from the contract, Southwestern complied. This is indeed a "simplification" of the facts, to say the least.

Last year (1962), Upshur requested Southwestern to give its best offer for a contract to serve the cooperative. Upshur had asked Southwestern Electric Power Co., numerous times, to eliminate the dual-rate clause. The company stated that it would only extend the existing contract, which contains the dual-rate clause. When it became apparent that Upshur was serious about going through with the loan, Mr. Welsh appeared at REA and opposed the loan. And at last, when it seemed certain that the loan would be granted, Southwestern sent the cooperative a notice stating that the dual-rate provision had been taken out of the contract.

Here, certainly, is a flagrant example of Southwestern's trying to effect a harsh contract, obstructing the cooperative in every possible way until the last moment, and then, failing in such tactics, making a "best offer." I respectfully submit that such actions clearly reveal that Upshur cannot enter into agreements with this company with any degree of confidence or security.

It has been asked why Upshur did not accept and purchase power from the Tex-La contracts. The reasons are several. First, Upshur's attorney would not approve the contract from a legal point of view. Second, Upshur feels that as a preference customer of SPA power, it should receive the economic benefits from such power. Instead, Southwestern is receiving the majority of these benefits to which Upshur is entitled.

An illustration of Southwestern's profiteering at the expense of the preference customers is the case in which the company held the only transmission line moving power from an SPA dam. Southwestern, as referred to by Mr. Welsh's statement, had a contract under which it paid SPA approximately $207,000 per year for the complete power output of Narrows Dam. In the Tex-La contract, Southwestern was willing to pay over $300,000 per year for this power, and resell it to the cooperatives, entering into this agreement by suspending the Narrows Dam contract as long as the Tex-La contract was in force. Thus, if preference customers buy the output of Narrows, it is worth $300,000 annually, but if Southwestern buys the output, it costs only $200,000 annually. Upshur could not, in good conscience, participate in such an agreement.

Perhaps nothing reflects the hostility of Southwestern toward rural electric cooperatives so much as a statement made by Mr. Welsh and published in The Southwestern, the company magazine, which I attach as exhibit A:

"The cooperatives have line around all of our towns. If we grow out to the cooperative lines and quit, we are all through growing. I want to state clearly—now we are going after the business around our towns."

What Southwestern really dislikes about the Upshur loan is that it enables the cooperatives to buy direct from SPA the preference power to which they are legally entitled; and it reduces the potential advantages to the company of associated agreements under which the company can obtain 2 kilowatts of SPA hydro preference capacity for every kilowatt Southwestern sells to the preference customers.

Preparation of the Upshur loan application and its ultimate approval by REA were made necessary by the unfair and unreasonable power supply restrictions established by Southwestern. Upshur will soon be able to generate and deliver power to its members at a lower cost than it can buy from Southwestern. Savings in wholesale power costs for Upshur and Panola-Harris Electric Cooperative will exceed $750,000 over the next years, as compared with the cost at which such power would be available from Southwestern.

As to Mr. Welsh's allegation that if agreements such as Upshur has negotiated with SPA were permitted to stand, his company would be "put out of business," I would only like to point out that Federal Power Commission reports reveal that Mr. Welsh's company has shown substantial increases in its sales of electricity over the past several years. Further, earnings of this company have increased every year, and, over the last 3 years, Southwestern has increased dividends to its stockholders twice.

Mr. Welsh alleged that approximately 10 years ago electric cooperatives were serving less than 100 consumers in corporate limits of municipalities in which his company had a franchise to serve, and that today cooperatives are serving approximately 1,000 consumers in such municipalities. The fact is that various municipalities have expanded their corporate limits to take within their boundaries certain consumers being served by electric cooperatives. Upshur has not, nor to my knowledge have any of the electric cooperatives in our area, ever "invaded" municipalities in which Southwestern serves, nor made any effort to take away consumers from Southwestern. But on the other hand, as previously pointed out, Southwestern has made a concerted effort to invade rural areas served by Upshur and other cooperatives and to entice away consumers of the cooperatives.

In view of the foregoing, Upshur should be encouraged to proceed with its proposed expansion project without further harassment from Southwestern. We cannot continue to meet our responsibilities to our consumers and the Government under the terms, conditions, and practices imposed upon us by Southwestern as our power supplier.

Attachment:

[From the Southwestern]

EXHIBIT A

REA'S MUST BE RECOGNIZED AS TOUGH COMPETITORS

(J. Robert Welsh, President)

For years, competition from the REA cooperatives has been a problem with us. The cooperatives are competitors of ours—real tough competitors—and it is time that we recognize them as such. I suggest we start off by looking at this competitor, evaluate its strong points, find its weak points, and then plan a campaign to outsell the REA and to make each person in this company a salesman. Here is a partial list of the cooperatives' strong points or advantages:

1. They are well financed by the Government at low interest rate.
2. Generally, they are well managed.
3. They pay little or no taxes.
4. They are growing—some even more rapidly than we.
5. They are making money on their present volume of business—can make more as their volume of business increases.
6. In the rural areas and small communities, they are liked and supported by their members.
7. Generally, they have been successful in politics, and will continue their political activities.
8. They are aggressive—trying to get every customer they can; advertising to help themselves and hurt us.
9. They don't have to make a profit on their operation.

After consideration of the above points, I repeat: The cooperatives are strong competitors. We must evaluate each of the items I named and plan a program that will resist each of these points and, if possible, turn them in our favor.

The cooperatives have a few weak points that we can turn to our advantage:

Most people know the cooperatives get their money from the Government and in general, this labels the cooperatives as:

Part of the Government.
Subsidized.
Wrapped up in redtape.
Probably inefficient.

Most people think of the co-ops as small rural service groups and not as complete electrical systems.

Their personnel are not utility people.
They usually know little about rates.
They have no power sales engineers to work with power customers.

We have some advantages or strong points which we are using and can expand:

Rates that have never been increased.
Good alert managers, anxious to increase our business.
Capital ready to make any expansion required.
A reputation for good service and fair treatment.

In general, our friends—both public officials and business people—know that we are part of the free enterprise system:

That we pay taxes—in many communities we are the largest taxpayer.
That we support civic endeavors.
That we help secure industries.
That our employees are active in civic betterments.
That we are a good citizen.

We have these important things to help us—and they will have to serve as the springboard on which to build our campaign.

For years, our company policy has been to try and get along with the cooperatives. We have not been clear on the boundaries of such a policy and there is a problem we are trying to clear up now. Here is the major obstacle we encounter:

The cooperatives have lines around all of our towns. This means that unless we take strong, aggressive action, our future is not very bright. If we grow out to the cooperative lines and quit, we are all through growing. We are going to take positive steps to prevent such a dismal future. Let us get two things clearly in mind:

1. The cooperatives are limited to rural areas by law—although we have not had much luck enforcing this law.

2. There is no limitation on where we may serve—either in cities or rural areas except in the State of Arkansas.

I want to state clearly—now we are going after business in the areas around our towns. This means all kinds of business: rural—commercial—industrial.

In most cases, the first one to the prospective customer gets the business. Usually not much difficulty is encountered when the prospective customer is in the area between our lines and the cooperative's lines. Difficulties usually arise when we build out some distance to a customer which the cooperative claims they should serve. We are going to have to go to all prospective customers and get business.

One type of customer which we must not delay or hesitate to strive to secure is a prospective industrial customer. We have told every cooperative for years that we are going to serve industrial loads regardless of where they are—and we must continue to pursue this policy.

It is evident from what I have told you that we must have public opinion with us. We are going to have to start a campaign to convince our friends and others, that the cooperatives have no place inside of cities, and that we must be allowed to grow with the cities. I think we have a rather convincing story on this. Most people would be agreeable to a statement that cooperatives are rural and should remain in rural areas.

You must point out to officials, civic groups, and businessmen that the growth and development of our cities and area depend on an adequate supply of electric power. Point out that we have always had such a supply and are building to maintain such a supply in the future. If we can continue to grow and expand, the future of the cities is assured as far as electric power is concerned.

Point out that if the future of the cities is tied to a cooperative, that the cooperative provides no facilities for future power supply and without such a supply the city will probably stop growing and stagnate.

In most cases, you are going to have to talk some about private enterprise and sell your friends on the fact that business enterprises must support private enterprise, rather than Government-subsidized projects, or soon all businesses. will be floundering in socialism.

There are other things we must keep doing—such as continuing our efforts to have the law changed so that cooperatives pay an interest rate closer to what the Government pays in interest.

We must continue to tell our customers and friends that cooperatives should pay taxes just like they do and like we do.

You are going to have to continue to tell your friends that the cooperatives are active politically and have forced us into taking a stand politically, and try to get your friends to support our point of view.

Summing up—we want to sell our product—our services—and to make new friends and new customers in areas where our cities may expand. We must have your full support.

It is an important campaign—we must not fail.

EXHIBIT D

STATEMENT BY JOHN R. PENTECOST, GENERAL MANAGER, CHOCTAWHATCHEE ELECTRIC COOPERATIVE, INC.

Gentlemen, I deeply appreciate the opportunity to file this statement with your committee. It is regretted that I am unable to appear in person; however, because of recent illness and upon advice of my physician, it is impossible for me to be in Washington today.

I am general manager of Choctawhatchee Electric Cooperative, Inc., whose general offices are located in DeFuniak Springs, Fla., with district offices operated at Baker and Freeport, Fla. Our cooperative supplies electric power in four counties in northwest Florida.

My statements are directed in reply to statements made by Mr. R. L. Pulley, president, Gulf Power Co., to your committee on April 4 in opposition to funds for rural electric generation and transmission cooperatives. I will endeavor to show why such funds are needed, contrary to statements made by Mr. Pulley.

Our cooperative supplies over 5,600 rural consumer members with adequate central station electric service; however, the electric power requirements of these consumer members are doubling every 7½ years. Consequently, to continue to meet the demands of our consumer members, it is necessary that adequate funds

be available for generation and transmission facilities. We will point out in this statement various reasons why we cannot depend on Gulf Power Co. for our power supply.

Our cooperative, since its organization August 8, 1940, has complied with all the requirements set forth by the Congress and the State of Florida. Ten times have we reduced our rates. We have refunded to our consumer members in cash $154,529.60. Electric service is available to any rural citizen who may request such service with no construction charges whatsoever. As late as 1948, Gulf Power Co., in areas immediately adjacent to the corporate limits of De-Funiak Springs (but now within corporate limits by annexations on November 30, 1951, and July 14, 1952), refused electric service to unserved citizens in these areas unless such citizens each paid that company a $500 construction charge. Also, as late as 1958, Gulf Power Co. refused to provide electric service to certain rural citizens. Even though electric service is available to most of the citizens of northwest Florida, we must be certain that adequate electric power will continue to be available in the future. To assure our citizens that ample electric power will be available, funds must be provided for generation and transmission loans without restrictions. Although our cooperative does not consider itself to be a competitor of Gulf Power Co., the factor of competition must be considered. The consumers in northwest Florida pay an average kilowatt-hour cost of 2.2 cents; in States with no rural electric cooperatives the average cost is 3.5 cents.

On page 2 of his statement Mr. Pulley alleges that we are competing with his company and wasting taxpayer funds. We disagree. The director of finance of the State of Alabama, after extensive hearings, found the loan to Alabama Electric Cooperative to be in the public interest and he so approved it. All loan funds made available to rural electric cooperatives are repaid under certain terms and conditions set forth by law.

Prior to 1958, our cooperative, although a long-term member of Alabama Electric Cooperative, purchased all its power requirements from Gulf Power Co. at four delivery points. On March 17, 1958, the President of Gulf Power Co. delivered to me a letter canceling all contracts at all delivery points upon the respective dates of expiration of their current terms (copy of their letter is hereto attached). Similar letters of cancelation were delivered to the other three rural electric cooperatives which they serve. Our first delivery point affected was at Laurel Hill, Fla., on September 20, 1958; the second was Baker, Fla., on December 20, 1958. On July 3, 1958, we received a new proposal from Gulf Power Co. which would have increased the average cost per kilowatt-hour at Laurel Hill from 7.586 mills to 9.978 mills, and at Baker from 7.435 mills to 9.874 mills. This is an increase of over 35 percent. The general conditions of this new proposal were the most vicious I ever have had occasion to read. The possibilities of electric service to our Baker and Laurel Hill delivery points were discussed with Alabama Electric Cooperative. It was estimated that power could be purchased from them at Baker at an average cost of 8.11 mills per kilowatt-hour and at Laurel Hill at an average cost of 8.55 mills. A savings of 21 percent and 16 percent respectively could be realized under this proposal as compared to Gulf Power Co.'s proposal. Since the expiration dates of the terminated contracts were rapidly approaching, we accepted the proposal of Alabama Electric Cooperative. By working day and night we managed to get service to these two delivery points by the dates the contracts were terminated by Gulf Power Co. Our 2,000 consumer-members served from these two locations were thus assured a continued source of electric power.

Since 1958 we have attempted to secure favorable contractual and rate commitments from Gulf Power Co.; they have not, however, submitted a proposal that meets our approval. On page 3 of Mr. Pulley's statement he states that his company's rate is 6.7 mills per kilowatt-hour. If this statement is true, their sales are being made below cost. We are informed by the Florida Railroad and Public Utilities Commission that Gulf's generating costs, including only production, State and local taxes, and depreciation, are 7 mills per kilowatt-hour. Their remaining customers, therefore, would have to make up this deficit. Also, according to sworn testimony before Alabama's director of finance, an officer of Gulf Power Co. stated that the rural electric cooperatives served by Gulf require 7 percent of the company's capacity but produce only 2 percent of the company's revenue, creating a ratio of 3.5 to 1. Chapter 366.11, laws of Florida, prohibits jurisdiction by the Florida Railroad and Public Utilities Commission over wholesale electric power rates charged rural electric cooperatives and municipal owned electric systems. The Federal Power Commission, how-

ever, does have jurisdiction. Consequently, with a ratio of 3.5 to 1, we are of the opinion that sooner or later this matter will be brought to the attention of the Federal Power Commission and Gulf Power Co. will be required to equalize those factors which would then result in a substantial rate increase to the rural electric cooperatives.

On May 7, 1962, we were invited to Eglin Field to discuss electric service to the proposed Bendix project because we had supplied the electric requirements for the eastern portion of Eglin Reservation since May 1, 1941, including the site where the Bendix project was to be constructed. The statement made by Mr. Pulley on page 3, in which he says, "Gulf Power Co. has furnished all the electric requirements of this base since its inception," is not true. After the May 7, 1962, conference at Eglin, we began planning to supply the Bendix requirements. Upon receipt of written requests from Eglin, dated October 19, 1962, and November 1, 1962, we submitted to them our proposal for supplying the Bendix requirements under date of November 14, 1962. Our method of service for this facility, considering reliability and continuity of service, is far superior to that proposed by Gulf Power Co. This company has no lines on the eastern or southeastern portion of the Eglin Reservation as Choctawhatchee does. Our proposal, therefore, would not require any duplication of facilities. I think the fact that we have electrified rural America speaks for our ability to operate an electric system whether it is 2 volts or 2 million volts. The Bendix project is to be located in a completely rural area 4 miles from the nearest rural home, in a rural community having a population less than 150. In order for Gulf Power Co. to serve this load in accordance with the sketch attached to Mr. Pulley's statement, Gulf would be required to construct 81 miles of 115,000-volt transmission line into an area including the very Bendix proposed site which we have served for 22 years. Chocawhatchee would be required to construct only 34 miles of line. Based on our comparative analysis of our rate to the Bendix project and that of Gulf Power Co., which analysis included the company's income tax and all other factors, the Federal Government would save $33,750 net per year by accepting our proposal. This they did on February 18, 1963. If Gulf Power Co. were to serve the Bendix project, the Nation's taxpayers would in reality pay Gulf Power Co. four times for this service: (1) Rapid tax amortization certificate in the amount of $12,400,000 representing an interest free loan of $18,500,000; (2) the rate proposed by Gulf Power Co.; (3) 3 percent tax credit of facilities constructed with useful life of 8 years or more as enacted by the last Congress; and (4) free rights-of-way and land rights on the reservation.

We do not know the amount of connection charge Gulf proposed; in our proposal there was none. In evidence of our further desire to continue purchasing power from Gulf Power Co., including power for the Bendix project, we contacted Mr. Pulley on August 17 and 24, 1962, and by telegrams on January 24 and 25, 1963. We quote his telegraphed reply dated January 25, 1963: "I must advise you that I am not prepared to supply you with power for resale to the Bendix load."

We do supply electric service in an area that was annexed to the town of DeFuniak Springs, as heretofore mentioned in this statement, since Gulf Power Co. had previously refused to serve without the payment of $500 per connection in construction charges. When this area was annexed, the town council of DeFuniak Springs, by unanimous vote, gave the cooperative a 30-year franchise to operate in the area. In consideration for this franchise, the cooperative pays the same franchise, license, and other taxes as does Gulf Power Co.

Choctawhatchee has never sold any appliances, not even light bulbs.

We have neither solicited nor offered to serve any person who was being served by Gulf Power Co. We do not feel that we have in any manner competed with this company. Gulf Power Co. has enjoyed tremendous growth in the past 12 years, as indicated in the following tabulation:

Year	Number of customers	Sales on kilowatt-hours
1951	57,424	351,383,872
1956	83,886	1,137,287,467
1961	101,525	1,444,439,439

You can see that any suggested competition has been nil.

In view of the above facts and in support of the thousands of dedicated men and women who are employees and members of rural electric cooperatives throughout the Nation, many of whom serve without compensation, I urgently request your committee to provide the Administrator of the Rural Electrification Administration with loan funds for the generation and transmission of electric power for rural America. The citizens who were so long deprived of the convenience of electricity must be assured of a continuing ample supply of electric power and energy to meet their needs and the security of loans made since the enactment of the Rural Electrification Act of 1936 must be protected.

I well remember, prior to our membership in Alabama Electric Cooperative, that Gulf Power Co. charged this cooperative in excess of 1 cent per kilowatt-hour for electricity at wholesale. Denying us our right to generate and transmit our own electric power would result in the end of rural electrification, which, in my opinion, would not be in the Nation's interest. No person, firm, or corporation, even "investor-owned, tax paying electric companies," should be entitled to a monopoly on the electric power that is so vital to the life, health, and happiness of our citizens.

Thank you.

GULF POWER CO.,
Pensacola, Fla., March 17, 1958.

Mr. M. M. MORRISON,
President, Choctawhatchee Electric Cooperative, Inc.,
DeFuniak Springs, Fla.

DEAR Mr. MORRISON: We have contracts to sell and deliver electric energy to Choctawhatchee Electric Cooperative, Inc., at four locations. The rate schedule under which the cooperative is presently paying for such service was designed over 10 years ago when the cost of rendering service was much lower than at present. Throughout the years this rate has become less and less compensatory. It is therefore necessary for the company to redesign its rates to cooperatives for resale and to take the necessary action to make effective such new rates.

It is our earnest desire to continue to supply your electric power requirements and we will accordingly submit new form of contracts, and a new rate schedule, which we hope will be acceptable to the cooperative.

In the meantime, we hereby give notice, in accordance with the provisions of the existing contracts with you, of our desire to terminate such contracts on the respective dates of expiration of their current terms.

Yours very truly,

(S) L. T. Smith, Jr.
L. T. SMITH, Jr.,
President.

EXHIBIT E

STATEMENT OF J. R. MILLER, FORMER COORDINATOR AND PRESENT DIRECTOR, BIG RIVERS RURAL ELECTRIC COOPERATIVE CORP.

In recent testimony before the Agriculture Subcommittee of the Senate Appropriations Committee, Mr. A. Clay Stewart, vice president of Kentucky Utilities Co., made unfounded assertions and allegations with relation to the Big Rivers Rural Electric Cooperative Corp. which, apparently, were intended to mislead and create incorrect impressions with reference to relations between this cooperative and his company, and actions of the Rural Electrification Administration (REA). In view of the seriousness of his charges, and the fact that these were used as a basis for requesting the destruction of the generation and transmission loan program of REA, we respectfully request permission to correct some of the erroneous statements made and incorrect impressions which may have been created thereby.

Mr. Stewart stated that Kentucky Utilities Co. (KU) had dealt in good faith with the electric cooperatives. Such is not the case.

Prior to 1951, the cooperatives which comprise the Big Rivers Rural Electric Cooperative Corp. (Big Rivers RECC) purchased power from KU and Louisville Gas & Electric Co. (L. G. & E.) at a rate considerably higher than that which is available to them today. With the advent of the East Kentucky Rural Electric Cooperative Corp. (a generation and transmission cooperative), both of the

above-referred-to utilities, along with Owensboro Municipal Utilities (OMU), established new rates which were considerably lower than those available prior to the formation of East Kentucky RECC. These rates are known generally as L. G. & E. REC 2, and KU rate 61. KU rate 61, incidentially, requires that co-operatives must take power along existing transmission facilities of this company.

Concrete evidence of KU's complete bad faith in dealing with electric co-operatives was clearly shown in 1954, with relation to an industrial load of approximately 500 horsepower of the Green Coal Co. in Daviess County, Ky., an area served by the cooperative. The coal company informed the cooperative that it proposed to install a new electric dragline, requiring approximately 1,000 horsepower.

KU officials contacted the Green River Rural Electric Cooperative Corp. (Green River RECC), asking the cooperative to relinquish this industrial load to KU, alleging that under terms of rate 61, the co-op could not serve such loads. This brought about a series of meetings with KU officials, which resulted in a proposal from KU, copy attached hereto, dated May 26, 1954, submitted by W. H. Skinner, vice president, which provided, among other things—

(1) KU would provide Green River RECC service facilities near Cloverport, Ky.

(2) KU would purchase from Green RECC approximately 5 miles of transmission line which the cooperative was to construct, at its depreciated value.

(3) In return for the above, Green River RECC would agree to relinquish the Green Coal Co. load.

The Green River RECC board of directors and REA approved this proposal, and KU was so advised.

However, KU reneged on its promise to provide service as stated in item (1), and it thus became necessary for the co-op to build its own transmission facilities into this area.

In the case of item (2), the cooperative billed KU for the transmission facilities at their depreciated value by letter of July 26, 1954, with attachment (letter attached). Kentucky Utilities Co. completely ignored this letter. In the meantime, however, Green River RECC had relinquished the Green Coal Co. load to KU, as it had promised.

This is clear and concrete evidence of the complete bad faith consistently demonstrated by KU in its dealings with this and other cooperatives.

At the 1956 annual membership meeting of the Green River RECC, a member inquired from the floor about the cooperative's wholesale power situation. After a discussion and explanation by the president of the cooperative, and myself, this member offered extemporaneously from the floor a resolution calling on the cooperative to investigate alternative sources of wholesale power, and, if necessary, to construct its own generating facilities. This resolution (copy attached hereto), was unanimously adopted by the membership of the co-operative.

As a result of this action, the board of directors of the cooperative, at its meeting immediately following the annual meeting, directed me, as manager, to seek some improvement in the wholesale power situation confronting the cooperative, especially as related to rates and restrictions on service then being inflicted upon the cooperative (see copy of resolution attached hereto).

Immediately following this meeting, I visited officials of KU, at which time I explained the actions of the co-op members and board, and requested relief as to rates charged and service restrictions imposed by KU. I was informed that KU would not offer any rate which would be an improvement over rate 61. (This was admitted by Mr. Skinner during hearings before the Public Service Commission of Kentucky, case No. 4097). It was, in fact, informed that rather than a reduction, KU proposed to increase its rates in the very near future.

Subsequent to this, the Green River, Henderson-Union, and Jackson Purchase Cooperatives received letters from local managers of KU (copies of letters to Green River and Henderson-Union RECC attached hereto) informing them of a proposed rate "adjustment" which would increase the cooperatives' rates upon approval by the public service commission. The proposed KU rate increase was filed with the commission for approval in case No. 3324. The three co-operatives affected intervened in these proceedings, at considerable expense, and succeeded at that time in blocking the threatened rate increase.

In view of KU's demonstrated bad faith in dealings with the cooperatives and the efforts of this company to increase rates to the cooperatives, Green River RECC and Henderson-Union RECC investigated the possibility of securing power from the Barkley Dam to be marketed through the Southeastern Power Administration (SEPA). This investigation disclosed that although the cooperatives were entitled to this power as preference customers under the Flood Control Act of 1944, this Barkley Dam power would require firming by steam generation.

Thereupon, the mayors of Henderson and Madisonville, Ky., and officials of the Owensboro Municipal Utilities (OMU), were contacted, and tentative plans formulated for construction of steampower generating facilities which would make possible the utilization of SEPA power. Under the Flood Control Act of 1944, municipalities as well as electric cooperatives, along with other public agencies, are preferred customers for power produced at Federal hydroelectric generating installations.

In August of 1957, a meeting of representatives of the five interested parties was held in Owensboro, Ky., further relating to this matter, at which time an engineer discussed the feasibility of such a project. The group unanimously agreed to proceed with an engineering study; however, since OMU officials stated they must of necessity discuss the matter with the full city commission, final action on this was deferred for the time being.

OMU officials were subsequently contacted on several occasions, seeking their participation in this endeavor, but with no success. On February 19, 1959, I met with the Owensboro Municipal Utilities Commission and submitted a proposal to the full commission along the lines heretofore mentioned. Two members of the commission went on record as supporting the plan. Unfortunately, however, shortly thereafter both of these members were removed from the Utilities Commission, and, about a year later, OMU entered into an agreement similar to that contemplated with the cooperatives and municipalities with Kentucky Utilities Co. It is important to note that a letter to the mayor and commissioners of Owensboro recommending acceptance of the KU proposal gives no indication that the co-op proposal was ever seriously considered. This is evidence of the fact that KU stepped into these proceedings for the purpose of foiling the cooperative's good faith efforts to work with OMU.

In a further obvious attempt to block the plans of the cooperatives and municipalities, the contract between OMU and KU specifically provided in the first draft that OMU could not sell power to any other municipalities or co-ops. In the final agreement, KU limited OMU to selling power to Green River RECC only.

A complete history of the negotiations between Green River RECC and Big Rivers RECC with Owensboro Municipal Utilities is contained in an attached letter of July 20, 1962, from Mr. T. A. Cecil, president, Green River RECC, to the Honorable Benjamin Hawes, mayor of Owensboro, Ky.

After it became obvious that Kentucky Utilities Co. had been successful in forever removing Owensboro from any project to bring relief from the intolerable conditions being forced upon the cooperatives by KU, representatives of Henderson-Union, Green River, Jackson Purchase, and Meade County cooperatives met in Owensboro in June 1961 to further discuss means by which relief from these conditions might be obtained.

Mr. Stewart's allegation of a "veil of secrecy" surrounding our negotiations with REA and REA's consideration and approval of a subsequent loan application are completely without foundation in fact. There follows a true history of some of the events leading up to REA's approval of this loan, completely refuting this untrue assertion by Mr. Stewart.

Representatives of the press were present for the above meeting held in Owensboro in June 1961. Area newspapers gave the meeting extensive publicity (see attached copies of news items), including the fact that the cooperatives planned to build their own generating facilities unless appropriate relief was forthcoming.

At the June 1961 meeting it was agreed that the cooperatives would join as a unit for the purpose of negotiating for improved wholesale power rates and conditions of service, and, if no relief could thus be obtained, to apply to REA for a loan to build their own power generating facilities. At this meeting, an attorney was retained to draw up articles of incorporation for the Big Rivers Rural Electric Cooperatives Corp. I was named coordinator, and as such instructed to "secure a source of power at realistic rates free of unreasonable restrictions,"

and further instructed that "if negotiations with existing utilities are unsuccessful, to immediately prepare a feasibility study and application for a loan from REA."

Meetings were held with representatives of KU and OMU, at which time they were told of Big Rivers' intentions. This was done as early as June of 1961. Another meeting was held with officials of OMU and KU in September 1961. Further meetings were arranged for January 4, 1962, with OMU and L. G. & E. Co., and for January 5, 1962, with KU Co. At these meetings these utilities were specifically and emphatically told we were seeking an improvement in our wholesale power purchase arrangements and that if such improvements were not forthcoming, we intended to proceed with an application to REA to construct necessary generation and transmission facilities.

Following these meetings, our intentions were confirmed by letters to KU, OMU and L. G. & E., each dated January 12, 1962, copies of which are attached hereto. L. G. & E. replied that they were not interested. OMU submitted a proposal which provided no improvement in wholesale rates and which would have required an agreement whereby the co-op would relinquish its facilities to OMU upon expansion of the city limits. This proposal was made only to Green River RECC and was rejected as providing no improvement over existing conditions.

KU, by letter dated March 2, 1962, with a contract draft of February 9, 1962, attached thereto, submitted a proposal which provided no improvement in rate and inserted considerable double talk as to territorial integrity. (See attached letter and draft.) Seeking clarification of KU's proposal, Big River RECC wrote KU on March 13. KU replied by letter dated March 20, 1962, wherein our earlier letter was completely ignored; we were emphatically told we could expect no improvement in rate 61 (see attached letter).

In view of the fact that the cooperative had in good faith and to the best if its ability attempted to carry out neogtiations with these companies, which efforts met with failure, the Big Rivers board of trustees thereupon concluded the cooperative had no alternative but to proceed with plans to erect its own generation and transmission facilities. KU, L. G. & E., and OMU made no further proposal until KU attempted to intervene in our loan application with the Administrator of REA just one week before the application was granted.

Further regarding the alleged "veil of secrecy" surrounding the foregoing proceedings, several news items covering the entire proceedings and dating back as early as 1961 are attached. In addition, the Electrical World magazine, voice of the commercial utilities, carried an article in May 1962 stating that Big Rivers RECC had made application for a loan from REA.

In view of the foregoing, it is absurd and farcical for KU Co. or anyone else to allege that the negotiations, the application for the loan, or the subsequent approval of the loan by REA were carried out with any "secrecy," either on the part of the cooperative involved or REA.

Approval of the $18 million loan, which will be used to finance a 66,000 kilowatt steam powerplant and related transmission facilities, was announced by REA on July 7, 1962. In accordance with State law, application was made to the Kentucky Public Service Commission in September 1962 for a certificate of convenience and necessity. True to its usual practices, KU intervened in these proceedings, and attempted to block Commission approval. However, following extensive hearings, the Commission on April 4, 1963, announced its approval of the certificate.

Mr. Stewart, during his testimony, accused the REA Administrator of: "* * * colluding with other agencies of the executive branch of the Federal Government to effect drastic changes in the electric utility industry in this country—all without the approval of Congress and, in fact, beyond the scope of the laws enacted by Congress."

Mr. Stewart's remarks constitute a material misrepresentation of accepted facts, a misinterpretation of the governmental policy involved, and a complete failure to recognize the applicable statutory and case law.

The circumstances to which he refers are as follows. Section 5 of the Flood Control Act of 1944, 16 U.S.C. 825 s, provides that the Secretary of the Army shall deliver all electric power generated at projects under his control, and not required in the operation of such projects, to the Secretary of the Interior, who shall market it, giving preference to public bodies and electric cooperatives.

Several such projects have been completed on the Cumberland River in Kentucky and Tennessee, and the power has been delivered from them to the Secre-

tary of the Interior, who has designated the Southeastern Power Administration (hereinafter called SEPA), an agency of his Department, to market the same.

The Cumberland River projects develop peaking power which, to be usable, must be integrated with steam-generated power. Until recently, all Cumberland River power was sold by SEPA to TVA, because no statutory preference customers wanted it, nor had the steam plants with which to firm it.

In July 1962, REA loaned $18 million to Big Rivers Rural Electric Cooperative Corp., to build a 66,000-kilowatt generating station. Big Rivers is a statutory preference customer. SEPA arranged, therefore, to withdraw from TVA and sell to Big Rivers sufficient Cumberland River power to provide standby reserve and peaking capacity for the Big Rivers steamplant.

This is the "collusion" about which Mr. Stewart complains.

Despite Mr. Stewart's claims of damage to his corporation, the Kentucky Public Service Commission, in its order of April 4, 1963, issuing a certificate of convenience and necessity for the Big Rivers system, found that:

"*The capacity necessary to serve these co-ops is a very small part of the total load of the protesting utilities* * * *. It is the opinion of this Commission that the construction of the proposed transmission facilities is desirable and advantageous to the co-ops *and does not duplicate or replace any tranmission lines of the utilities* * * *. The evidence clearly discloses that there will be a need for an increased capacity in this area in the near future. *There is no reason why Big Rivers cannot generate some of this capacity for the purpose of serving its member co-ops as feasibly as the protesting utilities*" (Case No. 4097, Ky. P.S.C.). [Italic supplied.]

The legality of power sales and exchange agreements between REA-financed cooperatives and Interior Department power marketing agencies has never been successfully challenged except by a State court interpreting, narrowly, the powers of an REA cooperative under a State statute, since repealed. *Arkansas Electric Cooperative Corp.* v. *Arkansas-Missouri Power Co.* (225 S.W. 2d 674). The legality of such arrangements has been repeatedly upheld as a matter of the Federal law governing the Secretary of the Interior and the REA Administrator. *Kansas City Power & Light Co.* v. *McKay* (115 F. Supp. 402 (1953)).

Certainly, in passing the REA Act of 1936, the Congress, in granting the Administrator power to make loans for building electric power systems, must have intended that such systems would operate with the maximum efficiency permitted by the electrical industry. It is commonly accepted by all electric utility organizations that the interconnection of systems and the exchange of power and energy over such interconnections increases operating efficiency and reduces costs.

Thus, REA-financed systems and commercial utilities in many States, including, Wisconsin, North Dakota, Minnesota, and Missouri, and even in Kentucky itself, are interconnected and exchange power and energy. Similarly, the power companies in Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, Kentucky, Minnesota, North Dakota, Montana, California, Idaho, Utah, Washington, Oregon, Arizona, New Mexico, Colorado, Wyoming, Missouri, Texas, Oklahoma, Arkansas, and in many other States, exchange power and energy with Federal power agencies.

Why then does the interconnection of such Federal power-marketing agencies and REA cooperatives constitute collusion? It does not, and the probability of just such interconnections is recognized in law by the Southwestern Power Administration Continuing Fund Statute (16 U.S.C. 825s–1) and by the policy of Congress in continuing to authorize the use of that statute.

A decade ago, the commercial power companies owned 76-percent of installed generating capacity. They still do today. There has been no change in their dominance of the industry. Their basic complaint, in reality, is that the electric cooperatives deny them 100-percent control. And that complaint is without any merit whatsoever, in law, in equity, in public policy, or in conscience.

In view of the foregoing, we respectfully urge this committee to take no action based on unfounded allegations of KU and other commercial utilities which would weaken, hinder, or destroy the effectiveness of the REA generation and transmission program. Without this program we are lost

KENTUCKY UTILITIES CO.,
Lexington, Ky., May 26, 1954.

Mr. J. R. MILLER,
Manager, Green River Rural Electric Cooperative Corp.,
Owensboro, Ky.

DEAR MR. MILLER: Mr. Taylor has just advised me of his most recent conversation with you regarding our mutual undertakings in the Owensboro area, and we wish to outline herein our understanding of the agreement that you and Mr. Taylor have reached on a tentative basis, subject to approval of your board of directors.

1. Kentucky Utilities Co. will build a 138-kilovolt transmission line from its facilities near Owensboro to a point approximately 1 mile southwest of Cloverport, at which point a substation is to be constructed. A bus will be installed in this substation to operate at 34.5 kilovolts for the present, and probably 69 kilovolts sometime in the future. Space will be provided in this substation for Green River RECC to install an oil circuit breaker. Kentucky Utilities Co. will make available to the Green River RECC 2,000 kilovolt-amperes of capacity, initially, at this substation, and this capacity may be increased later if conditions require.

2. The cooperative is to construct a transmission line from the Cloverport station to the site you have selected for your new load center south of Hawesville. This line would be designed for future operation at 69 kilovolts and would employ a conductor of not less than 3/0 ACSR.

3. Kentucky Utilities Co. is to purchase from Green River RECC the transmission line from Kentucky Utilities' facilities to the cooperative's Rome Road substation at its original cost, less accrued depreciation. We understand that the conductors on this tapline are 3/0 ACSR.

4. Green River RECC is to relinquish to the Kentucky Utilities Co. the industrial powerload of Green Coal Co., and assist the Kentucky Utilities Co. in negotiating a contract to serve this load, at least by the time the larger equipment (20-yard shovel) is put into operation.

As a matter of comment, I understand from our engineers that the large shovel proposed by the Green Coal Co. would, no doubt, impose some rather substantial voltage variations to your other customers that might be supplied from the same substation. It is pointed out it would be our idea to build a 69-kilovolt tapline from company's facilities to the coal company's operations, and install a substation solely for the coal company load.

We appreciate very much your continued cooperation and on receipt of your advice we plan to begin preliminary work on our line from the Green River Steel Co. to Cloverport, where, as you know, it is proposed that it will join with similar 138-kilovolt facilities of the Louisville Gas & Electric Co.

Kindest regards.

Very truly yours,

W. H. SKINNER, *Vice President.*

JULY 26, 1954.

Mr. N. P. TAYLOR, Jr.,
Chief Power Engineer,
Kentucky Utilities Co.,
Lexington, Ky.

DEAR POWELL: Thank you for your letter of July 15 relative to our investment in the Pettit transmission line.

I am attaching hereto a breakdown of units based on REA drawings and our investment and am also submitting a list of the persons from whom we purchased rights-of-way and the amounts paid. The attached document will indicate our investment less depreciation through June 30, 1954. I use this date because that is the basis we used in submitting this proposal to the REA for permission to sell the property and to obtain a mortgage release.

This breakdown includes switch station or takoff at Pettit as well as the dead-end pole at the Rome substation. The conductor is 3/0 ACSR and all structures are single pole.

If you do not have a specification book showing the REA drawings, I feel sure Tom Fleming will be happy to let you have one from his office.

I really appreciate you giving me a call yesterday and promise to look you up on my next trip to Lexington which I trust will be in the near future.

Yours very truly,

J. R. MILLER, *Manager.*

West Owensboro Transmission Line

Unit	Quantity	Unit price	Total
45-3	4	$102.95	$411.80
50-3	46	102.95	4,745.70
55-3	7	125.30	877.10
60-3	5	148.42	742.10
TS-1	57	100.31	5,717.67
TM-9	62	7.07	438.34
TS-5G	4	195.07	780.28
TA-1-5	4	45.73	182.92
TA-1-8	12	64.75	777.00
TG-1	20	19.46	389.20
TG-3	12	31.27	375.24
TS-3G	1	94.71	94.71
3/0 ASCR	78.993	105.15	8,306.11
1/0 7St CU	.345	143.86	49.63
3/8-inch 7 No. 8 CU	26.331	54.4173	1,432.60
3/8-inch HSS	.115	79.54	9.15
TM-3	1	2,755.83	2,755.83
35-2	2	68.75	137.50
Right-of-way:			
TM-13	2.2	514.29	1,131.43
TM-12	1.65	353.58	[1] 583.40
Subtotal			29,927.71
Right-of-way			2,860.00
Cost of securing right-of-way			1,007.05
Total			33,794.76
Less: Depreciation on $28,212.88 from June 30, 1952, through June 30, 1954			1,963.62
Net amount			31,831.14

[1] $489.22 plus overhead.

Right-of-way costs, West Owensboro transmission

Moody Oldham	$150.00
Grover Wilson	340.00
Fred Brooks	20.00
Henry Zodeman	80.00
Wm. Miles	60.00
Swain Miles	80.00
Paul Bittle	40.00
Edward Fisher	20.00
R. Colligion	20.00
Martin Jusgal	40.00
Paul Gootz	40.00
Caroline Hurm	5.00
Mary Lew Pasley	265.00
Arthur Lashbrook	60.00
Mrs. Grover Wilson	5.00
Harry Brumley	25.00
W. M. O'Bryan	250.00
Fred Brooks	20.00
June B. and Ed. T. Watson	200.00
Harry C. Holder	100.00
W. G. Crabtree	500.00
Frank Arvidson	80.00
W. G. Crabtree	400.00
Total for easements	2,850.00
Cost of securing right-of-way:	
Harry Brumely (damage appraisal)	25.00
Mrs. Katherine Griffin (recording easements)	39.00
Co-op cost of securing easements	943.05
Total	1,007.05

[1] 5 miles at $188.61.

EXCERPT FROM MINUTES OF ANNUAL MEETING OF MEMBERS, JULY 23, 1956

After Mr. Cecil's report, Mr. Arthur Critser, of McLean County, made a motion, which was seconded by Mr. Howard Daniels, Daviess County, stating that the board of directors be authorized to investigate other sources of wholesale power and that the co-op should consider building a generating plant if necessary to improve their wholesale power situation. Motion carried unanimously.

I hereby certify that the above is a true and correct copy of an excerpt from the minutes of an annual meeting of members on July 23, 1956.

[SEAL] MARGARET B. CECIL, *Notary Public.*

My commission expires April 14, 1963.

EXCERPT FROM MINUTES OF BOARD OF DIRECTORS, AUGUST 18, 1956

The chairman, Mr. Cecil, stated that the members had adopted a motion in the annual meeting directing the board to do something about our present wholesale power situation. The chairman stated that this matter had been discussed many times before in board meetings but that the board should officially instruct the manager to immediately commence seeking other sources of power or to improve by negotiation his present wholesale power agreements with the Kentucky Utilities Co. and Owensboro Municipal Utilities. Whereupon, on motion by Robert Reid, seconded by T. H. Leet, the manager was directed to proceed immediately in this respect and to report to the board from time to time on his activities. He was further directed to look into the feasibility of constructing a generating plant, possibly in cooperation with other cooperatives and municipalities, if necessary to acquire reasonable power agreements.

I hereby certify that the above is a true and correct copy of an excerpt from the minutes of a meeting of the board of directors on August 18, 1956.

[SEAL] MARGARET B. CECIL, *Notary Public.*

My commission expires April 14, 1963.

KENTUCKY UTILITIES CO.,
Greenville, Ky., July 8, 1957.

GREEN RIVER RURAL ELECTRIC COOPERATIVE CORP.
Owensboro, Ky.

DEAR SIR: In accordance with applicable rules of the Public Service Commission of Kentucky, this is to give you the required notice that the company has filed with the Public Service Commission of Kentucky a revised electric rate schedule which will have the effect of increasing, to you, the cost of electric service.

The Public Service Commission of Kentucky has fixed 9 a.m. daylight saving time (8 a.m. central standard time) on July 29, 1957, at the Commission's office in Frankfort, Ky., as the time and place for hearing on general adjustments in electric rates filed by Kentucky Utilities Co. in Case No. 3324.

Attached is a copy of rate schedule proposed to be made applicable for billing purposes for electric service rendered to you.

Very truly yours,

E. Y. B. FOSTER, *District Manager.*

KENTUCKY UTILITIES CO.,
Morganfield, Ky., July 8, 1957.

Mr. JOHN R. HARDIN,
Manager, Henderson-Union Rural Electric Cooperative Corp.,
Henderson, Ky.

DEAR SIR: In accordance with applicable rules of the Public Service Commission of Kentucky, this is to give you the required notice that the company has filed with the Public Service Commission of Kentucky a revised electric rate schedule which will have the effect of increasing to you the cost of electric service.

The Public Service Commission of Kentucky has fixed 9 a.m. daylight saving time (8 a.m. central standard time) on July 29, 1957, at the Commission's office in Frankfort, Ky., as the time and place for hearing on general adjustments in

electric rates filed by Kentucky Utilities Co. in Case No. 3324. The proposed electric rate schedules in condensed form are as follows:

Attached is a copy of rate schedule proposed to be made applicable for billing purposes for electric service rendered to you.

Very truly yours,

C. T. McCULLOUGH, *Manager.*

GREEN RIVER RURAL ELECTRIC COOPERATIVE CORP.,
Owensboro, Ky., July 20, 1962.

Hon. BENJAMIN HAWES,
Mayor, City of Owensboro,
Owensboro, Ky.

DEAR MAYOR HAWES: After reviewing relations between our cooperative, Big Rivers Cooperative and the city of Owensboro, our board of directors suggested I write you to make known our past and present position relative to the several controversial matters recently developed.

We have always been most aware of our responsibility as a citizen of Owensboro. We are happy to have participated in all forms of civic endeavor, both personally and financially. The record speaks for itself. We are happy to have carried our share of the city's load through payments of city taxes as well as school taxes on the same basis as any other business enterprise. Our interest will not weaken in spite of the apparent misunderstandings as a result of lack of information and communications between the city's various departments and our firm.

First, our position relative to areas to be served by OMU versus Green River dates back several years. I will briefly summarize activities in this field.

The question of areas to be served by OMU and those to be served by our cooperative were discussed many times in past years. Representatives of our board attended, along with our manager and attorney, several meetings during the years 1952 and 1953 at which time our manager explained to the utilities commission the advisability of determining which areas should be served by whom. After several meetings, the Commission agreed to a territorial agreement.

In June 1954, an agreement was signed which provided for an exchange of customers favorable to each the co-op and the city.

The above agreement terminated on December 31, 1961, after we had given OMU 1 year's notice. During the years of this agreement there was no misunderstanding as to territory to be served. It permitted the city an opportunity for expansion, serving customers within its prescribed territory.

Due to this agreement, we invested considerable money in facilities to serve territory both parties agreed was in our area. This involves physical property within that territory, including lines and substations to furnish power to our facilities. As the city continued to grow, it became obvious that unless something were done, our investments in serving this area would be in jeopardy.

After termination of this agreement, our manager met with the manager of OMU and future expansion of Owensboro was discussed. We requested the city to provide a map showing plans for annexation in future years. We received a letter from the city manager stating the only policy the city had was to annex territory as required by demand and no systematic long-range plan was in existence.

We cannot be expected to contemplate future investments to continue serving our consumers unless we know those investments will be justified. We insisted consideration be given to a long-range plan upon which we can base studies to determine the effect a new agreement will have on our investments. Our manager met with the city manager and city attorney restating our reasons for asking for such information. This information was never furnished us; consequently, we could not place the investments of Green River Rural Electric Corp. in jeopardy through any arbitrary arrangement.

Recently there have been many statements in the press about Big Rivers Generating and Transmission Cooperative. Officials of both OMU and KU have been quoted as expressing "surprise" at our loan and "lack of opportunity to make proposals" to us. In view of my position as president of Green River Rural Electric Cooperative Corp. and its membership in Big Rivers, I am compelled to fill you in on the history of this case.

On August 13, 1956, our manager wrote Mr. James Mobberly of OMU a letter requesting quotation for a rate on the proposed 69-kilovolt line around Owensboro, to which Mr. Mobberly gave us a verbal reply, "the city was not interested."

On July 3, 1958, our manager wrote OMU providing data on which a rate quotation could be made by OMU. This letter was never answered.

As early as 1950 our manager attempted to get OMU to include our power requirements in their future plans. In fact, our manager with representatives of OMU went to Washington to discuss a proposal with officials of REA. Despite favorable interest by REA and this co-op, no offer was ever made by OMU.

On August 17, 1957, representatives of OMU, cities of Henderson, Madisonville, and co-ops, met with representative of an engineering firm. This group discussed the advantages of OMU considering a proposal made by our manager to construct a steam generating plant. His plan included using the output of Barkley Dam for these facilities to supply power for the above-mentioned communities and RECC's. It was agreed by all members present that each group would contribute an equal amount of money to make an engineering study to investigate possibilities of our manager's suggestion. I was present at that meeting. Representatives of OMU stated they would submit his proposal to the commission and give us a reply in a few days. Nothing further was ever heard from OMU. They were contacted on numerous occasions.

The proposal provided that OMU could build steam generating facilities. Being a preference customer under the 1944 Flood Control Act, OMU could apply to the U.S. Department of the Interior for the output of Barkley Dam. This arrangement would have provided the citizens of Owensboro an adequate and dependable source of low-cost electricity. The city could also have made a profit from the sale of electricity to these other interests and retired the bonded indebtedness for such a plant. Nothing further was heard from this series of negotiations.

On January 23, 1959, a year later, our manager wrote OMU a letter and I quote his first paragraph:

"I note from the newspaper that the Owensboro Municipal Utilities Commission is contemplating an agreement with the Kentucky Utilities Co. for an additional quantity of power. The details, of course, are unknown to the writer, but in view of previous discussions I have had with the commission, I wonder if you have elected to completely ignore other avenues of solving the future needs of the community from the electric power standpoint."

Further in his letter he referred to the previous meeting, and I quote another paragraph:

"We are naturally at a loss as to why the city has not answered our letters nor have given us further consideration after the series of meetings held."

A short time after the last letter we received a copy of a letter from OMU General Office Manager James Mobberly to Mr. E. J. Jandacek, pipeline superintendent of Texas Gas Transmission Co., who was chairman of OMU Board. Mr. Mobberly referred to the several items of correspondence mentioned above.

Nothing was heard from OMU after receipt of copy of Mr. Mobberly's letter.

Mr. Leroy Woodward, a commission member, approached our manager to determine if his proposal was still open. Mr. Woodward was informed the proposal could still be worked out. He attempted to negotiate such an agreement but met with no success.

I believe you must agree the air of indifference on the part of OMU convinced us they were not interested. The OMU–KU contract was negotiated shortly thereafter.

On July 7, 1962, the press quoted OMU's general manager as stating the OMU–KU plant in Owensboro was designed to serve the needs of this community's rural areas as well as needs of Green River Rural Electric Cooperative Corp.

We cannot conceive why this statement was made because—

(1) We were never contacted by a representative of OMU or their engineers as to our future power requirements.

(2) Kentucky Revised Statutes 96.538 clearly provides that an existing utility may continue to serve customers if such territory is annexed by a city.

It is inconceivable to us, in view of the above, any consideration was made for our requirements. The statute was in existence when the plant was designed.

After long negotiations with OMU failed, representatives of the three coopera-

tives which now comprise Big Rivers G. & T. met to discuss mutual power supply problems. Big Rivers G. & T. was organized.

It was concluded by the several boards of directors that combined as Big Rivers they could negotiate a much lower wholesale power rate than would be possible as individual co-ops. The several cooperatives meeting designated our manager, J. R. Miller, to act as coordinator for Big Rivers. He was instructed to seek an adequate and dependable low-cost source of wholesale power.

A later meeting of the joint boards was held on June 19, 1961, at which the press was represented. We again stated our objectives and specifically instructed Miller, "if we cannot secure power from existing sources at realistic rates, we will have a study made to determine feasibility of building our own generating facilities." This information was public knowledge and our present suppliers were obviously aware of our position.

In the fall of 1961 a new OMU general manager was named. On September 1, 1961, our manager met with him and representatives of KU and OMU, at which time Big Rivers Cooperative was discussed. Miller restated the objectives of Big Rivers to the group. Nothing developed from this meeting.

On January 4, 1962, our manager met with the general manager of OMU and representatives of our engineering firm, at which time OMU's manager was presented with requirements of Big Rivers member cooperatives. OMU's manager was asked to give us his best wholesale power proposition. It was agreed this would be done in 45 days. Our manager confirmed this meeting by letter dated January 12 seeking that proposal. On February 12 we received a letter from OMU offering no change in rate except the proposal provided (1) service be only to Green River Rural Electric Cooperative Corp., (2) that Green River Rural Electric Cooperative Corp. would relinquish its property to OMU in any area the city annexed. No further proposal was offered Green River nor any proposal ever offered Big Rivers.

A meeting was held between representatives of Big Rivers and Kentucky Utilities Co. in their office in Lexington on January 5, 1962. At this time KU officials were informed we were seeking an adequate, dependable, and low-cost source of power free of restrictions to insure perpetuity for Big Rivers member cooperatives. Mr. W. H. Skinner of the Kentucky Utilities Co. agreed to reply within 45 days. He did so on March 2, 1962, quoting their existing rate 61, modified only to the extent of an attached draft. We replied on March 13, 1962, and I quote from our letter to Mr. Skinner:

"From the substance of your letter of March 2, 1962, we understand the position of your company to be that you would propose to continue service to the presently served delivery points and under rate 61 modified only to the extent of the 'proposed agreement with distributing cooperatives' dated February 9, 1962, attached to your letter of March 2, 1962. *You proposed no change in the contract or in the rate schedule* and this constitutes your answer to our request for a proposal from your company. [Emphasis supplied.]

"If we are in error in this assumption, we will appreciate advice from you to that effect and will gladly receive any proposal which you care to make of a specific definitive sort within the next 15 days from receipt of this letter. In the absence of any contrary communication from you, we will assume that our understanding of this situation is correct as above outlined."

Obviously, the above shows we asked for a further proposal. We received another letter from Mr. Skinner dated March 20, 1962, in which he ignored our Big Rivers request and referred only to a portion of our requirements. He clearly stated in this letter that rate 61 was as low a rate as KU would offer.

We heard nothing further from Mr. Skinner or OMU until the Kentucky Utilities Co. attempted to intervene in our loan application in June.

You must agree from the foregoing that both KU and OMU were adequately notified of our intentions and were given ample opportunity to make a realistic proposal.

Big Rivers' application to REA and subsequent loan to build its own generating and transmission facilities is nothing more than OMU has done to provide power to its consumers. You must agree the rural population of western Kentucky has as much right to meet their power requirements and protect their investments as do our city cousins.

The only difference in what we are doing now and what we attempted to join OMU in doing is that we are forced to build our own generating plant. Obviously, this is a result of OMU refusing to consider us in the arrangement aforementioned.

I do not write this letter in an attempt to aggravate this situation. We sincerely feel you are entitled to all of the facts surrounding this situation. We propose simply to go about our business in a manner in which we are both morally and legally entitled to do. Knowing of your honesty, integrity, and fairness throughout the years we feel that after investigation of the facts hereinabove stated you will agree.

With kindest personal regards from each member of our board, we remain

Most sincerely yours.

T. A. CECIL, *President.*

[From the Courier-Journal, June 19, 1961]

POWER UNIT FORMED TO SUPPLY 3 CO-OPS—WESTERN KENTUCKY FIRMS NOW BUYING ELECTRICITY PRIVATELY TO SERVE 29,000

(By the Associated Press)

OWENSBORO, KY., June 19.—Formation of the Big Rivers Rural Electric Cooperative Corp., which plans to build a generating plant to serve customers of three west Kentucky co-ops, was made public Monday.

The co-ops involved are the Green River, Owensboro, Meade County, Brandenburg, and the Henderson-Union, Henderson.

Together the co-ops serve 29,000 customers in 18 counties.

Temporary headquarters for the new co-op is at Spottsville on the Green River in the eastern section of Henderson County.

HAVE PRIVATE SOURCE

It has received its charter from the secretary of state at Frankfort.

At a meeting of representatives of the three co-ops it was pointed out they now buy their power from private companies. Meade County buys from Louisville Gas & Electric Co.; Green River buys from the Kentucky Utilities Co. and the municipally owned plant here, and Henderson-Union buys from KU.

The Jackson Purchase RECC, Paducah, also served by KU., showed an interest in joining Big Rivers.

SURVEYS UNDERWAY

The theme of the meeting was the word "perpetuity," or the desire to protect low-cost power, for the co-ops in the future. Representatives agreed that the cost of power from private firms is not likely to go down, and for that reason it would be best to build a generating plant of their own, along with transmission lines.

An Atlanta engineering firm is making cost and location surveys for the generating plant. It is believed a site will be selected along the Green River near rich coal deposits. TVA is building a $183 million steam electricity-generating plant on Green River at Paradise, Ky.

MIGHT SERVE OTHERS

The plan envisions Big Rivers making interconnections with the Southern Illinois Generating & Transmission Cooperative, Marion, Ill., and the Hoosier Generating & Transmission Membership Cooperative at Petersburgh, Ind.

This would permit Big Rivers to serve the tristate area.

A spokesman said the new firm hopes to obtain the necessary loans within 2 years from the Rural Electric Administration in Washington.

COLEMAN HEADS CO-OP

Big Rivers is not interested in co-ops now being served with power from the Tennessee Valley Authority. The three co-ops involved in Big Rivers are not in TVA territory and could not receive TVA power without congressional approval.

Elected officers were Kenneth Coleman Addison, president; Robert Reid, Sr., Owensboro, vice president; Robert Green, Spottsville, secretary-treasurer; John Hardin, Henderson, assistant secretary-treasurer, and J. R. Miller, Owensboro, coordinator.

These men, along with Wesley Jenkins, Brandenburg, form the board of directors. Ridley M. Sandidge, Owensboro, will serve as counsel for the venture.

[From the Messenger and Inquirer, Owensboro, Ky., June 19, 1961]

THREE RURAL CO-OPS PLAN TO BUILD POWER STATION FOR WEST KENTUCKY

Formation of the Big Rivers Rural Electric Cooperative Corp., which plans to build a power generating station to serve three, perhaps four, western Kentucky co-ops, was announced publicly for the first time today.

A charter for the nonstock corporation has been issued in Frankfort by the secretary of state.

Charter members of Big Rivers are the Meade County RECC, Brandenburg; Green River RECC, Owensboro; and Henderson-Union RECC, Henderson. It is hoped that the Jackson Purchase RECC, Paducah, will soon join the organization.

For the time being Big Rivers will have its headquarters at Spottsville on the Green River in eastern Henderson County.

The new organization plans at first to buy power from the hydroelectric plant at Barkley Dam, now under construction, and within 2 years make an application to the Rural Electric Administration for a loan to build its own generating and transmission facilities. The powerplant will probably be built along the Green River.

The key word at the meeting of representatives from the four co-ops was "perpetuity" or maintaining the philosophy of low-cost power.

J. R. Miller, general manager of the Green River RECC, presided at the meeting.

It was explained that Meade County RECC buys its power for distribution from the Louisville Gas & Electric Co., Green River buys its electricity from the Kentucky Utilities Co. and the city of Owensboro, and Henderson-Union from KU. Jackson Purchase RECC also buys its output from KU.

Spokesmen for the co-ops expressed concern over the possibility that the contracts with private power their co-ops presently hold could be broken by the public service commission or the courts on request of private power.

Miller said KU, in 1957, tried to amend its contract with Green River RECC for the purpose of raising its wholesale rate, but the PSC refused to allow KU to change the contract.

Formation of Big Rivers "is no reflection on KU," Miller said. Others gave the same opinion. But it was clear that for the future, the three co-ops desire to rely on their own production facilities, rather than on contracts with private companies.

Southern Engineers Co., Atlanta, is now making preliminary engineering and cost surveys. It was felt that the generating plant would be built along Green River near the rich coal deposits.

Big Rivers envisions linking its distribution system with the Southern Illinois Generating and Transmission Co-op, Marion, Ill., and with the Hoosier Generating and Transmission Membership Co-op, Marion, Ind.

Kenneth Coleman of Addison, Breckinridge County, was elected president of Big Rivers and Robert Reid, Sr., Owensboro, was named vice president. Robert Green, Spottsville, was elected secretary-treasurer, and John Hardin, Henderson, was named assistant secretary-treasurer. Miller was picked as coordinator. These men, along with Leslie Jenkins, Brandenburg, are the members of the board of directors.

Ridley M. Sandidge, Owensboro attorney, will be counsel for the organization and was directed to draw up its bylaws.

At present, Meade County RECC serves 8,000 customers in five counties, Green River has 12,500 customers in six counties, and Henderson-Union has 8,500 in seven counties. REA has invested a total of $19 million in the three co-ops.

If Big Rivers goes into operation, it will not reach out for co-ops now being served by Tennessee Valley Authority power. The claim was that Big Rivers would not be in competition with TVA but does want to offer power to areas not served by TVA.

REA wants co-ops to tie in with TVA power wherever possible but the three co-ops involved in the Big Rivers plan are in territory which the TVA cannot serve unless permitted by Congress.

[From the Gleaner and Journal, Henderson, Ky., June 20, 1961]

BIG RIVERS COOPERATIVE FORMED TO PROMOTE NEW POWERPLANT NEAR SPOTTSVILLE ALONG GREEN—ATLANTA FIRM STUDIES $25 MILLION PROJECT

(By Walt Dear)

Spottsville, Ky., a community of a few hundred, may become as important to western Kentucky as Burnside (near Somerset) has become to eastern Kentucky.

The small Green River community, located just 10 miles from Henderson, is the proposed site for a huge electrical generating and transmission plant.

Ultimately—over the period of many years—as much as $25 million will be invested there to develop electrical power.

And, if this turns out to be true, Spottsville will become as significant as Burnside, where eastern Kentucky cooperatives marshaled their forces to build a huge plant to serve their customers in that part of the State.

Whether Spottsville becomes a big power town all hinges on some very important factors.

To determine the wisdom of erecting a transmission and generating plant, three western Kentucky cooperatives have created another cooperative—to be called the Big Rivers Rural Electric Cooperative Corp.

The new cooperative—whose members presently include Henderson-Union RECC, Green River RECC, and Meade County RECC—will finance a study to find out whether a new plant will be a good investment, determine exact engineering costs, and specify the precise location along the Green River.

Yesterday in Owensboro, the newly formed Big Rivers co-op met for the first time to plan for the future. Two area men, John Hardin, manager of Henderson-Union RECC, and Robert Green, Spottsville farmer, are serving on the board.

Other directors include Kenneth Coleman, Addison, president; Robert Reed, Owensboro, vice president; Green, secretary-treasurer; Les Jenkins, Brandenburg, J. R. Miller, Owensboro, and Hardin, directors.

The three area cooperatives will not lose their individual indentity by creating Big Rivers. Big Rivers' job will be to wholesale the power it makes or transmits.

The three cooperatives presently serve 29,000 customers in 18 counties. Henderson-Union serves 7 counties with 8,500 consumers; Green River, 6 counties with 12,500; and Meade County (headquartered in Brandenburg) 5 counties with 8,000.

Currently, Meade buys from Louisville Gas & Electric, Green buys from Kentucky Utilities, and the municipal plant at Owensboro, and Henderson-Union from KU.

The primary objective of Big Rivers is to protect low-cost power for the co-ops in the future.

Representatives meeting in Owensboro yesterday agreed that the cost of power from private firms is not likely to go down. For that reason it would be best to build a generating plant of their own with transmission lines.

The Big Rivers project is a dream of 20 years' standing.

Back in 1941 area cooperatives formed the Ohio Valley Cooperative which embraced co-op territory extending from Paducah to Meade County. The war postponed further regional planning.

After the war, many communities had switched to TVA power, and again, not much effort was made for a joint project.

In 1951, however, local cooperatives were advised that a dam might be built on the Cumberland River. Now that the Barkley Dam is a certainty, a source of power is assured.

Getting power from Barkley Dam is one thing. Maintaining it is another. The Big Rivers project will guarantee cooperatives of standby power, and also greater transmission resources.

Big Rivers is not interested in co-ops now being served with power from the Tennessee Valley Authority. The three co-ops involved in Big Rivers are outside of TVA territory.

An act of Congress would be needed to secure TVA power to this area.

However, Barkley Dam power—under the jurisdiction of the Southeast Power Administration in the Department of the Interior could be available.

Commenting on the selection of Spottsville as headquarters for the new cooperative, John Hardin, of Henderson, said that Big Rivers hopes to locate a powerplant near low-cost coalfields—along the Green River.

In the last 10 years, power requirements for the Henderson-Union cooperative have increased at the rate of 8 to 15 percent yearly. "It is more than double what it was 10 years ago," Hardin said.

The three cooperatives take in territory from the southern end of Lyon County on the Cumberland River to Highway 31 in Meade County and along the Ohio River.

If all goes well, Big Rivers hopes to get its loan for funds from the Rural Electric Administration in Washington within 2 years.

A project like this, however, could take longer.

One phase of the engineering study to be handled by the Southern Engineering Co. of Atlanta, Ga., will be to see how the Big Rivers project fits into the power supply resources of Southern Illinois-Generating and Transmission Co-op., in Marion, Ill., and the Hoosier Generating & Transmission Membership Co-op. at Petersburg, Ind.

(Last Wednesday, the REA approved a $60 million loan for the building of a steam plant near Petersburg, Ind.—it was the largest single loan in the REA history. The Petersburg project—to be located between Washington and Winslow, Ind.—was contested by former Gov. Harold Handley.)

Initially, investment in the Big Rivers project would be modest, but ultimately, as much as $25 million could be invested.

JANUARY 12, 1962.

Mr. W. H. SKINNER,
Vice President, Kentucky Utilities Co.,
Lexington, Ky.

DEAR BILL: We appreciate the time you and other members of your company staff gave us for the purpose of discussing the future power needs of the member cooperatives of Big Rivers Rural Electric Cooperative Corp. As we stated to you during our conference, we will appreciate receiving a proposal from your company at the earliest possible time, but, in any event, within the next 30 to 45 days for a supply of power sufficient to meet any part or all of the projected needs as shown on the tabulations presented for the delivery points now supplied by city of Owensboro, L.G. & E. Co., and your company.

We specified in our request that such a proposal should be free of any restrictions on the resale of power to prospective customers of these cooperatives. We also stated to you that our purpose in approaching this power supply problem is to obtain a dependable low-cost source of supply, free of restrictions for the purpose of perpetuity.

We would appreciate your consideration of this matter and an early response to our request.

Very truly yours,

J. R. MILLER, *Coordinator.*

JANUARY 12, 1962.

Mr. JACK H. GERMAIN,
Manager, Owensboro Municipal Utilities,
Owensboro, Ky.

DEAR JACK: We appreciate the time you gave to meet with us in our office on January 4, 1962, to discuss the continuation of power supply for Green River Rural Electric Cooperative Corp.'s needs as a part of the Big River Rural Electric Cooperative Corp.'s total power requirements.

In accordance with our discussion with you, we will appreciate receiving any proposal you have to make for all or any part of this power supply as shown by the tabulation for all of the load points of the three member systems of Big Rivers Rural Electric Cooperative Corp. As indicated to you, our schedule requires that we have such proposal from you within 30 to 45 days, but in no event, not later than March 1.

We indicated during our conference, that we could accept power from your 69,000-volt transmission lines and would be glad to talk with you in terms of a purchase of power in a contract in a term not in excess of 5 years.

We will appreciate your careful consideration of our request for a proposal, and will look forward to receiving your reply.

Very truly yours,

J. R. MILLER, *Coordinator.*

JANUARY 12, 1962.

Mr. F. W. RUSSELL,
Vice President, Louisville Gas & Electric Co.,
Louisville, Ky.

DEAR MR. RUSSELL: I would like to express our appreciation to you and Mr. Thurman for the time you gave to our conference at Brandenburg for the purpose of discussing the needs of the cooperative members of Big Rivers Rural Electric Cooperative Corp. As we stated to you during our conference, our schedule requires that we receive proposals for the supply of power from our present suppliers, including Louisville Gas & Light Co. at the earliest possible time and preferably within the next 30–45 days, but in no event, later than March 1.

We provided to you a copy of the tabulations of the power requirements at every point of delivery for our member systems, including those presently supplied by city of Owensboro, Ky., utilities and your company, with the request that you propose to supply any part or all of these requirements.

As we explained to you, our purpose is to obtain the most reasonable, dependable arrangement for power supply which we can effect. We are ready to discuss with you any proposal you have to make for an arrangement in a contract of term not in excess of 5 years.

We recognize, of course, that Meade County Rural Electric Cooperative Corp. is presently under contract to purchase its requirements for a period extending to 1968, but we will appreciate an opportunity to discuss a continuation of the supply of this or any other part of our total power needs in any new arrangement which you care to propose. As we also indicated to you, we would particularly desire that any proposal you care to make be free of any restrictive provisions as to the right of the cooperative to resell power purchased from your company.

We would also appreciate consideration being given to the fuel clause, which we find is not commensurate with your current system efficiencies.

Your consideration of our request will be greatly appreciated.

Very truly yours,

J. R. MILLER, *Coordinator.*

KENTUCKY UTILITIES CO.,
Lexington, Ky., March 2, 1962.

Mr. J. R. MILLER,
Coordinator, Big Rivers Rural Electric Cooperative Corp., Owensboro, Ky.

DEAR J. R.: Mr. Harry Blanton expected to see you in Frankfort and discuss the draft of proposed agreement, which is attached. However, you apparently did not have to go back to see the bill through, so I am mailing this for your review and comments.

If this does not cover the area agreement we have near Green River Steel "bounded generally by the Ohio River on the north, Yellow Creek on the east, and Kentucky Highway No. 144 on the south" we should like to have that protection, due to the fact that we have made considerable investment in this area to serve Green River Steel and the city, and expect to add additional facilities to take the power out of the new plant.

We would propose to serve only the delivery points now served by Kentucky Utilities Co. and at the Rate 61 modified to the extent of this draft.

If the termination by either party on 3 years' notice or anything else in this draft proposal bothers you, please let us know in order that we might give it further consideration.

Very truly yours,

W. H. SKINNER, *Vice President.*

DRAFT OF PROPOSED AGREEMENT WITH DISTRIBUTING COOPERATIVES,
FEBRUARY 8, 1963

The electric utility systems of the parties hereto, _____ RECC and Kentucky Utilities Co., are not constructed and are not to be operated in competition with each other.

Therefore, the parties agree as follows:

(*a*) Neither party will furnish or deliver electric service to a customer at any given premises who is taking service from the other party or has

terminated such service and thereafter attempts to accept service from the party first mentioned.

(*b*) Neither party will furnish or deliver electric service to, or enter into any interconnection, interchange, or exchange arrangement with, any incorporated municipality or board or agency thereof or customer therein, which now or hereafter is served by the other except by mutual agreement.

(*c*) Service to new loads:

(*c*1) Where only one of the parties (co-op or company) has adequate facilities in the general area where a new load develops, service for such load will be supplied by the party having the facilities in the area.

(*c*8) Where neither party has adequate facilities in the general area where the load develops, service for each load will be furnished by the party having adequate facilities nearest to the load.

(*c*3) Where both parties have adequate facilities in the general area where the new load develops and the load could be feasibly served by either party, service for such load will be furnished by the party which first established adequate facilities in the general area in which the load is located.

In the event of disagreement between the parties as to the interpretation and/or the application of the provisions of this paragraph, such disagreement shall be resolved by the Public Service Commission of Kentucky in a proceeding in accordance with the rules of such commission and the statutes of Kentucky.

This agreement may be terminated by either party giving to the other a notice of its desire to terminate 3 years prior to the termination date specified in said notice.

MARCH 13, 1962.

Mr. W. H. SKINNER,
Vice President, Kentucky Utilities Co.,
Lexington, Ky.

DEAR BILL: On January 13, 1962, we wrote a letter to you confirming the request for your company to offer a proposal to Big Rivers Rural Electric Cooperative Corp., for service to the presently served and prospective future delivery points of our members with the request that "such a proposal should be free of any restrictions on the resale of power to prospective customers of these cooperatives."

From the substance of your letter of March 2, 1962, we understand the position of your company to be that you would propose to continue service to the presently served delivery points and under rate 61 modified only to the extent of the "proposed agreement with distributive cooperative" dated February 9, 1962, attached to your letter of March 2, 1962. You proposed no change in the contract or in the rate schedule and this constitutes your answer to our request for a proposal from your company.

If we are in error in this assumption, we will appreciate advice from you to that effect and will gladly receive any proposal which you care to make of a specific definitive sort within the next 15 days from receipt of this letter. In the absence of any contrary communication from you, we will assume that our understanding of this situation is correct as above outlined.

Very truly yours,

———— ————, *President.*

KENTUCKY UTILITIES CO.,
Lexington, Ky., March 20, 1962.

Mr. KENNETH COLEMAN,
President, Big Rivers Rural Electric Cooperative Corp.,
Owensboro, Ky.

DEAR MR. COLEMAN: This is with reference to your letter of March 13, and my letter to Mr. Miller of March 2, 1962.

The Kentucky Utilities Co., is willing to enter into a new contract, or contracts with Big Rivers Rural Electric Cooperative Corp., to serve the substations of Green River and Henderson-Union Cooperatives, now served or necessary to serve in our service area. We would not wish to serve Meade County RECC's load, now being served by Louisville Gas & Electric Co., nor the Green River RECC's load now served by the city of Owensboro.

The company's rate 61 is now lower than, or equal to, East Kentucky RECC's rate to member cooperatives for loads of 1,000 kilowatts and less, and there

is very little difference in the rates for loads above 1,000 kilowatts, even though our money costs are higher and we pay State and Federal income taxes, which East Kentucky RECC does not. We feel that rate 61 is as low a rate as we can offer at this time.

I am sure you know that Green River and Henderson-Union RECC's are earning lower rates per kilowatt-hour than any of east Kentucky cooperatives, partly due to better load factor use.

I assume these are the main questions in your letter of March 13, but if not answered here, please let us hear from you further.

Very truly yours,

W. H. SKINNER, *Vice President.*

[From the Gleaner and Journal, Henderson, Ky., Apr. 25, 1962]

REA APPROVAL SOUGHT FOR BIG RIVERS PROJECT

A $25 million rural electric cooperative project is in the hands of the Rural Electrification Administration in Washington, the Gleaner and Journal learned last night.

Formal application for the vast generating and transmission plant to serve three cooperatives—including Henderson's—was made last week.

Cooperatives serving the Henderson area, Daviess County, and Meade County now buy power from private or municipal sources.

If the REA approves the Big Rivers cooperative project (Big Rivers includes Henderson-Union, Green River, and Meade RECC's), then the cooperatives would begin to produce power and transmit it themselves.

And if the Big Rivers project were to become a reality, then area coal producers would stand a good chance to expand operations, because a generating plant would require 600 to 700 tons of coal daily.

Details of the Big Rivers project are lacking.

This much is known.

The application comes 10 months after the news first broke that Henderson-Union RECC, Green River RECC, and Meade County RECC formed the "Big Rivers cooperative," a joint venture that would build transmission and generating facilities.

Action by Big Rivers indicates that a feasibility report originally prepared by an Atlanta engineering firm confirmed the worth of the project from the cooperatives' viewpoint.

The REA which passes on all loans for rural cooperatives will now make a thorough study of the proposal.

The three cooperatives presently serve 29,000 customers in 18 counties. Henderson-Union serves 7 counties with 8,500 consumers; Green River, 6 counties with 12,500; and Meade County (headquartered in Brandenburg), 5 counties with 8,000.

Currently, Meade buys from Louisville Gas & Electric, Green buys from Kentucky Utilities, and Owensboro Municipal Utilities, and Henderson-Union from KU.

Primary objective in Big Rivers is to protect low-cost power for the cooperatives in the future.

Possible sites for the generating and transmission plant are in Henderson and adjoining counties.

Final cost of the Big Rivers project has been estimated at $25 million.

The three cooperatives making up Big Rivers serve an area from the southern end of Lyon County on the Cumberland River to Highway 31 in Meade County and along the Ohio.

[From the Evansville Courier, Apr. 26, 1962]

ELECTRIC CO-OP LOAN BID STUDIED

HENDERSON, KY.—The Rural Electrification Administration in Washington has begun studying a formal application for a $25 million Big Rivers Cooperative project, it has been learned here.

The Big Rivers Cooperative consists of the Henderson-Union, Green River, and Meade County rural electric co-op corporations which serve a total of 29,000 customers in 18 west Kentucky counties.

The application to the Federal bureau was made last week, a Henderson-Union RECC official said Wednesday. Full details of the proposal have not been discussed publicly but earlier one site suggested for the huge generating plant is Spottsville. Others are being considered.

The Henderson-Union Cooperative services 8,500 customers in 7 counties: Green River has 12,500 customers in 6 counties; and Meade County has 8,000 customers in 5 counties.

The application to the Federal agency is taken as a confirmation of the worth of the project by the cooperatives on the basis of a feasibility report prepared by an Atlanta engineering firm submitted about 10 months ago.

Generating facilities and transmission lines would be constructed by the Big Rivers Co-op.

At present, Meade County RECC purchases power from the Louisville Gas & Electric; Green buys from Kentucky Utilities and Owensboro Municipal Utilities, and Henderson-Union buys from Kentucky Utilities.

It was pointed out in the first announcement of the proposed project that it would have a good effect on the local coal-producing industry since it is estimated between 600 and 700 tons will be required daily to operate the plant.

A spokesman said then that the primary objective of the cooperative is to protect the low-cost power for the cooperatives in the future.

[From the Messenger and Inquirer, Owensboro, Ky., Apr. 27, 1962]

REA STUDYING REQUEST BY BIG RIVERS CO-OP FOR GENERATING PLANT

The formal application for approval of a $25 million generating plant project by the Big Rivers Cooperative is under study by the Rural Electrification Administration in Washington, it was learned here Thursday.

The Big Rivers Cooperative includes Green River Rural Electric, Meade County Rural Electric, and the Henderson-Union co-op corporations, which serve a total of 29,000 customers in 18 western Kentucky counties.

Application to the Federal bureau was made last week, it was learned.

J. R. Miller, general manager of Green River RECC and coordinator for Big Rivers Cooperative, last night confirmed the fact the application had been made.

Miller said the application for a loan from REA had been filed "only after negotiations with present power suppliers failed to give us reasonable rates with no restrictions on the resale of power."

It was stated by Miller that several sites for the generating plant were under consideration, but a definite location has not yet been selected.

According to unconfirmed reports, at least three options have been taken on prospective sites, but other options still are being sought.

The most prevalent rumor prior to announcement of the filing of the application had been that the new plant would be located near Spottsville. This site was named due to its easy accessibility to the coalfields along the Green River.

The application to the REA is based on a feasibility report prepared by an Atlanta engineering firm nearly a year ago.

According to reports available, generating facilities and transmission lines would be constructed by the Big Rivers Cooperative.

At present, the Henderson-Union Co-op, which purchases power from Kentucky Utilities, services 8,500 customers in 7 counties.

Green River, which buys from Kentucky Utilities and Owensboro Municipal Utilities, services 12,500 customers in 6 counties.

The Meade County RECC, which buys from the Louisville Gas & Electric, has 8,000 customers in 5 counties.

[From the Electrical World, May 21, 1962]

CO-OPS

REA generation and transmission cooperatives don't want to invade the domain of commercial or other types of suppliers, according to REA Deputy Administrator Richard A. Dell. Speaking to the Rural Electric Generating Cooperative Conference last week in Grand Rapids, Mich., Dell said: "REA-financed distribution cooperatives will buy their power from any source that

will negotiate in good faith, provide a reliable and adequate power supply, and establish a realistic rate without restrictive clauses in the contracts. But where those requirements are not met, we intend to consider G. & T. loans." But Dell coupled this with an attack on investor-owned utilities: "They seek, by fair means or foul, to bring about a situation where REA-financed distribution cooperatives will be robbed of any stable sources of power at favorable rates and thus, inevitably, will experience slow death by suffocation."

REA had six generation loan applications pending as of last week. In line with its modified policy on secrecy, it has made public the following list of generation loan applications: Central Electric Power Co-op (South Carolina), $43.5 million, 200-megawatt unit; Lignite Electric Power (North Dakota), $23 million, 100 megawatts; Big Rivers Rural Electric Co-op (Kentucky), $25.3 million, 74 megawatts; Dairyland Power Co-op (Wisconsin), $6.7 million, 50 megawatts; Golden Valley Electric Association (Alaska), $17.7 million, 22 megawatts; and Florida Keys Electric Co-op Association, $2.4 million, 3 megawatts. Several of the applications include requests for transmission lines.

[From the Messenger and Inquirer, Owensboro, Ky., May 26, 1962]

REA Has Options in Three Counties for Generating Plant

Henderson, Ky.—A $25 million steam generating plant proposed by three west Kentucky power cooperatives may be located at Quinn's Landing about 12 miles south of Henderson on property optioned from the Hughes Farmer family.

John Hardin, manager of Henderson-Union Cooperative which is joining with the Green River and Meade County cooperatives in planning construction of the huge plant, said the 145-acre site seems to be the first choice of engineers studying locations.

Other sites optioned by the group are Steamport Landing near Sebree in Webster County and Wrightsburg Landing in McLean County, Hardin said.

The site, also known as the Rockhouse Farm is known historically as the area Jesse James and his band used as a base of operations.

The famed outlaw is alleged to have used the Rockhouse, a cave on the Farmer property as a meeting place and a hiding place for his loot from various robberies.

Application already has been made to the Rural Electrification Administration in Washington, D.C., for a $25 million loan to build the plant and it is under study now.

The 3 cooperatives serve 18 west Kentucky counties.

Hardin said cooperative engineers have taken earth borings at Quinn's Landing, and, though no formal report has been made yet, the studies show the area has the right foundation for the plant. The final decision will be made by the engineers, however.

Hardin estimated Thursday that 1,000 people will be employed at the peak of construction activity once the project is started and added it would take about 4 or 5 years to complete.

[From the Evansville Courier, July 7, 1962]

Eighteen-Million-Dollar REA Loan Announced

Owensboro, Ky.—Representative William Natcher, Democrat, of Kentucky, announced Friday an $18 million Federal loan to the Big River Rural Electric Cooperative Corp.

The loan from the Rural Electrification Administration will be used to construct a steam generating plant and transmission system to supply power to 15 western Kentucky counties.

J. R. Miller, manager of the Green River RECC and acting manager of Big River, said four sites are under study and one may be selected within the next month.

Miller said a connecting line would be run to the Barkley Dam for a reserve power supply. He said the plant would employ 50 persons and be located on about 100 acres.

Officials tentatively plan to begin operation in 1965, serving 30,000 customers. Many now are served by the Owensboro Municipal Utilities, Kentucky Utilities, and the Louisville Gas & Electric Co.

The system is composed of three cooperatives—Green River, Henderson-Union, and Meade County.

EXHIBIT F

STATEMENT OF H. L. SPURLOCK, MANAGER OF EAST KENTUCKY RURAL ELECTRIC COOPERATIVE CORP., BEFORE THE SENATE COMMITTEE ON APPROPRIATIONS, APRIL 1963

I am H. L. Spurlock, manager of East Kentucky Rural Electric Cooperative Corp., Winchester, Ky. I appreciate this opportunity to respond to the remarks given to the committee by A. Clay Stewart, vice president of Kentucky Utilities Co., in which he attacks my organization and the rural electrification program in general. I shall not attempt to respond to the comments Mr. Stewart made about the Big Rivers Rural Electric Cooperative Corp., because I understand that that is being answered by a representative of Big Rivers. I shall confine my remarks to the comments he makes about my cooperative which I shall call East Kentucky and I shall make some general observations about problems in Kentucky as they relate to power service and to the Kentucky Utilities Co., which I shall sometimes refer to as "KU."

KU was brought into existence a little more than 50 years ago by Samuel Insull as a part of the old Insull empire and was traded in and out of Middlewest Utilities, one of Insull's principal holding companies, like a poker chip. Its purpose in the beginning was not primarily to meet the needs of any particular service area and I and many other Kentuckians are sad to admit that this purpose pervades the whole history of the company and controls it to this very day. Its chief executive officer who has been with the company almost 50 years and who was an old Insull man has kept it on about the same course it was on when it was founded.

The reason that REA developed more quickly in Kentucky than in a number of neighboring States was in large measure because of the backward looking "public-be-damned" attitude of this company. Until the inception of REA a little more than 25 years ago, no one could get KU service without paying an excessive "hook-on" charge unless such service required no appreciable extension of KU lines. At the time the REA program got started in Kentucky our people were manifesting a wave of resentment against the highhanded, unscrupulous, and cynical attitude of Kentucky Utilities.

Many battles have since been fought in the courts and in the legislature between KU, the rural electric cooperatives and cities, largely, I believe, because under its leadership and philosophy this company was more willing to spend tens of thousands of dollars to litigate or lobby its way through rather than improve service and meet public needs the way other more responsible utility companies did.

It is interesting in this regard to note that none of the companies in the vast American electric power system have appeared before this committee to attack the REA program. There is REA development in the same area where the American electric power system extends but under the leadership of Mr. Philip Sporn, the history of the harmony between REA and the investor-owned utilities has been, though not always perfect, certainly entirely different from what it has been in Kentucky.

For all of KU's complaints against REA in Kentucky, Mr. R. M. Watt, chief executive officer of the company, had this to say to his stockholders last fall: "We've just started growing. Why, we grew three times as fast in the last 20 years as we did in all of our first 30 years put together." The obvious reason for this growth is the fact that only in the last 20 years has KU had any perceptible desire to grow and serve the people of Kentucky. These were the years when REA came into being in Kentucky to offer KU some lifegiving competition.

Mr. Stewart calls REA "subsidized Federal power." He knows of the vast advantages his company has experienced from transmission line interconnection with our generation and transmission cooperative. Engineers have estimated that these interconnections have saved East Kentucky some $16 million while saving Kentucky Utilities $22 million. If this be subsidy it is subsidy both in our pockets and in the pockets of KU, but it is 22 to 16 in their favor. And when

we're talking about 2 percent money let us remember they have saved $22 million by leaning on our 2 percent money.

Mr. Stewart, in his statement, complains of the cooperatives "drive to get into and serve cities." Before commenting on one of the specific examples which Mr. Stewart has inaccurately cited, let me say that KU's litigation with Kentucky cities to keep them in bondage is a matter of general public knowledge. Two cities in Kentucky—Paducah and Paris—have a history of decades of almost continuous litigation with KU, Paducah having at last thrown off the shackles and acquired its own system about a year ago. Paris has never succeeded in getting KU out of its municipal area. The cities of Clinton, Paducah, Princeton, and Glasgow have all recently voted to break clear of KU. They have acquired the distribution systems previously operated within these municipalities by KU. The city of Moticello which owns its own distribution system dropped KU as its supplier of wholesale power about a year ago.

Many Kentucky cities with the support of some of the cooperatives in 1960 organized under a group known as Citizens for Low Cost Power in an effort to liberalize the Kentucky law so as to make it easier for cities to acquire their own distribution systems. The existing law had been put through in 1958 by an alert KU lobby. Citizens for Low Cost Power was met head on by KU and was defeated. Thus our law today continues to make it extremely difficult for a city to acquire its own distribution system no matter how poor the KU service or how high the KU rates.

With regard to the specific example given by Mr. Stewart, that of the litigation between the city of Bowling Green and one of the local electric cooperatives, Mr. Stewart says "the case had to be taken all the way to the State's highest appellate court to establish the city's right to serve one of its new subdivisions." This is deliberately misleading. The subdivision in controversy was not one of the city's. It lay well outside the city. Prior to being subdivided it had generally been considered co-op territory, since the co-op had extensive lines and was providing general service in the area. In any event, this case should be of no concern to KU because Bowling Green takes its power from TVA and KU was in nowise involved.

With regard to the complaints of KU about co-op service of industrial and commercial customers, we conceive that where a rural electric co-op has developed territory it should remain to provide general service in that area. The Court of Appeals of Kentucky has recognized that to let one utility invade an area where another is providing general service is to permit wasteful duplication of the existing facilities. This, our court has said, constitutes an excessive investment which must be paid out of the pockets of the ratepayers. What, in essence, Mr. Stewart and KU are asking the Congress to do is to adopt a policy to permit KU lines to run over or under rural electric co-op lines to select such customers as it considers desirable, leaving the balance to the co-op. This we say is wasteful and, as our court of appeals has said, the waste, if permitted, must be borne by the public.

KU's baleful influence in Kentucky has undoubtedly cost Kentucky tens of thousands of jobs and helped to keep our depressed areas depressed. There have been numerous instances of major industries seeking to locate in Kentucky which finally located elsewhere after fruitless negotiation with KU to obtain a realistic heavy power rate. The aluminum industry has been particularly interested in our State but we have lost more than one large prospect because KU was not willing to offer service on a basis sufficiently reasonable to enable the industry to live. Very recently an aluminum fabricator was offered a rate in preliminary negotiations by KU which apparently was acceptable, but by later decision KU refused to go through with the arrangement, thus threatening Kentucky with the loss of another major employer.

The Union Underwear Co., of Taylor County, is a typical example of treatment industry gets from KU. The company desired to locate a plant, employing several hundred people, outside the small town of Campbellsville, Ky., in a rural area then served exclusively by a rural electric co-op. KU convinced the management of the company that it would offer as good service and at as low a rate as the co-op and it further convinced the management that the co-op had no right to serve the load. The co-op's lines had to be moved to permit the plant to be built. KU then ran its lines into this area, duplicating the existing facilities of the rural electric cooperative and started providing service.

After several years of service, management of Union Underwear became apprised of the fact that it was paying many thousands of dollars a year penalty

as the differential between the KU rate and the lower rate of Taylor County RECC. Management became incensed and asked release from KU. KU refused. Then Union Underwear went to the Kentucky Public Service Commission with a complaint against KU seeking an order which would permit the company to sever its relations with KU and obtain service from the co-op.

In its case Union Underwear told the Kentucky commission that it was considering a plant expansion if it could obtain co-op service but would make its expansion elsewhere if it could not. However, the Kentucky commission refused to permit the switch and thus KU's high rates took their toll of jobs in Taylor County similar to that paid in many other counties.

Mr. Stewart complains of a "veil of secrecy" behind which he says REA operates. He complains of his inability to explore all aspects of REA financing and yet KU has explored, ad nauseam, the records of east Kentucky and the record of the Administrator in Washington whenever it felt this harassment tactic might be effective. On the other hand east Kentucky has attempted to get the Kentucky Public Service Commission to force KU to allow some reasonable examination of the purposes of its financing. This we felt necessary in order to ascertain to what extent the moneys KU obtains from the public in securities sales are intended to be used in wasteful duplication of our facilities. However, the commission has denied us the right to examine the purposes of KU's financing.

KU attempts to make a great conspiracy out of the interconnections between SEPA, TVA, and the rural electric cooperatives. Yet, in 1954 my cooperative made a contract with KU which called for us to interconnect with TVA. Certainly Mr. Stewart knows about this. KU management, unless extremely naive, must at that time have known that SEPA and TVA were interconnected.

In commenting on SEPA's recovery of power from TVA, Mr. Stewart asks, "Why would TVA voluntarily relinquish a substantial block of this power from dams which are among its more economical sources of supply?" Again this seems incredibly naive. This recovery was the obvious result of a contract between SEPA and TVA which provided for just such a thing.

We feel that we in east Kentucky have a serious obligation to the public to continue to reduce rates as technology advances. We have succeeded in substantially lowering our rates and we propose to continue in this direction. We can only do this if we can obtain the advantages of diversity by employing interconnection, mutual standby, power exchange and other modern principles of operation.

In asserting this philosophy of ours we note that Mr. Stewart concludes his testimony against us by saying: "We have been accused of seeing ghosts, but if that is true all we can say is that these are the most alive and active ghosts we have ever seen." The most dangerous ghost over utility service in Kentucky is the ghost of Samuel Insull. His ghost continues to cast its shadow over our cities, our industries, and our rural people. The ghost of Insull now rests in the body of Kentucky Utilities Co.

EXHIBIT G

STATEMENT OF NORTON DAVIS, GENERAL MANAGER OF PLAINS ELECTRIC GENERATION & TRANSMISSION COOPERATIVE, INC.

Mr. Chairman, my name is Norton Davis. I am the general manager of the Plains Electric Generation & Transmission Cooperative, Inc., of Albuquerque, N. Mex.

It is very clear after listening to the testimony of George A. Schreiber, executive vice president of the Public Service Co. of New Mexico, and reading his written statement presented before the subcommittee for the Department of Agriculture of the Appropriations Committee, that it would be a great injustice to this committee if Mr. Schreiber's statement were to go unchallenged and uncorrected.

In general I disagree with the complete statement, but I would like to specifically point out to the committee those statements which are completely false.

Statement: "Last year the REA granted the loan requests of the Colorado-Ute Electric Association totaling $31,200,000 to install a 150,000-kilowatt generating station near Hayden, Colo."

The truth: The loan amounted to less than $22 million.

Statement: "The major portion of the plant's output will, in fact, go to the Salt River power district operating in Arizona."

The truth: The major portion of the power will go to preference customers in Colorado.

Statement: "The proposed Colorado-Ute plant will delay irrigation assistance and repayment requirements of the Colorado River storage project and is therefore in competition with the project."

The truth: One of the major considerations in making the decision to build the Hayden plant was that it would make it possible for the Colorado River storage project to repay the Government quicker and would, in fact, enhance the project considerably.

Mr. Schreiber's comments concerning the needs and operations of Plains Electric Generation & Transmission Cooperative, Inc., are, to say the least, surprising. Mr. Schreiber's statement that there is no need for a new generating facility for Plains Cooperative would indicate an expert and firsthand knowledge of the cooperative's operation. In his subsequent statements concerning loading of the cooperative's system, comprising its own facilities and contracted power, including contracts with the Public Service Co. of New Mexico, it seems that Mr. Schreiber's firsthand knowledge is somewhat lacking.

I feel that it is necessary at this time to set the record straight concerning the figures Mr. Schreiber has so generously given to this body concerning Plains system operation.

The Plains Cooperative has an installed capacity of 49,500 kilowatts. Their contract with the Public Service Co. of New Mexico provides for an amount of 16,500 kilowatts and not 33,000 kilowatts, as was stated. Plains' contract with the Rio Grande project of the Bureau of Reclamation provides for purchase of 9,000 kilowatts for a period of approximately 8 months out of the year, if water is available in sufficient quantities. This disagrees considerably with Mr. Schreiber's figure of 20,000 kilowatts, and makes a total net firm capacity of 75,000 kilowatts. The total peakload for the Plains Electric Generation & Transmission Cooperative, Inc., for 1962, not 1963, was 54,968 kilowatts, as compared to Mr. Schreiber's figure of 48,000. It would be well to note that for the first 3 months of 1963, the loads have already exceeded 50,000 kilowatts and are estimated to reach a peak of 57,015 kilowatts this year. The loads for 1964 and subsequent years will far surpass these figures.

Mr. Schreiber's statement that there is an adequate supply of power in New Mexico at a fair and reasonable rate which would be subject to the jurisdiction of the New Mexico Public Service Commission, is quite questionable. First, to whom would the rates be reasonable? Second, the public service commission would not set a minimum rate, but a ceiling. Third, from all studies, it is evident that the power requirements in New Mexico will be somewhat relieved by Colorado River storage project power, but even this will not be adequate for all of the needs of the State.

Mr. Schreiber's statement that the cooperative could not justify its needs to this committee again sounds like someone grasping for straws. Any request made by this cooperative for loan funds has in the past and shall in the future be substantiated by sound figures.

One of the most flagrant examples of Mr. Schreiber's attempts to distort the facts is contained in the last part of his prepared statement. He states, "An official of Plains Electric Generation & Transmission Cooperative offered to underbid any offer which Public Service Co. of New Mexico could make to the Bureau of Reclamation to transport this power." Mr. Schreiber is evidently quoting a news release which he has attached as an exhibit. Fortunately, he has also attached a copy of the letter which he says contained the offer. If you will read this letter you will find no offer of this nature.

I respectfully point out to this committee these specific errors in Mr. Schreiber's statement. I would also like to say that his general statements give a completely biased viewpoint which would tend to divert this committee's attention from the basic issues.

It is my opinion that the commercial power companies like Public Service Co. of New Mexico will continue to dominate the electric utility industry. This is as it should be. Nevertheless, I believe that the electric cooperatives in New Mexico and the rest of the Nation have had a salutary effect on the industry. The cooperatives have served as a yardstick for their industry and consistently promoted lower rates for the consumer.

If the committee and the Congress were to make decisions influenced by the statements of the spokesman for the commercial power company, then the public would be under the domination of their monopoly.

I would agree with the statement that "There is an adequate supply of power at this time in New Mexico." I disagree with the implication that this situation will be true tomorrow or 5 years from now. Our conservative estimate predicts that the power needs in New Mexico will double in the next 5 years. The cooperatives must not be handcuffed in their search for wholesale power. We have always let our power needs be known to the commercial company in our area and negotiated with them. We will continue to do so, but if the Congress restricts our ability to obtain loan funds, we will then be in the situation of having no alternative but to take the offer of the power company, no matter how inequitable or dictatory it might be.

EXHIBIT H

STATEMENT OF HARRY L. OSWALD, GENERAL MANAGER, ARKANSAS ELECTRIC COOPERATIVE CORP.

I am Harry L. Oswald, of North Little Rock, Ark., and make this statement on behalf of Arkansas Electric Cooperative Corp., a generating and transmission cooperative composed of 16 distribution cooperatives in the State of Arkansas. I am its general manager and also general manager of the statewide cooperative in Arkansas which represents all 18 of the distribution cooperatives in the State.

We were completely amazed to discover that Mr. H. F. Minnis had made a statement before this committee on April 4 since we had just the day before completed negotiations whith this company, Arkansas Power & Light Co., for an agreement under which it would wheel power to certain of our member cooperatives and would not oppose our application before the Arkansas Public Service Commission for a certificate of convenience and necessity to construct a 117,000-kilowatt steam generating station and about 150 miles of transmission line.

We think this particular case demonstrates forcefully the necessity for the Administrator of REA to have the power to make loans on the basis of analysis by his staff and the cooperative involved without the power companies looking over his shoulder.

After 2 years of negotiating, A.P. & L. said flatly that it would make no better offer. This contract was not satisfactory, but since it was not feasible to build transmission lines, in all instances, some of these cooperatives had no choice but to accept. However, it was determined by engineering studies that Arkansas Electric, which had a 57,000-kilowatt plant under construction in the western part of the State, could feasibly add generation in northeast Arkansas and build transmission to five of these cooperatives. Consequently, application was made for the loan about which Mr. Minnis complains.

After this loan was granted by the Administrator, we went to the power company and instituted discussions to determine whether there were areas in which it would wheel power for us more economically than we could do it ourselves. I want to stress that we made the initial approach, not the power company. I think it demonstrates that in an equal bargaining position a cooperative can be expected to act responsibly and in the best interests of its members.

I am happy to say that we have worked out an agreement in principle with this power company to wheel power to some of our cooperatives so that we will have to construct only about 150 miles of line, and this agreement includes wheeling to the cooperatives to which it was not feasible for us to build lines and include in the proposed expansion for which the loan was granted.

Our studies show this arrangement will give our cooperatives substantial savings over the best offer of the company. Until we had the loan we couldn't make any progress with this company.

Mr. Minnis claims REA would not reveal our studies to his company. That is as it should be. When informed of this request originally we notified the company that any information it wanted they should request it from us and we would be glad to go over our plan with them. They never did ask us for information, but continued to plague the Administrator. The cooperative itself should be the source of any information, not the Administrator. We object just as strongly to any proposal that the Administrator reveal our plans and studies to the companies, as a merchant at home would object to his local bank calling

in his competitors and handing out his financial statements every time he gets a loan.

Mr. Minnis charges that economics and engineering were not the controlling considerations in our negotiations. This is partially true. Economics is the major factor, but we must also avoid restrictive contract provisions. It is false economy to enter into a contract at a cheap price if you do not have the same flexibility in developing your system and load that you would have with your own system.

Summarizing, in the case of this loan we have achieved the basis for a very good working arrangement with the company that we could not achieve until the loan was approved. If the publicity and congressional hearings on each loan that the company asks for were permitted the delay would be endless. The sole object of the companies is to destroy the G. & T. program and such delays would do it.

EXHIBIT I

STATEMENT OF FRANK E. RATTS, GENERAL MANAGER, THE HOOSIER ENERGY DIVISION, INDIANA STATEWIDE RURAL ELECTRIC COOPERATIVE

Mr. Chairman and members of the committee, my name is Frank E. Ratts. I am manager of the Hoosier Energy Division, Indiana Statewide Rural Electric Cooperative. The Hoosier Energy Division (Hoosier) is an organization of 16 rural electric membership corporations (REMC's), located in the southern half of Indiana. These REMC's provide electric service to approximately 80,000 members.

This statement is made in reply to statements previously made before this committee by the Public Service Co. of Indiana, Inc. (PSCI) and other commercial power companies attacking the Rural Electrification Administration, the rural electric cooperatives, and Hoosier in particular.

The PSCI and other commercial power companies have said that the Hoosier and other generation and transmission loans by the REA were made in secrecy. This is not so. The statements of Mr. Blanchar, president of the PSCI, are not based on the whole truth and the facts have been distorted.

In proof that the Hoosier loan was not made in secrecy, I submit a long list of communications and conferences with the PSCI (exhibit I).

They were well informed as to the pending loan application to REA. In addition to the communications and conferences, the PSCI and other commercial power companies of Indiana ran ads in the daily and weekly newspapers beginning as early as May 30, 1957, urging that the people write their elected officials, urging them to advise REA not to approve the loan to Hoosier.

The proposed loan to Hoosier for a generation and transmission system was a political issue in 1958, 1960, and 1962. It was an issue in the election of Senator Hartke. It was an issue in the election of Gov. Mathew Welch. It was an issue in the election of Senator Bayh.

The Hoosier loan was not made in secrecy. They were well informed about the loan application. We did not give them detailed information or figures as to costs. These were, and are, privileged information between a client and his banker. The PSCI has no more right to this information than I have to the details and costs of any mortgage that any of you gentlemen might have on any of your personal or real property.

Another point they have stressed very much is taxes. They accuse us of not paying our full share of taxes. This is not true. The REMC's do pay, and Hoosier expects to pay every tax and on the same basis as required of the PSCI and other commercial power companies of Indiana except the Federal income tax. Being cooperatives, the REMC's and Hoosier are, and will be, exempt by law from the Federal income tax. All this is a matter of record.

The PSCI stated that the REMC's of Indiana had accumulated a profit of over $40 million. What they did not tell you is that inasmuch as the REMC's are cooperatives, all money collected over the actual cost of rendering electric service is assigned back as a capital credit to the consumers in direct proportion to the amount each has paid into the cooperative. After prudent reserves have been accumulated to take care of unforeseen events, the capital credits or overcharges, beyond the actual cost of rendering the service, are returned to the members in cash.

Under sections 167 and 168 of the Internal Revenue Code of 1954, during the years 1956 through 1960, the PSCI collected an estimated $18,962,000 in overcharges for taxes which were not paid. (See "NRECA Report on Overcharges

of 38 Major Electric Companies.") The larger portion of this amount has been paid to their stockholders as tax-free dividends. In the guise of Federal tax liability, in 1961 the PSCI collected from their customers $2,900,000 in excess of their tax liability, enabling 25 percent of the dividends paid to their stockholders to be tax free.

At one point in their statement, the PSCI stated they sold the REMC's power in 1961 for 8.48 mills and in their tabulations they say 8.51 mills. The actual cost of power to Hoosier members from our records for 1961 was 8.86 mills. The PSCI, in their tabulation, say the power cost to the Hoosier members for 1962 was 8.50 mills. Our records show we paid in 1962, 8.755 mills. These differences are small but each of a one-hundredth of a cent cost the members of Hoosier approximately $48,000 in 1962.

PSCI also points out great savings to the REMC's to be had under their REMC–O rate. They did not tell how many additional millions of dollars the REMC's of Indiana would have to borrow and invest in additional facilities, in order to take service under this rate; nor did they tell you that REMC–O has a dual rate, whereby the REMC would have to pay the PSCI approximately 30 percent more for power sold to certain larger consumers of the REMC. In other words, the more we buy, the more it costs. There is no reasonable justification for such a discriminatory rate.

It would seem the PSCI would say or do whatever seems expedient at any given time to obtain whatever results they desire. The commercial utilities have stated "that every G. & T. loan impairs the investment made by the investor owned utilities." Whereas in a special company study of the PSCI made by Clark, Dodge & Co., issued October 1962, they state that the effect of the Hoosier loan will be "negligible," and further quote, "It is expected that final determination of the legal questions may take some time. Public Service Co. of Indiana serves 15 of the REA's involved in the Hoosier group, *but even if this source of business is eventually lost, the net impact on earnings would only be 5 cents per share on the basis of last year's receipts of $3.7 million. However, in a relatively short time, the normal growth of the far more profitable loads would more than compensate for this loss.*" [Italic ours.]

We estimate that if the PSCI follows the average load growth pattern of the electrical industry, as a whole, that the loss of the REMC low profit revenue will be replaced by higher profit loads in less than 1 year.

They state they are selling power to the REMC's at about 28 percent below the generally established rate for purchases for resale. What they did not say was since the inception of the REMC's in Indiana, and beginning in a rate case before the Public Service Commission of Indiana in 1937, PSCI has maintained that they were subsidizing the REMC's through the rate charged for electric energy to the cooperatives, which means that the PSCI has willfully and knowingly, all these years, been selling the REMC's power at the expense of their other customers. This type of operation was questioned by the public counselor and municipal utilities in a rate increase case before the Indiana Public Service Commission in 1960. The following is an excerpt from the order handed down by the commission, quote, "Petitioner proposes no increase to the REMC's. In justification of this position, petitioner states that imposing an increase on the REMC's would increase the likelihood that a loan would be made to the REMC's by the Rural Electrification Administration for the purpose of constructing generating facilities."

I am sure it is evident to you gentlemen that the fear here is not the loss of a subsidized business, but rather that the competition by example of the REMC's would threaten the monopoly of power control in Indiana which PSCI now enjoys.

Only a few of the most obvious points of the PSCI statement have been discussed. However, if the subcommittee so desires, we will go into the statement point by point, in whatever detail is desired. We are most anxious for your committee to know all the facts, for only then can the truth be seen, and a just decision be made.

EXHIBIT 1

February 11, 1960: Hoosier Cooperative Energy, Inc., wrote Public Service Co. of Indiana; Mr. Edmund W. Hebel, president, requesting terms, conditions, and price for supplying the power requirements of its 16 members.

February 16, 1960: Edmund W. Hebel, president, Public Service Co. of Indiana, Inc., acknowledged request of Hoosier.

February 25, 1960: Edmund W. Hebel, president, Public Service Co. of Indiana, Inc., requested additional information and confirmation of information supplied.

March 4, 1960: Hoosier confirmed and supplied additional information as requested by Public Service Co. of Indiana, Inc., letter of February 25, 1960.

March 9, 1960: Edmund E. Hebel, president, Public Service Co. of Indiana, Inc., mailed offer to Hoosier.

March 10, 1960: Edmund W. Hebel, president, Public Service Co. of Indiana, Inc., mailed same offer made Hoosier March 9 to all REMC's supplied energy by Public Service Co. of Indiana, Inc.

In March and after March 10, since Public Service Co. of Indiana, Inc., had made same offer to all REMC customers served by them, negotiations for price, terms, and conditions were turned over to Indiana statewide REC's wholesale rate committee; a subcommittee of this committee met first with Public Service Co. of Indiana, Inc., April 7, 1960.

April 29, 1960: Edmund W. Hebel, president, Public Service Co. of Indiana, Inc., mailed a copy of March 9 letter and offer to all directors of all REMC's served by them.

May 3, 1960: Edmund W. Hebel, president, Public Service Co. of Indiana, Inc., mailed all REMC's served by them a purported cost of power for 1959 under their March 9 offer.

July 22, 1960: Edmund W. Hebel, president, Public Service Co. of Indiana, Inc., mailed a letter to all REMC's saying they had executed contracts—under the March 9 offer to Hoosier modified in some minor details with three REMC's—Jackson, Parke, and Clark County REMC's.

March 7, 1961: Oscar Lowery, sales administrative assistant, Public Service Co. of Indiana, Inc., mailed letter to all REMC's served by Public Service Co. of Indiana, Inc., outlining actions between the Indiana statewide REC subcommittee and the Public Service Co. of Indiana, Inc.

March 29, 1961: Carrol H. Blanchar, president, Public Service Co. of Indiana, Inc., mailed a slightly modified version of the March 9, 1960, offer to all REMC's served by the Public Service Co. of Indiana, Inc., saying it was at the request of the statewide negotiating committee.

In early January 1961, a committee of five from Hoosier Cooperative Energy met with Carrol H. Blanchar, president, Public Service Co. of Indiana, Inc., in his office and told him we expected to receive approval of a loan to construct a G. & T. system. We asked him if he and his company would consider a wheeling agreement—we generate and pay his company for delivering power to the REMC's. He, Mr. Blanchar, would not discuss the proposition. However, he did proposition us to give his company $50 million, which, he said, represented their investment in serving the REMC's for the $50 million. His company would sell the REMC's power at production cost plus taxes, plus losses, plus a wheeling charge. Security for the $50 million was discussed. The only security offered was contracts between the company and REMC's.

All during 1960 and through May 1961, the Public Service Co. of Indiana, Inc., ran ads in the daily and weekly newspapers urging the people to contact their representatives in Government against the proposed loan, and, we suspect, at the ratepayers' expense.

In conversation between the Indiana statewide REC, subcommittee attorneys and Public Service Co. of Indiana, Inc., attorneys, the subject of Hoosier was discussed at every opportunity.

The proposal which was made by the PSCI, was a 10-year dual rate, penalty rate. In fact, it was not an offer but an ultimatum in that they said on April 22, 1962, that the proposal would automatically become effective and would be the only rate available to the REMC's.

This proposal was taken before the Public Service Commission early in 1961 by the REMC's to ascertain whether the proposal could be made mandatory. After several hearings before the Commission, the PSCI withdrew the mandatory provision of the slightly modified March 9, 1960, proposal, and made it optional, and it is now called REMC–0 rate.

EXHIBIT 2

CLARK, DODGE & CO., INC.

New York

SPECIAL COMPANY STUDY

OCTOBER 1962.

PUBLIC SERVICE CO. OF INDIANA

(Followup report)

1962 range	34–24
Recent price	30
Indicated dividend	$1.20
Yield (percent)	4.0
1962 estimated price-earnings ratio	18.8
Earnings per share:	
1962 estimated	$1.60
1961	$1.47

Debt: $215 million. Preferred: $50 million. Common: 10,922,991 shares.

OPINION

Public Service Co. of Indiana reported an almost 10 percent gain in per share earnings for the first half of 1962. Thus, earnings are virtually certain of registering a record high level this year, with current indications pointing to about a 35-percent earnings increase by 1965 over last year's results. A prospective earnings curve of this magnitude lends promise of periodic dividend increases, with the next one likely to occur early in 1963. The attempt by an Indiana cooperative body to construct generation and transmission facilities has been held up pending court action. Although the threat of public power competition should not be minimized, the loss in earnings to this company if they were deprived of these cooperative customers, would be negligible. Currently offering a relatively attractive return and better than average earnings prospects through 1965, the common stock appears to be one of the better values among the electric utilities.

Earnings-dividend prospects, 1962–65:

Kilowatt-hour sales during the first half of 1962 were up 9 percent and gross operating revenues rose 8 percent over the similar 1961 period, aided by better weather and economic conditions in the service area. We now believe that 1962 earnings will be in the vicinity of $1.60 per share, about a 9 percent improvement over last year's result of $1.47. Since 1962 earnings should prove better than what the company originally budgeted, their 1965 earnings estimate of $2 per share looks more readily attainable. As the demand for common equity is quite "light," and the company seems geared to a generous earnings payout policy, the prospective 4-year earnings trend promises a 25-percent or better improvement in the current $1.20 dividend by 1965.

Construction and financing

Proposed construction costs for 1962 through 1965 are estimated at $114 million. In 1961 the FPC issued the company a license to build and operate a hydroelectric generating plant. Upon completion in 1966, this $25 million addition will have a capacity of 81,000 kilowatts. The present capability is 1.64 million kilowatts with a peak demand of 1.20 million kilowatts anticipated for December. The peak demand is expected to grow at the rate of 6 percent. The above-mentioned station and the planned installations of small peak shaving units will meet the anticipated load growth until 1967, when a major steam-electric generating unit of some 300,000 kilowatts is expected to go into commercial operation.

The necessary funds required to complete the 1962–65 construction program will be supplied from internal sources. No bank loans will be outstanding through 1965 and permanent financing is not contemplated until 1966 at the earliest. At that time, the ratio of common equity to total capitalization will be in the 40-percent area, indicating that the next financing is likely to assume the form of a debt security.

Public power

In June 1961 the Rural Electrification Administration authorized a $60.2 million loan to Hoosier Cooperative Energy, Inc., consisting of 17 Indiana rural electric cooperatives. The funds were to be used to finance the construction of a 198,000 kilowatts steam generating plant and some 1,500 miles of transmission lines and related facilities.

In what appeared to be an attempt to avoid the necessity of securing approval of the project by the Public Service Commission of Indiana, this rural cooperative group transferred the loan to the Indiana Statewide Rural Electrict Cooperative. Statewide claims the right to proceed immediately with the project by reason of a certificate of convenience and necessity issued in 1935 by the commission. Last June, Public Service Co. of Indiana filed suit enjoining the construction of such a project on the ground, among others, that any certificate of convenience and necessity for the construction and operation of generating and transmission facilities that Statewide may have obtained 27 years ago is no longer in force and effect because of nonuse. Southern Indiana Gas & Electric Co. filed a similar suit, while Indianapolis Power & Light filed suit to enjoin any construction by Statewide which would interfere with their generating plant to be built on a site immediately adjacent to and upstream from the Statewide site.

It is expected that final determination of these legal questions may take some time. Public Service Co. of Indiana serves 15 of the REA's involved in the Hoosier group but even if this source of business is eventually lost, the net impact on earnings would be only about 5 cents per share on the basis of last year's dollar receipts of $3.7 million. However, in a relatively short time, the normal growth of the far more profitable loads would more than compensate for this loss.

NOTE.—While the statistics and statements contained herein have been obtained from sources we believe to be reliable, we do not guarantee them.

EXHIBIT J

STATEMENT BY RAY S. HOLT, PRESIDENT, SOUTHERN ILLINOIS POWER COOPERATIVE, MARION, ILL.

Gentlemen, I am president of the Southern Illinois Power Cooperative, Marion, Ill., an REA-financed generating and transmission system to serve three distribution REA borrowers in southern Illinois.

Our generating plant is scheduled to go on the line this summer. It will make possible a substantial reduction in the cost of wholesale energy in an area which has had one of the highest rural electric wholesale rates in the Nation.

REA energy purchased statistical report for fiscal 1961 shows the following power consumption and costs for our three member systems:

	Kilowatt-hours	Cost	Cents per kilowatt hour	Company
1. Egyptian Electric Cooperative Association.	12,500,000	$138,505	1.11	Central Illinois Public Service Co.
	15,000,000	172,000	1.14	Illinois Power.
2. Southeast Illinois Electric Cooperative Association.	108,000,000	1,221,344	1.13	Central Illinois Public Service Co.
3. Southern Illinois Electric Cooperative.	23,894,000	244,363	1.02	Central Illinois Public Service Co.

The power supplier, Central Illinois Public Service, has represented to our member systems that the above extraordinary rate is an "emergency rate" in view of the decision of the three distribution cooperatives not to sign a 10-year power supply contract with the company containing restrictive clauses and a higher cost of power. Central Illinois Public Service has been holding out as "bait" their proposed 10-year contract rates in an effort to discourage self-generation. However, the rates alone do not tell the whole story because there are conditions attached which alter the attractiveness of the contract rates.

The thousands of dollars in extra charges inflicted on the three distribution cooperatives, indicated in the above statistics, are their own mute but powerful testimony as to what price service our cooperatives could expect to have if the power supplier gained total monopoly control over our power supply. If it were not for the REA generating authority and its occasional use when justified, electric service on an area coverage basis simply could not exist. By having our own source of power, we are free of restrictive and punitive clauses and dictation of rates.

Engineering studies show that the cost of power from Central Illinois Public Service, offered under their proposed 10-year contract, would cost the cooperatives $28,160,260. The cost with our own generating setup will cost $26,849,300, a saving of $1,311,500.

Past experience indicates that in the foreseeable future there will be improvements in generation, size of loads, and diversity of electric demand which cannot be conservatively forecast at this time. Since we are a nonprofit, service organization, wholly owned by those we serve, these savings will flow to the consumer-members and will not be drained off as excess earnings for remote stockholders.

I would like to point out that Federal income-tax subsidies granted power companies are resulting in earnings for the companies greater than the standard 6 percent considered adequate by State regulatory bodies. Central Illinois Public Service reported to the Federal Power Commission they have received $667,000 in accelerated amortization and $1,180,000 in liberalized depreciation, or a total of $5,847,000 in interest-free loans as a result of acting as income tax collectors for Uncle Sam. In addition, the shorter number of years of life for depreciating their plant and also the new investment credit approved last year, will produce excess earnings and overcharging for this company.

So far they have shown no desire to return the excess money collected from ratepayers as income tax liability but never turned over to the U.S. Treasury. Although our member systems contributed a share in their power purchases to these taxes, nevertheless they will not receive any credit in their power bills nor reductions in future rates. On the other hand, as coowners and users of this cooperative's generated power, they will be able to have unrestricted electric energy at cost.

Being able to pass on any savings to their own member consumers, rather than to some distant stockholder who does not perform any services for his extra dividends made possible by tax gimmicks, we feel we will make greater contributions to the economic progress of our already distressed areas.

USE OF SECTION 5 FUNDS

Another point that distresses our directors and myself is the attitude power company executives are taking toward electric cooperatives assisting in locating new industries in our depressed service areas. Not only are we working as a team with community leaders to reduce unemployment, but we are actively concerned with helping ourselves and our neighbors move forward to greater levels of prosperity. Abundance of electric power at low cost and support of small, struggling new industries are important objectives to us as citizens in our business community; we believe that section 5 REA loan funds should be employed for the latter where appropriate and necessary. We know that we must encourage new activity to offset our declining farm economy and population. We are, of course, restricted to our service areas and have no desire to nor can we in any way expand into power company areas.

One would think that power company executives would be working hand and glove with us to increase economic activity, for they would prosper too. Alas, I am afraid their economic interests are to serve their absentee stockholders rather than over 500 rural communities the power company now serves.

Why any type of corporation, dependent on the prosperity and buying power of its service areas should oppose grassroot efforts to build a sound economy is beyond comprehension.

Power companies dwell on the current REA interest rate and our lack of income for income tax purposes as the reasons they make a poor showing against our operations. They conveniently overlook the fact that the same financing rate and opportunities were first offered to them and are still available to them. If their reasons are meaningful and not just propaganda to gloss over their poor judgment and lack of business foresight, why don't they take advantage of the REA financing they claim gives us an unfair advantage, as they have of Government income tax windfalls?

A thoughtful study of the cost of money to power companies and to the rural electrics will show that whatever differences exist are not of so large a degree as to become significant. The income tax depreciation accounting bonanzas, without corresponding changes in electric rates, have generated so much interest-free capital that Electrical World predicts over half of the new power company capital investment in 1963 will come from internal funds rather than outside financing. The ratepayers not only pay for electric service but are furnishing over half the new capital for electric plant expansion. This is a far more significant factor in arriving at electric power costs than interest rate differentials.

Another power company attack on our program which is wholly imaginative and untrue is the claim that generating loans are made in secret. Power company officials are making statements that they learned of a G. & T. application when they read about the REA loan in the paper.

Take our case. Charges of secrecy have been made about our loan. Yet 3 years passed in fruitless negotiations about our power supply needs before a loan was made. In my file is a letter dated June 6, 1959, to President Luthinger of Central Illinois Public Service. It was sent to him by registered mail and reads:

"The board of directors and myself assume that the power contract offered by your company and as submitted to the Illinois Electric Cooperative on May 1, 1959, by the Cooperative Power Contract Negotiating Committee is your final offer."

This letter was signed by me as president of Southern Illinois Power Cooperative. This was months before the loan was approved in REA.

Behind this letter I mention is a file filled with communications, revealing that the power supplier had full knowledge of the situation. In one of the offers to the negotiating committee the company listed what appeared to be a low electric rate for energy. However, the company had whooped the transmission carrying charge to such a degree that the total cost of delivered power was way beyond reason and far higher that our prospective G. & T. costs. To claim "secrecy" is to fly in the face of facts. Ample opportunity was given the company to continue to supply power but they preferred to remain among the higher-priced power suppliers of the Nation.

Our members are presently paying almost 50 percent more than the average of power rates throughout the country.

We urge your committee to leave the G. & T. lending authority of REA unchanged. We further urge that adequate loan funds as requested in the 1964 budget be authorized.

According to REA, borrowers have $300 million of their own general funds in their systems; they have paid $900 million on their indebtedness to REA and have made over $200 million in advance payments on their loan contracts; they have bought $26 million of 2-percent Treasury bonds; and they have provided an annual market for a billion dollars in appliances and equipment—a market that would not exist but for the REA program.

In closing, I wish to emphasize that we consider REA financing a trust and a challenge to us to do a good job. I believe our record of achievement speaks for itself.

Thank you for giving me this opportunity to speak my thoughts and may we continue to merit the confidence the Congress has placed in us.

EXHIBIT K

STATEMENT OF J. T. DUDLEY, MANAGER, SOUTH MISSISSIPPI ELECTRIC POWER ASSOCIATION AND SINGING RIVER ELECTRIC POWER ASSOCIATION

First, let me express my appreciation to the committee for the opportunity of filing this statement in response to statements made before this committee by Mr. Donald J. Gray, Mississippi Power & Light Co., and Mr. A. J. Watson, Jr., Mississippi Power Co.

Singing River Electric Power Association is a distribution association serving approximately 12,500 consumers in 6 counties along the Mississippi-Alabama State line and as far south as the Gulf of Mexico. South Mississippi Electric Power Association is a generation and transmission association organized in 1941, for the purpose of serving nine member Electric Power Associations in

South Mississippi. South Mississippi Electric Power Association obtained its initial loan from REA in June, 1942 in the amount of $2,100,000. It obtained an additional loan in July 1958 in the amount of $13,971,000 making the total amount of loan funds avialable to it of $16,071,000. I have been manager of Singing River Electric Power Association since April 1948, and I have been manager of South Mississippi Electric Power Association since November 1958.

South Mississippi Electric Power Association filed with the Mississippi Public Service Commission its application and petition for a grandfather certificate on September 28, 1956. It filed its petition for a certificate based on public convenience and necessity on March 31, 1960. The legal battles which have taken place since our applications were filed are too lengthy to detail in this statement. We were opposed by Mississippi Power Co. and Mississippi Power & Light Co. and before any hearings on the merits of our case were held, appeals on preliminary rulings of the Commission were taken to the Hinds County chancery court and from the Hinds County chancery court to the State supreme court. The Mississippi Supreme Court dismissed the appeals and ordered that the case be returned to the Mississippi Public Service Commission for trial on the merits. The hearings before the public service commission consumed 78 days and produced a record of 7,154 pages with 478 exhibits. The commission issued orders granting a certificate for the construction of the generating plant and transmission system to South Mississippi on March 7, 1963. The commission granted the certificate under grandfather rights and a separate order granting a certificate on convenience and necessity.

The funds available from REA and the certificate of the public service commission will allow South Mississippi to serve all the power requirements of two of its member associations and a portion of the power requirements of two other member associations. Five of the member associations will receive none of their power supply from South Mississippi Electric Power Association at the present time.

In their appearance before the committee, Mr. Gray and Mr. Watson implied that there was no need for the generation and transmission facilities in Mississippi and that they were being considered only because the rural electric officials in Mississippi desired to construct these facilities for later interconnections with some type of giant Government-owned or -sponsored power system. This implication is simply untrue. The decision to build the facilities contemplated by South Mississippi Electric Power Association is a result of decisions of the boards of directors of the nine member associations. These boards are composed of outstanding citizens of the State of Mississippi in almost every walk of life. The boards include farmers, retail merchants, school teachers, bankers, manufacturers, insurance company executives, and public officials. These dedicated board members have very carefully considered the economics involved as well as the restrictions contained in the best proposals obtainable from the power companies for the supply of electric power.

Mr. Watson and Mr. Gray told the committee that the electric power associations could purchase power from the two utilities cheaper than it could be furnished to them by South Mississippi Electric Power Association. They failed to mention the additional costs to the distribution associations of transmitting this power to the load centers of the different associations. A detailed study of the comparative cost was presented to the public service commission. Exhibit A to this statement is a tabulation showing the results of this study. This exhibit shows that the cost if supplied by South Mississippi Electric Power Association would be 8.85 mills as compared to the total cost of 10.48 mills if supplied by the two utilities; this results in a savings to the member associations of $2,802,783 during the first 6 years of operation of South Mississippi.

The above economic advantage is in addition to the relief from restrictive provisions in the wholesale power contracts. These restrictions include dual rates, limitation on amounts of power available, limitations on types of loads we can serve and limitations on the locations where we can serve consumers. There are too many other objectionable features to mention in this statement.

Mr. Watson implies in his statement that the associations were not willing to negotiate on terms of power supply contracts before the July 1958 loan was made by REA. He states, "These cooperatives would not even attempt to negotiate. At their request, we made a proposal to them that was intended (and we so stated) as a basis to begin negotiations." Mr. John C. Langan, acting in behalf of the six associations served by Mississippi Power Co., by a letter dated March 29, 1957, asked the company to submit proposals for consideration by

the associations. He asked for firm commitments to meet the association's requirements through 1966. Mr. Langan continued after that date to request a meeting or proposals from the power company and was not able to get a meeting with them until May 23, 1958, 14 months after his initial invitation. We were told at that meeting that our contracts would contain limitations on the amount of power available, and restrictions on the types and locations of loads we can serve. We received their proposal dated June 14, 1958. It was transmitted with a 5-page letter and nowhere in this letter did they indicate that the proposal was subject to negotiation. They did not ask for any meetings for this purpose. The only reference to a meeting contained in the letter was in the last paragraph which is as follows: "Believing that discussions in person of the wholesale power proposal, which is presented by this letter, are necessary for a full understanding of the proposal by the people to whom it is being sent, we again suggest a conference to be held in the near future for such discussions." Our engineers, attorneys, and managers fully understood the proposal and we could see no reason for a meeting at which they would explain the effect of these proposals. The rate schedule attached to this proposed contract would have increased our wholesale cost approximately 30 percent to 35 percent (varying between associations and delivery points depending on the nature of the requirements). The proposal was for 3 years only, and contained the most vicious restrictions we have ever seen in wholesale power proposal other than one submitted by one of their sister companies to its customers in Florida which contained almost identical restrictions as those offered in the proposal to the Florida electric power associations.

Mr. Watson and Mr. Gray referred to competition and duplication of their facilities as a basis for their objection to G. & T. loans. The Mississippi Public Service Commission did not reach this conclusion after hearing our case. They found as follows, and I quote, "The construction and operation of petitioner's proposed system would not result in uneconomic duplication of facilities of other utilities. This record does not show that any substantial duplication of transmission facilities would be produced by the construction of the proposed system by the petitioner." If the companies ever feared competition from the electric power associations, those fears should now be at rest. The Mississippi Legislature placed all electric utilities under the control of the Mississippi Public Service Commission, for the first time, in 1956. The public service commission, under this act, has granted certificates on an area basis to the electric utilities operating in the State on the effective date of the act. The Mississippi Supreme Court has repeatedly ruled that one utility cannot invade the area certified to another unless the utility holding the certificate fails to render adequate service and is unwilling or unable to provide such service. In one of its opinions, the court said, "An existing utility within the certificated area has the right and duty to provide the service, and must be given that opportunity. If it fails, the commission can award another franchise to another utility. Section 5(c)(f) makes this clear." For emphasis the court stated further: "There should no longer be any doubt as to the rule in this State on that proposition."

Mr. Watson and Mr. Gray, as well as other officials testifying before the Committee, have had a lot to say about the 2-percent interest rate available to the associations. They are apparently trying to convince the committee that this interest rate puts the electric power associations in a more favorable position than the power companies are in, as far as interest cost is concerned. In 1961 the total operating revenue of Mississippi Power Co. was $26,528,146. The total interest charges to the company for the same year was $1,372,012. Therefore, their interest charges amounted to 5.17 percent of their operating revenue. During 1961 Mississippi Power & Light Co. had an operating revenue of $39,870,361, and their interest charge was $2,194,018. Therefore, their interest cost amounted to 5.50 percent of their operating revenue. Information from both of the companies is taken from page 114 of their form 1 report to the Federal Power Commission. In 1961 the operating revenue of the 23 electric power associations in Mississippi was $22,079,608. Their interest on long-term debt was $1,441,533. Therefore, the interest cost to the associations represented 6.27 percent of their operating revenue. Nationwide, interest to the 935 REA borrowers amounted to more than 7 percent of their operating revenue. Information on REA borrowers was taken from table XXI of the REA Bulletin 1–1. These figures indicate that the associations are spending a larger percentage of their operating revenue for interest expense than the two companies are spending.

Both Mr. Watson and Mr. Gray criticized our program because the associations in Mississippi are serving loads which they do not feel they should serve. They gave an example of industrial loads and consumers in municipalities. We feel that this is a problem that should be settled in each State, and we are happy to say that in Mississippi it has been settled by our State legislature, and by our supreme court. Each utility is frozen in the areas which it was serving on the effective date of the act, and there can be no fight between the utilities about who is going to serve which customers and where. All new services rendered by electric power associations in municipalities where the two utilities serve have been a result of the expansion of the corporate limits. Our supreme court has ruled that the associations will be allowed to continue to serve in those areas. We, of course, realize that we cannot use REA loan funds to render further services in towns with a population in excess of 1,500.

The companies have indicated that they feel that the REA Administrator should hold some kind of open hearing before granting a G. & T. loan. In our opinion, this would be unnecessary delay, and would result in an untold amount of expenses on behalf of REA and its borrowers. In order for such a hearing to have any meaning, it would have to go into detail in much the same manner as the Public Service Commission is required to do. Under our State law, we would still have to appear before the Public Service Commission and go through all these details for a second time. The time and expenses involved in these hearings would be prohibitive on behalf of the associations, and we cannot imagine how much it would cost REA to conduct such hearings on each application for generation or transmission facilities. They would certainly need a staff of attorneys, accountants, engineers, and examiners. The only results we can see from such proceedings would be delays and extra expense.

In summary, I would like to state that it is my opinion that the present rural electrification program is being administered on a sound basis, and the successful operation of the REA borrowers substantiates this opinion. I strongly recommend the appropriation of funds for REA as requested in the amount of $425 million.

EXHIBIT A

Comparative costs of power supply for Dixie EPA, Pearl River Valley EPA, Singing River EPA, Southern Pine EPA

Year	Megawatt-hours delivered	If supplied by South Mississippi EPA system		If supplied by Mississippi Power Co. (proposal of June 14, 1958) and Mississippi Power & Light Co. (proposal of Aug. 28, 1961)		Savings	Cumulative savings
		Dollars	Mills per kilowatt-hour	Dollars	Mills per kilowatt-hour		
1964–65	220,554	1,937,911	8.79	2,233,366	10.13	$295,455	$295,455
1965–66	250,368	2,439,068	9.74	2,631,877	10.51	192,809	488,264
1966–67	279,767	2,561,275	9.16	2,945,545	10.53	384,270	872,534
1967–68	300,586	2,642,175	8.79	3,161,137	10.52	518,962	1,391,496
1968–69	320,548	2,752,375	8.59	3,388,524	10.57	636,149	2,027,645
1969–70	340,186	2,812,275	8.27	3,587,413	10.55	775,138	2,802,783
6-year total	1,712,009	15,145,079	8.85	17,947,862	10.48	2,802,783	

EXHIBIT L

STATEMENT BY W. T. WITHERS, PRESIDENT, CAPITAL ELECTRIC POWER ASSOCIATION, CLINTON, MISS.; W. H. MORGAN, PRESIDENT, DELTA POWER ASSOCIATION, GREENWOOD, MISS.; ROGERS G. DAVIS, PRESIDENT, SOUTHWEST MISSISSIPPI ELECTRIC POWER ASSOCIATION, LORMAN, MISS.; B. N. SIMRALL, SR., PRESIDENT, YAZOO VALLEY ELECTRIC POWER ASSOCIATION, YAZOO CITY, MISS.; S. H. KYLE, PRESIDENT, COAHOMA ELECTRIC POWER ASSOCIATION, LYON, MISS.; C. C. CLARK, PRESIDENT, MAGNOLIA ELECTRIC POWER ASSOCIATION, MCCOMB, MISS.; JAMES W. BERRY, PRESIDENT, TWIN COUNTY ELECTRIC POWER ASSOCIATION, HOLLANDALE, MISS.

Gentlemen, it is a privilege to submit to your committee certain facts concerning the rural electrification program in Mississippi.

It is our understanding that you have heard certain testimony by Mr. Donald J. Gray, vice president of Mississippi Power & Light Co. We believe Mr. Gray's testimony omitted several facts concerning the true state of the problems facing Mississippi rural electric associations.

Mississippi Power & Light Co. maintains that they have always cooperated with the rural electric associations located in western Mississippi. A a matter of fact, Mississippi Power & Light Co. has always maintained an antagonistic attitude toward the progress and development of the rural electric systems. This attitude has been evidenced by the restrictions in wholesale power supply, the construction of spite lines, and the continual harassment of the associations in their efforts to provide electric service in the rural areas.

Mississippi Power & Light Co. has contended that there are no limitations to the use of the electric power sold to the rural electric associations under the present wholesale power contracts. Earlier contracts with Mississippi Power & Light Co. had severe penalties imposed when loads larger than 50 kilowatts were served by the association. As a matter of fact, Mississippi Power & Light Co., in most recent negotiations insisted that the associations accept wholesale power contracts that would permit the power company to serve all nonagricultural industrial loads in excess of 100 kilowatts, regardless of their location. That is, Mississippi Power & Light Co. intended to serve all these loads above 100 kilowatts in their area, as well as in the area developed by and certificated to the rural electric associations. The result of such an arrangement would be spite lines throughout our territory.

This limitation on the size and type of loads that electric power associations could serve with power purchased from Mississippi Power & Light Co. was not removed from the final contracts until the associations agreed to an increase of the base rate charged by Mississippi Power & Light Co. that now amounts to many, many thousands of dollars. It took 26 months of intensive negotiation to remove this and other restrictions and means that the wholesale price of power to the several associations was increased by better than $500,000 per year. (See exhibit 1 for detailed cost increase for each of eight associations based on actual use from November 1959 through October 1960, if they had been billed on the new contract basis. This increase would have amounted to $586,645.55 for this year's billing.)

Mississippi Power & Light Co. boldly stated during negotiations that if they were to provide us with power to serve all the loads in our developed and certificated areas without load limitations, we would have to pay a higher price for the power.

The price of power purchased from Mississippi Power & Light Co. was in ratio to the degree they might be permitted to "gut our systems".

Private utilities throughout the country are using as propaganda—especially where power supply problems are involved—statements that the associations work in an atmosphere of secrecy, which is not true.

Our associations opened negotiations with Mississippi Power & Light Co. for new wholesale power contracts by providing to Mississippi Power & Light Co. a detailed list of the associations' needs and problems, and it still took 26 months to complete the negotiations. At the same time it was very difficult to get Mississippi Power & Light Co to state their proposals to us in writing.

Mississippi Power & Light Co. has stated that they agreed to sell the rural electric associations "all of the electric power they may need to meet their customers' requirements within the scope of the service the Congress intended they should render". Actually, the Mississippi Power & Light Co. has always

placed its own interpretation on the intent of Congress as related to the rural electrification program. Naturally, this interpretation has been such that it would severely limit the type of service that the association can provide.

As a result of the Public Utility Act of 1956, legislation advocated and supported by Mississippi Power & Light Co., areas were assigned and certificated to the various utilities by the Public Service Commission of Mississippi.

Since the certification of the areas, some towns have expanded their corporate boundary so as to take into the town small areas served by electric power associations. The Public Service Commission and the Supreme Court of Mississippi both have held that the utility holding a certificate for the area may continue to serve this area even though it may have been taken into the corporate boundary.

Mississippi Power & Light Co. and other utilities are really making the most of propaganda in trying to lead the public and Congress to believe the electric power associations are raiding the towns and are about to put Mississippi Power & Light Co. out of business. The record will show that no electric power association has tried or is now trying to take any certificated area away from any other utility. On the contrary, the court record will show that Mississippi Power & Light Co. has tried and is continuing to try to take away areas from the associations which the associations have historically served and for which they hold a certificate.

Mr. Donald J. Gray, testifying before your committee for Mississippi Power & Light Co., stated that an "electric cooperative presently serves over 250 customers within the corporate limits of the city of Jackson, Miss., a metropolitan city of over 150,000 population." Mr. Gray failed to tell you that all of these customers were outside the city limits of Jackson prior to a recent expansion of the city limits, and furthermore, that the area has been historically served by Capital Electric Power Association.

In cases similar to this it is almost always true that the customers taken into the corporate limits were served first by rural electric associations from lines built more than 20 years ago when Mississippi Power & Light Co. refused to provide the area with electric service. Mississippi Power & Light Co. is only now willing to serve these customers because they have been taken into the corporate limits and because the density has finally reached a point that Mississippi Power & Light Co. considers profitable.

For the associations to give up territory as it develops means slow death and higher rates to the customer-member out in the country.

The private utilities advocate the elimination of loan funds for the construction of generation and transmission facilities by the associations. Should the Congress accept the recommendations, it will have handed the private utilities a complete monopoly which could result in prohibitive wholesale power rates to the associations, as well as unbearable controls and restrictions in the wholesale power contracts. These controls should be by regulatory commissions and the Congress, rather than by the private utilities.

The power supply problem for the electric power associations in Mississippi is not a new one; as early as 1941 it was necessary for the several associations in western Mississippi to cause to be formed a Mississippi corporation—West Mississippi Electric Power Association. Through this corporate structure, as well as by other means, we have made studies, almost on a continuing basis, of how we could improve our position in the power supply market.

It would be too long a story to now impose upon you all the facts of our effort.

Although it is not too well known by our member-customers, as well as by the general public, the wholesale power supply is in fact the key to the very existence of the electric power association.

The electric power associations in Mississippi are Mississippi corporations owned and controlled by the people of the State. These associations have done much for the rural area, as well as the urban area, in providing power at reasonable cost. These local corporations are very much a part of the community and State economy. They are not taking business away from any other utility but are trying desperately to hold and serve well the area developed solely by the associations and its members.

If the right of the electric power associations to generate and transmit electric energy is in any way curtailed, it will be the beginning of the end for these associations.

EXHIBIT 1

Wholesale power cost data—Comparison of present and new Mississippi Power and Light Co. rates—Period, November 1959 through October 1960 (12 months billing as furnished by each system)

System	Metering points	Peak kilowatts	Annual kilowatt-hours	Actual cost	REA–9	Percent, cost increase
Coahoma EPA	6	6,799	22,338,800	$114,436.27	$167,941.09	46.8
Yazoo Valley EPA	5	3,492	9,250,268	54,652.73	68,914.59	26.1
Capital EPA	6	9,293	35,917,000	172,847.85	267,774.51	54.9
Magnolia EPA	7	8,685	36,822,600	177,886.78	274,328.40	54.2
Twin County EPA	6	10,466	31,738,652	157,692.40	238,128.53	51.0
Southwest Mississippi EPA	6	7,408	34,703,540	188,626.16	258,541.42	37.1
Southern Pine EPA	4	8,120	34,754,500	168,217.99	258,921.10	53.9
Delta EPA	6	13,272	42,920,150	233,431.41	319,887.50	37.0
Total			248,445,510	1,267,791.59	1,854,437.14	46.3

NOTE.—The costs under REA–9 at 7.45 mills per kilowatt-hour were calculated without consideration of a fuel penalty. However, the 70 percent demand ratchet was applied to both rates where it had an effect on the cost.

EXHIBIT M

STATEMENT OF BASIL THOMPSON, GENERAL MANAGER, ALABAMA ELECTRIC COOPERATIVE, INC.

Mr. Chairman and gentlemen of the committee, my name is Basil Thompson. I am general manager of Alabama Electric Cooperative, Inc., a generation and transmission electric cooperative with headquarters at Andalusia, Ala.

In recent appearances before the Agriculture Subcommittee of the Senate Appropriations Committee, Messrs. Walter Bouldin and Alvin Vogtle, Jr., president and executive vice president, respectively, of Alabama Power Co., and Mr. R. L. Pulley, president of Gulf Power Co., presented testimony which was incomplete, inaccurate, incorrect, and deliberately designed to mislead and create erroneous impressions. I respectfully request that my remarks be included in the journal of your proceedings in order that the record may be set straight on some of the matters to which they directed their remarks.

By way of brief background, may I point out that Alabama Electric Cooperative's membership includes 13 rural electric cooperatives, 6 municipalities and 2 industries in central and south Alabama, and 4 electric cooperatives in northwest Florida. These are listed in an attachment to my statement. Presently, Alabama Electric provides all of the power requirements of two of its member cooperatives and its municipal and industrial members, and part of the power requirements of four additional member cooperatives. These are shown on an attachment to my statement. In November of 1961, the Rural Electrification Administration (REA) approved a $20.35 million loan for Alabama Electric Cooperative to finance construction of additional power generation and transmission facilities to meet rapidly growing needs of its consumers. Also, the proposed expansion of Alabama Electric's facilities will enable it to inaugurate service to three of its long-term member systems, and to assume additional responsibility for meeting wholesale power requirements of four member systems which it is now partially serving. This information is also reflected in the attachment to my statement.

Alabama Electric Cooperative was organized in 1941 by a group of electric distribution cooperatives in Alabama and northwest Florida who were unable to secure dependable wholesale power at reasonable rates from Alabama and Gulf Power Cos. In late 1944, Alabama Electric, in conjunction with certain municipalities, purchased the generation and transmission facilities of a small power company operating in south Alabama (Alabama Water Service Co.), which had been ordered to dispose of its facilities due to violation of the Holding Company Act regulations. Alabama Power Co. refused to make an offer for these facilities. Alabama Electric's municipal members joined with the cooperative and bought electric distribution facilities in their towns, or were inherited as member-consumers. Only after securing this self-controlled power source and municipal support could the electric distribution cooperatives begin the tremen-

dous task of bringing electricity to rural areas of south Alabama, which at that time was largely in the dark, as electric service was then available to less than 10 percent of rural residents in the area.

Alabama Electric presently operates 3 hydroelectric plants with a combined rated capacity of 9,120 kilowatts; a steam powerplant with a rated capacity of 37,000 kilowatts; and a diesel powerplant with a rated capacity of 1,528 kilowatts. It operates 356 miles of 46-kilovolt transmission lines, 109 miles of 115-kilovolt transmission lines, along with 40 distribution and 5 transmission substations. Peak demand on the cooperative's system in 1962 was 77,590 kilowatts, and energy sales totaled 316,183,753 kilowatt-hours, an increase in each instance of some 800 percent over the first year of operation (1945) of Alabama Electric's facilities.

In many instances, the witnesses for Alabama and Gulf Power Co. made statements which were incorrect on their face, or which were incomplete and designed to create erroneous impressions. As briefly as possible, actual facts are provided below to refute some of these incorrect and misleading statements, in order that the committee may be apprised of actual conditions existing.

Statement (Mr. Vogtle): "Alabama Power Co. has always owned and maintained sufficient generating capacity to supply the needs of its customers, including the rural electric distribution cooperatives."

Fact: On several occasions electric cooperatives were asked to curtail their use of electricity because of insufficient capacity being available from Alabama Power Co. Early REA loans to Alabama Electric Cooperative for construction of power generation and transmission facilities were made not solely in the interest of securing lower cost electricity for electric cooperatives than was available from Alabama Power Co., but also in part due to the grossly inferior service provided by this company which made it impossible for electric cooperatives to provide acceptable service to their member-consumers.

Statement (Mr. Vogtle): "Our company now owns and maintains 6,284 miles of transmission lines * * *. Many of these lines were built to supply either in whole or in part, the needs of the rural electric cooperatives which we serve, and include provisions for the expanded requirements of these cooperatives."

Fact: In a letter dated March 29, 1962, addressed to the Honorable Harold D. Cooley, chairman, Agriculture Committee, House of Representatives, Mr. Bouldin attached a summary sheet entitled "Transmission Lines Constructed Since 1950 by Alabama Power Co. to Serve REA Distributing Cooperatives," which indicated that Alabama Power Co. had a total of 194.23 miles of transmission lines devoted to providing service to 11 electric cooperatives, or approximately 3 percent of their total transmission line mileage. For many years, electric cooperatives served by Alabama Power Co. were forced either to locate their substations adjacent to existing power company lines, or build their own transmission lines. Only after Alabama Electric Cooperative came into existence did Alabama Power Co. offer to construct transmission facilities to load centers of electric cooperatives.

Statement (Mr. Vogtle): "Small generating stations operated by cooperatives cannot achieve the economies available from large generating plants to produce lower costs for their customers; and these small generating stations, by their relatively inefficient operation, waste important natural resources."

Fact: Granted that generally more economic production of power can be achieved from larger generating units, it is still important to note that Alabama Electric's generation of power from its generating facilities has not been as "inefficient" as Mr. Vogtle would have you believe. In public hearings before the Alabama Department of Finance on July 10, 1951, when Alabama Power Co. was seeking to block the required approval of this agency for construction of the McWilliams Steam Power Plant by Alabama Electric Cooperative, Mr. R. L. Harris, now operating vice president of Alabama Power Co. and then one of its chief engineers, stated his "expert opinion" that Alabama Electric's cost of producing power at this plant would be 8.48 mills per kilowatt-hour for 1952, and 7.77 mills per kilowatt-hour in 1954 (p. 159, hearing transcript, Alabama Power exhibit 10). Another Alabama Power Co. witness, Mr. E. C. Easter, former executive vice president, now retired, used this same figure (7.77 mills per kilowatt-hour in projecting alleged "losses" which he said would be sustained by the cooperative over a 35-year period by generating, rather than purchasing power (Alabama Power exhibit 18), thus indicating that 7.77 mills per kilowatt-hour was the lowest cost at which Alabama Power Co. felt the cooperative could ever produce power at this plant. Attached to my statement is a schedule

showing actual production costs at this plant for the years it has been in operation. As will be observed, actual costs have averaged only 5.67 mills per kilowatt-hour during this period, a saving of 2.10 mills per kilowatt-hour for each of the 1,248,048,026 kilowatt hours produced by this plant during this period it has been in operation, as compared with Alabama Power Co. "expert estimate" of what the production costs at this plant would be.

Of interest in this connection is the testimony of Mr. H. N. Henry, Alabama Power Co. vice president, before the Alabama Public Service Commission in 1962, relative to a new 600,000-kilowatt steam powerplant which the power company proposes to erect in conjunction with Mississippi Power Co. Mr. Henry testified that the average cost of producing power from the first unit of this proposed plant, which would be of 250,000-kilowatt capacity, would be 5.17 mills per kilowatt-hour. By contrast, the average cost of generating power at the cooperatives' proposed 66,000-kilowatt steamplant is expected to be only 3.89 mills per kilowatt-hour.

Statement (Mr. Vogtle): "Alabama Power Co. * * * has consistently provided electric power to such cooperatives for a price less than the cost for which they could generate and transmit it for themselves."

Fact: Prior to the demonstrated ability of Alabama Electric Cooperative to produce wholesale power at 5.67 mills or less in its small plants, Alabama Power Co. charged electric distribution cooperatives 12 to 14 mills for wholesale power.

These excessive rates have dropped in a magic pace which coincides with the progress of Alabama cooperatives in generating their own power, but when all appropriate and applicable factors are considered, power costs of Alabama Electric's members for power purchased from the cooperative are still less than those which they are forced to pay Alabama Power Co. Additional detail and comparison data are provided in this connection elsewhere in this statement.

Statement (Mr. Vogtle): "Alabama Power Co., by letter dated October 27, 1959, offered to enter into a 5-year agreement with the [Alabama Electric] cooperative to supply such cooperative all of its power requirements in excess of its then existing generating capacity, including the 1959 addition, at the present low rates which have produced an average cost of power to it from the Alabama Power Co. over the 5-year period from 1957 to 1961, inclusive, of 6.59 mills per kilowatt-hour."

Fact: Alabama Power Co. has in the past sought to convince the Congress it was not given ample opportunity to negotiate with Alabama Electric Cooperative to supply our additional power requirements, prior to the time our $20.35 million loan was approved by the REA in November of 1961, and that their proposal was a magnanimous one. Nothing could be further from the truth.

We were notified by Alabama Power Co. on April 16, 1958, that our existing contract would no longer be applicable, following completion of an additional 22,000-kilowatt generating unit at the cooperative's McWilliams powerplant. On October 20, 1958, in a conference at our offices, representatives of Alabama Power Co., present for a discussion on a proposed new contract and to secure data which they said was needed for submission of a new proposal, advised us they felt certain there would be an increase in the rate at which Alabama Electric was then purchasing power when their new proposal was submitted.

A further conference was had with Alabama Power personnel relative to this matter on January 30, 1959. On February 3, 1959, we provided additional data which power company representatives said was needed for them to formulate their proposal.

On March 7, 1959, and May 5, 1959, I wrote Alabama Power Co., expressing concern over the threatened increase in our power costs, and requested an immediate proposal. My requests were either answered by a secretary in the power company's office, or contained somewhat lame excuses from the official to whom they were directed for their failure to submit a proposal. On May 19, 1959, two representatives of the power company again visited our offices for the alleged purpose of securing additional data they said was needed. We furnished the information requested.. Their personnel acknowledged at that time that they had sufficient data to formulate their proposal, and promised that their proposal would be in our hands by June 2, 1959. At this particular conference, Alabama Power Co. personnel wanted to know if we planned to seek to add any additional generating capacity. They were told that this would depend upon the type proposal submitted by their company.

Not having received a proposal by June 26, 1959, I again wrote to request this, and again my request was acknowledged only by a secretary in their office.

On July 23, 1959, I again wrote to request their proposal immediately. No response was received to this request.

On September 15, 1959, I again wrote Alabama Power Co. to advise that the new unit at our McWilliams powerplant had gone into operation.

Finally, on October 27, 1959, we received in letter form what Alabama Power officials said would be the basic terms of a formal proposal. *This was more than 18 months after our first notification that our existing contract would no longer be applicable, and followed repeated efforts on our part during this period to secure their proposal.*

This letter stated Alabama Power's "willingness" to supply "deficit power after your new generating unit is placed in service, in order that your cooperative will have adequate capacity to continue * * * *to serve the present and future load requirements of its present market.*" We are willing to supply this power under the following terms and conditions *for use by your customers in Alabama and your present customer at the present delivery points served by your cooperative in Florida.*" [Italics supplied.] The rate offered was a continuation of the same rate then in effect.

Obviously, Alabama Electric could not accept any such proposal which would have, in effect, restricted the cooperative to its then existing transmission facilities, and required that the cooperative agree not to install any additional generating capacity in the future. Further, the cost to Alabama Electric Cooperative for power purchased from Alabama Power Co. over the past 5 years has been in excess of 6.5 mills per kilowatt-hour, *or more than 1 mill per kilowatt-hour above our production cost for power generated at our existing facilities.* Subsequent studies have revealed that generating costs from the new 66,000-kilowatt steamplant which the cooperative proposes to install, utilizing a portion of the proceeds of the loan approved by the REA in November of 1961, will be substantially below present generating costs from existing facilities, as was previously pointed out in this statement. *In fact, Alabama Electric will realize a saving of more than $5 million during a 10-year period in power costs by producing power at its proposed facilities, as compared with the cost at which power could be purchased from Alabama Power Co.*

Statement (Mr. Vogtle): "Despite this low cost of electricity from Alabama Power Co., Alabama Electric Cooperative, Inc., received approval from REA * * * of a $20,350,000 loan * * * to construct a 66,000-kilowatt generating plant, and approximately 710 miles of transmission lines (many miles of which will duplicate existing transmission lines of Alabama Power Co.) with related substations and connections."

Fact: The matter of the alleged low cost of electricity was discussed in the previous paragraphs. As to the unfounded charge of duplication, during proceedings before the Alabama Department of Finance on the $20.35 million REA loan to Alabama Electric Cooperative, Alabama Power witnesses admitted that there would be some duplication of only 32 miles of line, and the cooperative offered to purchase any such facilities so duplicated.

Statement (Mr. Vogtle): "All of such contracts (with distribution cooperatives) * * * reflect a reasonable and low power rate which produced an average power cost to such cooperatives of only 6.08 mills in 1961."

Fact: Alabama Electric Cooperative provides, operates, and maintains transmission and substation facilities required to serve its member systems, including the furnishing of voltage regulators, and meters current delivered to its consumers on the low side of the substation, meaning that Alabama Electric absorbs transformation costs. Distribution cooperatives served by Alabama Power Co. provide, own, operate, and maintain all required substation facilities, and, in some cases, transmission facilities, and therefore must bear the expenses of operating and maintaining the above facilities. When a reasonable allowance is made for these very real charges, then the average power costs of cooperatives served by Alabama Power Co. becomes not 6.08 mills per kilowatt-hour, but more on the order of 7.25 to 7.50 per kilowatt-hour. When consideration is given to these same factors, but not including equity which member systems build in Alabama Electric through their purchases of power from the cooperative, then the average true cost of power purchased from Alabama Electric by its members is not 8.50 mills per kilowatt-hour as testified by Mr. Bouldin, but 7.25 mills per kilowatt-hour or less.

Of equal importance is the fact that electric distribution cooperatives have no assurance of a continuation of their present rate from Alabama Power Co. Existing contracts have exceeded their initial term, and may be canceled on 6 months notice by the power company. Extended negotiations between the distribution cooperatives and the power company relative to execution of new contracts, proved fruitless because of the power company's insistance that it have the privilege of serving loads developing in the cooperative's service areas, and other similar factors.

Statement (Mr. Vogtle): Referring to hearings underway during most of 1962 before the Alabama Department of Finance on the $20.35 million REA loan to Alabama Electric, Mr. Vogtle said: "It was *established* by evidence adduced by Alabama Power Co. that the cost of power delivered from the proposed expanded system of such cooperative (Alabama Electric) * * * would be substantially more than the cost of power obtained by the distributing cooperatives under the terms of existing contracts with Alabama Power Co. A witness for the cooperative *stated a conclusion* * * * that its cost of delivered power from its proposed expanded system would be 7.18 mills per kilowatt-hour." [Italics supplied.]

Fact: This is a ridiculous statement on its face, and is highly insulting to the cooperative. Mr. Vogtle states that Alabama Power Co. testimony was law and gospel, but that of the cooperative was merely a "conclusion." The absurdity of such allegations was fully recognized by the director of the department of finance, who, after conducting extensive and exhaustive hearings of more than 20 days, extending over a period of several months, approved the REA loan to the cooperative. (Mr. Vogtle "conveniently" overlooked informing the committee the loan was approved by the State.) Immediately upon the director's approval, the power company filed for an injunction and appeal of the decision, in a move to further delay this project. Both prior to and during the course of the hearings, Alabama Power Co. expended many thousands of dollars in vicious advertisements against the project in virtually every newspaper in Alabama, and exerted tremendous pressures to attempt to block required finance department approval of the loan. Alabama Electric's estimates of its power costs are reasonable and sound, and prior estimates of Alabama Power Co. "experts" as to Alabama Electric's cost of producing power and serving its members have been proved to be highly erroneous and exaggerated. (See attachment.)

Previous reference (p. 5) has been made to testimony of Alabama Power Co. witnesses before the Alabama Public Service Commission that power costs from their proposed new steam powerplant (Greene County, Ala.) to be built jointly with Mississippi Power Co. would be 5.17 mills per kilowatt-hour. Testimony of Alabama Power witnesses opposing the approval of the $20.35 REA loan to Alabama Electric Cooperative before the Alabama Department of Finance during 1962 (p. 2866 of official hearing transcript), placed their own estimate of power generation costs from the cooperative's proposed new 66,000-kilowatt steamplant at 4.992 mills per killowatt-hour. Actual production costs anticipated from this plant are expected to be under 4 mills per kilowatt-hour (3.893 mills per kilowatt-hour).

Statement (Mr. Vogtle): "The same witness for the cooperative, in referring to the rates to the distribution cooperatives charged by Alabama Power Co., characterized them as 'abnormally low'—a remarkable admission under the circumstances."

Fact: This "admission" was not so "remarkable" as Mr. Vogtle would have you believe. As pointed out previously, electric cooperatives have no assurance of a continuation of existing power company rates for more than 6 months. Further, generation and transmission cost data supplied by Alabama Power Co. on its own operations to the Federal Power Commission and other regulatories agencies indicate that based on these admitted costs of the power company, such rates to electric cooperatives and municipalities are, indeed, "remarkably low." As a matter of fact, representatives of Alabama Power Co. have in the past told me that their rates to Alabama Electric Cooperatives were "substandard," and that it was doubtful if such rates could be maintained in the future. (And Alabama Electric's costs of power purchased from Alabama Power Co. are substantially higher than those of distribution cooperatives purchasing electricity from the power company, despite the fact that Alabama Electric's power purchases are greater than any distribution cooperative.)

Further, rates charged by Alabama Power Co., to certain industrial and governmental installations are substantially above rates presently made available to electric cooperatives and municipalities. For example, one governmental installation in Alabama (Fort Rucker, Ala.), pays an average of from 2½ to 3 mills per kilowatt-hour more for its power purchased from this company, than do electric cooperatives and municipalities. Conditions of service are similar, except that the governmental installation has a high load factor and purchases substantially more power than do most of the power company's cooperatives and municipal consumers. Such conditions as this raise several interesting questions. For example, could it be that Alabama Power Co., might have underway a program to reduce rates temporarily in areas where Alabama Electric Cooperative is involved, so that it could force the cooperative out of business or render it ineffective, thus achieving a monopoly position over the long haul (which it almost has now), which could lead to higher rates for all consumers in the future? (Efforts of Alabama Power Co. to entice away customers of Alabama Electric Cooperative in the past certainly point toward such a goal on the part of the power company.) Or, could it be that Alabama Power Co. is only concerned about taxpayers where the REA program is involved, and not in cases where its own service to governmental installations is concerned, and where the taxpayers must foot the power bills?

Mr. Bouldin, in his testimony, cited an alleged "loss" to Federal and State governments of "more than $45½ million" from the $20.35 million REA loan made to Alabama Electric Cooperative. Although his statement is ridiculous on its face, it should be noted that as of December 31, 1961, Alabama Power Co., held a total of $31,110,551 in accumulated deferred taxes it had been permitted to include in its rates as taxes, but which have not been paid to the Treasury. This includes $18,545,965 attributable to accelerated amortization (sec. 168 of 1954 Internal Revenue Code), and $12,564,586 attributable to liberalized depreciation (sec. 167 of 1954 Internal Revenue Code) (FPC form 1). When additions are made to make these figures current, consideration given to 3-percent investment credit now allowable, and projections made for the resulting total in much the same manner as Mr. Bouldin did in projecting alleged "losses" from the Alabama Electric Cooperative loan, then benefits received by his own company become substantial, to say the least.

In testimony before the Senate Appropriations Committee, Mr. Bouldin was asked to explain to the committee why electric cooperatives would be willing to pay Alabama Electric Cooperative 8.50 mills per kilowatt-hour (which he said was Alabama Electric's average cost of power to its members), rather than purchase power from Alabama Power Co., at what he said was an average cost of 6.58 mills per kilowatt-hour. (Discrepancies in such unrealistic power cost comparisons have previously been pointed out.) However, Mr. Bouldin professed to be unable to answer this question, or to understand the reason for this. I would like to answer the question for the committee.

In the first place, the difference alleged by Mr. Bouldin does not exist in power costs as between power purchased from Alabama Electric Cooperative and Alabama Power Co. But even if it did, perhaps there are reasons why electric cooperatives in Alabama would be willing to pay more for their wholesale power from Alabama Electric Cooperative than from Alabama Power Co. Mr. Bouldin, although he professed ignorance on this point, knows these reasons well.

Perhaps the first and most important reason is that Alabama Electric Cooperative is not trying to wreck the electric cooperatives by carrying out a designed program to duplicate their facilities and solicit and entice away their consumers, as Alabama Power Co. is doing. A few examples of the many instances of gross duplication of co-op facilities and solicitation of their consumers are cited below. This is not intended as a complete listing, due to limitations on the length of this statement; however, it will suffice to show the extent to which this company is going in its efforts to kill off the rural electrification program.

In 1958, Alabama Power Co. succeeded in securing a contract to serve the town of Evergreen, a consumer which Alabama Electric had inherited when it purchased the facilities of Alabama Water Service Co. in 1944, and had served for the 14 years up to that time. Since 1958, expensive substation facilities of Alabama Electric Cooperative built to serve this consumer have been standing idle, with Alabama Power's duplicate substation located just across the street from the Cooperative's idled facilities. Unsuccessful efforts have been made by Alabama Power Co. to entice away other consumers served by Alabama Electric.

During late 1962, Alabama Power Co. built a power system in the small town of Samson (Geneva County), Ala., which duplicated, pole for pole and line for line, the existing system of Covington Electric Cooperative there. Prior to late 1962, Alabama Power Co. had never served in this small town, as its electrical power requirements had always been met by Covington and Wiregrass Electric Cooperatives, and their predecessor companies. Public statements made by Alabama Power officials prior to beginning construction of their duplicate system in Samson were to the effect that they expected this system to cost $468,000. Due to problems involved in building an additional power system where one already existed, it is my judgment that their duplicate system cost more than $468,000. There are approximately 825 power consumers in Samson. Alabama Power Co. sent in hordes of personnel to make numerous personal contacts with every resident of the town, urging them to leave Covington Electric Cooperative and take service from their duplicate system. To date, they have been successful in securing only about 200 consumers. This means that Alabama Power Co. has invested roughly $2,500 per consumer to build a duplicating power system in this town which did not bring a single benefit in the form of lowered rates or improved service. What was their motive in doing this? The answer is only too obvious.

In addition to loss of some 200 consumers in Samson, Covington Electric has seen many miles of its lines duplicated by Alabama Power Co. in other areas, and has lost upward of 75 existing and prospective consumers in areas removed from Samson. Just recently, Alabama Power Co. built 1½ miles of line out in the open country of Coffee County, Ala., which duplicated Covington Electric lines which had been in existance since 1938, to pick up one consumer. Some of the 12 Covington Electric consumers located in this area where co-op lines were paralleled, have advised the cooperative they have been solicited to take power company service from their duplicating lines. Some 2½ miles of additional duplication is now underway in this same area.

Near Thomasville, Ala., the Alabama Power Co. has duplicated many miles of existing lines of the Clarke Washington Electric Membership Corporation, and taken away some 85 consumers which this cooperative formerly served. In the East Brewton, Pollard oil field and other areas, Southern Pine Electric Cooperative has lost some 50 consumers from these tactics of Alabama Power Co. The Central Alabama Electric Cooperative, Coosa Valley Electric Cooperative, Pea River Electric Cooperative, South Alabama Electric Cooperative and Dixie Electric Cooperative, among others, have seen their facilities duplicated and their existing and prospective consumers solicited by Alabama Power Co.

Once when an Alabama Power Co. official was asked, in the course of a court proceeding, what the power company considered its "territory", he replied to the effect that they looked upon the entire State of Alabama as their "territory". Even though the power company sells power at wholesale to a number of electric cooperatives, it has no hesitation whatsoever to duplicate their facilities and try to take their consumers. Its goal, obviously, is the securing of a complete monopoly of the electric power industry in Alabama. Failure of electric cooperatives to achieve a satisfactory contractual arrangement with Alabama Power Co., following extended and provoking negotiations, resulted in large part due to the power company's refusal to recognize any territorial rights or integrity of the electric cooperatives.

The foregoing statements should help you understand, in some small measure, why electric cooperatives might prefer to have their own friendly power supplier, even if power costs were slightly higher (which they are not). Mr. Bouldin well knew the answer to the question propounded to him, but he simply could not bring himself to make such facts as the foregoing known to the committee in view of the "angelic" picture he had painted of Alabama Power Co. and its operations.

Also, when asked to provide the committee with the rate of return paid by Alabama Power Co. on its preferred and common stock, Mr. Bouldin stated he did not have this information available. Perhaps he will provide this, but I believe the record will show from information provided in published reports of Alabama Power Co. that the preferred stock of this company bears rates of return of 4.20, 4.60, and 4.92 percent. Return on the common stock of this company, every share of which is owned by a giant holding company, the Southern Co., equaled 13.7 percent for 1962. Therefore, it would appear that Alabama Power Co.'s stockholders are not suffering unduly because of the existence of Alabama Electric Cooperative, as Mr. Bouldin would have you believe.

Mr. Pulley, in his statement, alleged that Choctawhatchee Electric Cooperative was paying Alabama Electric Cooperative 2.2 mills per kilowatt-hour more for power purchased from Alabama Electric, than for purchases from Gulf Power Co. We categorically deny this statement, as his comparison was not made on an equitable basis, but was shrouded in unrealistic terms as were the same comparisons made by Mr. Vogtle and Mr. Bouldin. When all factors are considered, Alabama Electric's power costs are certainly more favorable to Choctawhatchee Electric Cooperative than are those of Gulf Power Co. Mr. Pulley attempted to mislead the committee when he indicated (p. 3 of his prepared statement), that Choctawhatchee Electric, without provocation and during the course of negotiations between his company and the cooperative, suddenly discontinued service from his company at two locations and took service from Alabama Electric Cooperative. When asked why the cooperative would do this, Mr. Pulley said, in effect, that he did not know—that "nobody gave me any reason."

May I simply point out that early in 1958, Gulf Power Co. notified Choctawhatchee Electric of contract cancellations and a proposed wholesale power rate increase of some 30 percent; that repeated pleadings of the cooperative for rescission of this increase were fruitless; that Gulf Power Co. alleged this increase was "forced" upon it by the Florida Utilities Commission, which had said Gulf Power's rate to Choctawhatchee Electric and the other three electric cooperatives it served was noncompensatory. Then, and only then, did Choctawhatchee Electric, a long-term member-owner, come to Alabama Electric for assistance and relief from this intolerable situation. Choctawhatchee Electric assisted with erection of necessary transmission and substation facilities to enable Alabama Electric to serve it at two load centers which were the first to be affected by Gulf Power's threatened rate increase. Only after Gulf Power Co. learned that Choctawhatchee Electric had taken this step, and had such facilities under construction, did it come forward and withdraw its proposed rate increase, not only to Choctawhatchee Electric, but to the three other cooperatives which had been confronted with the same proposed increase. Again, an irrefutable demonstration of the tremendous public value of independent consumer-owned generation.

In concluding his statement before the Senate committee, Mr. Vogtle commented on the fact that Mr. Clyde Ellis, general manager of the National Rural Electric Cooperative Association, had, in the course of his testimony, referred to electric cooperatives as "our people." Mr. Vogtle then said, in effect, "We [Alabama Power Co.] consider the electric co-ops our people, and intend to fight to keep them."

What Mr. Vogtle really meant was that Alabama Power Co. considers, or would like to consider the electric cooperatives their captive slaves. In 1958, Gulf Power Co. threatened to raise its wholesale rates to its electric co-op consumers, and insert extremely restrictive provisions in new contracts. The Mississippi Power Co. was making about the same kinds of proposals to electric cooperatives it served. During this same year, Alabama Power Co. officials contacted two electric distribution cooperatives they served to advise them that Alabama Power Co. expected to insert the same type restrictive provisions in its future contracts with electric cooperatives, as had been proposed by Gulf and Mississippi Power Cos. Each of these companies is a wholly owned subsidiary of a giant holding company, the Southern Co., and their policies, obviously, are set to some extent in concert with their absentee owner.

When an electric cooperative manager in Alabama asked two Alabama Power Co. officials what was the meaning of this action, the general counsel of the company said: "We are out to gut you." A vice president of the Alabama Power Co., present for the discussion, let the statement stand, so evidently it was a rare admission of fact.

The pleas of Messrs. Bouldin, Vogtle, and Pulley to your committee to kill off the generation and transmission program give evidence of their true objective, which is to destroy the rural electrification program in its entirety. In truth, the weakening or strangling of the generation and transmission program would sound the death knell of rural electrification. Our people in Alabama have no desire to go back to the days before the REA program, when 96 out of every 100 farm homes were in the dark. Messrs. Bouldin, Vogtle, and Pulley remind one of the fisherman who held a small, wriggling fish in his hand, preparatory to cleaning it for eating, and said: "Hold still, little fish. I'm not going to hurt you—I only want to gut you."

Truly, no commercial power companies have exhibited greater hostility toward the rural electrification program than have the Alabama, Gulf, and Mississippi Power Co. and their holding company, the Southern Co.

On behalf of the people of Alabama, I urge you not to take action against the generation and transmission loan program of REA, which could mean the end of the rural electrification program, possible monopoly control by giant power companies, and a possible return to higher power rates or the kerosene lamp for many thousands of rural residents in future years.

ALABAMA ELECTRIC COOPERATIVE, INC.

MEMBER POWER SYSTEMS

Name and address

Baldwin County Electric Cooperative, Robertsdale, Ala.
Black Warrior Electric Cooperative, Demopolis, Ala.
Central Alabama Electric Cooperative, Prattville, Ala.
Choctawhatchee Electric Cooperative, De Funiak Springs, Fla.
Clarke-Washington Electric Cooperative, Jackson, Ala.
Coosa Valley Electric Cooperative, Talladega, Ala.
Covington Electric Cooperative, Andalusia, Ala.
Dixie Electric Cooperative, Union Springs, Ala.
Escambia River Electric Cooperative, Jay, Fla.
Gulf Coast Electric Cooperative, Wewahitchka, Fla.
Pea River Electric Cooperative, Ozark, Ala.
Pioneer Electric Cooperative, Greenville, Ala.
South Alabama Electric Cooperative, Troy, Ala.
Southern Pine Electric Cooperative, Brewton, Ala.
Tallapoosa River Electric Cooperative, LaFayette, Ala.
West Florida Electric Cooperative, Graceville, Fla.
Wiregrass Electric Cooperative, Hartford, Ala.
City of Andalusia, Andalusia, Ala.
City of Brundidge, Brundidge, Ala.
City of Elba, Elba, Ala.
City of Luverne, Luverne, Ala.
City of Opp, Opp, Ala.
City of Troy, Troy, Ala.
Micolas Cotton Mills, Opp, Ala.
Opp Cotton Mills, Opp, Ala.

MEMBER POWER SYSTEMS NOW SERVED AND PROPOSED TO BE SERVED

Name and address

Baldwin County Electric Cooperative,[1] Robertsdale, Ala.
Choctawhatchee Electric Cooperative,[2] De Funiak Springs, Fla.
Clarke-Washington Electric Cooperative,[1] Jackson Ala.
Covington Electric Cooperative, Andalusia, Ala.
Escambia River Electric Cooperative,[1] Jay, Fla.
Pea River Electric Cooperative,[2] Ozark, Ala.
South Alabama Electric Cooperative, Troy, Ala.
Southern Pine Electric Cooperative,[2] Brewton, Ala.
Wireglass Electric Cooperative,[2] Hartford, Ala.
City of Andalusia, Andalusia, Ala.
City of Brundidge, Brundidge, Ala.
City of Elba, Elba, Ala.
City of Luverne, Luverne, Ala.
City of Opp, Opp, Ala.
City of Troy, Troy, Ala.
Micolas Cotton Mills, Opp, Ala.
Opp Cotton Mills, Opp, Ala.

[1] Service proposed to be inaugurated by Alabama Electric Cooperative.
[2] Part of wholesale power requirements supplied by Alabama Electric Cooperative, and part by other sources.

Schedule of production costs, McWilliams powerplant

Year	Net kilowatt-hours generated	Cost, mills per kilowatt-hour	Year	Net kilowatt-hours generated	Cost, mills per kilowatt-hour
1955	117,875,300	5.41	1960	184,289,000	5.91
1956	122,914,200	5.28	1961	195,384,500	5.58
1957	119,066,400	5.50	1962	241,348,000	5.19
1958	129,512,700	5.94			
1959	137,657,926	6.02	Total	1,248,048,026	

NOTES

Total kilowatt-hours generated: 1,248,047,726.
Average cost: Mills per kilowatt-hour: 5.67.
1. Alabama Power Co. testified in public hearings before Alabama Department of Finance relative to this plant that production costs would never come under 7.77 mills per kilowatt-hour.
2. Average cost of power purchased by Alabama Electric Cooperative from Alabama Power Co. during above period has been 6.61 mills per kilowatt-hour.
3. Overall average production cost of Alabama Electric Cooperative during above period, including power generated at the McWilliams powerplant and produced at its hydroplants, has been 5.46 mills per kilowatt-hour.

EXHIBIT N

STATEMENT OF E. J. BALLARD, JR., GENERAL MANAGER, MOON LAKE ELECTRIC ASSOCIATION, VERNAL, UTAH

I am E. J. Ballard, Jr., general manager, Moon Lake Electric Association, Inc., of Vernal, Utah. Our corporation is a locally owned and controlled Utah corporation and is an REA borrower. We operate in the entire northeast corner of Utah, with the exception of approximately 9 square miles in and around Vernal, Utah, served by Utah Power & Light Co., and approximately 30 square miles in Duchesne County which is served by Uintah Power & Light Co. Our service area extends over some 12,000 square miles; the population density in the area, according to the last census, is approximately two per square mile.

The record should show first that the Utah Power & Light Co. is a Maine corporation, not a Utah corporation as that company would imply. The Utah Power & Light Co. statement (made to the Agriculture Subcommittee of the Senate Committee on Appropriations and which we presume was similar to a statement filed 2 days earlier with the House Committee on Appropriations) throughout implies that only they and their counterparts are capable of, and have the necessary experience to determine possible load growth in an area, to plan for that area's development, and to design and install the necessary distribution, transmission, and generating facilities to meet the electrical requirements and growth of that area. Electrical growth is a dynamic thing and one simply cannot talk new facilities into being and expect to be prepared, ready, willing, and able when a customer closes a switch.

Our cooperatives, local Utah rural electric corporations, are growing at a healthy rate. This is probably due to our serving (on an area-coverage basis) all who want service without discrimination, and without question as to the type of load. In Utah, we still have fewer than three customers per mile of line, yet our rates are reasonably comparable to those of any other utility in the State or in the area, many having over 40 meters per mile of line.

We have never been able to purchase wholesale power from Utah Power & Light at a reasonable rate. Our corporation has tried numerous times in the past to do just that. In fact, about 10 years ago, Moon Lake produced electrical energy for its member-consumers with an old, outdated steamplant at a cheaper rate than could energy have been purchased from Utah Power & Light.

Utah Power & Light claims "reasonable and regulated rates." This, in fact, is an umbrella under which that company hides when it is convenient for them to do so, and they use this umbrella of the Public Service Commission to the fullest extent.

In our area, any generation Moon Lake might put in for service to Moon Lake member-consumers has not in the past, nor will it in the future, decrease any then existing sales of Utah Power & Light. This giant Utah Power &

Light, with over 700,000 kilowatts of load and over 150,000 meters, cannot possibly be affected by Moon Lake Electric which has a load of only 20,000 kilowatts and some 3,000 meters. These figures should help bring the whole matter into clearer focus or perspective. What can Moon Lake Electric possibly do, what could Moon Lake possibly have done in the past, to warrant the expenditure of millions of dollars by Utah Power & Light in their public relations propaganda program oriented toward destroying Moon Lake Electric and other similar rural electric corporations?

Utah Power & Light also attacks the "purchase of Uintah Power & Light Co." by Moon Lake Electric, and gives an incorrect implication. Moon Lake has not acquired the Uintah company. Moon Lake has only acquired the common stock of Uintah. Uintah is still an investor-owned company, if you will, and the only difference in the company today is the fact that the name of the stockholder, or stockholders, is different. Uintah is still a stock utility, is still on the tax rolls, and is paying State, local, and Federal taxes.

It might also be pointed out that Moon Lake Electric, in its nonprofit operation, also pays the State and local taxes assessed in Utah. Moon Lake does not, however, collect in its rates for conveyance to the Federal Government moneys for Federal income taxes because Moon Lake is a nonprofit organization.

The next item Mr. Naughton mentioned was the price Moon Lake paid for Uintah stock. Utah Power & Light claims this price to be exorbitant, it being their opinion that they should have been able to acquire this stock without opposition from any other potential stock purchaser at a value related to the so-called book value. The price paid was, in fact, considered to be a proper and fair market value; this value was established by competent appraisal by engineers and accountants of national reputation. It should also be noted by this committee that, contrary to claims of Utah Power & Light, the Utah Public Service Commission never did say Utah Power & Light could not offer and/or pay more for Uintah than was actually offered by Utah Power & Light. That company simply did not want to pay the stockholders a fair market value for their stock. Again, Utah Power & Light attempts to use the Utah Public Service Commission as an umbrella.

Subsequent to Moon Lake's acquiring the Uintah common stock, Utah Power & Light employees have, within the franchised territory of Uintah Power & Light, consistently attempted to belittle and otherwise destroy both Uintah and Moon Lake. It is mentioned in Mr. Naughton's testimony that the towns served by Uintah had stated they would not do business with Moon Lake, nor would they grant a franchise to Moon Lake. This assertion, in fact, is a creature of Utah Power & Light personnel operating in Uintah's territory. Uintah, and Uintah alone, is operating in the towns in question, and only Uintah has the right to ask for a franchise. Certainly Moon Lake Electric, with no facilities in the towns, is in no position to ask for a Uintah franchise; furthermore, Moon Lake has never made any statements that it was interested in such franchises.

The facts of the case are that Utah Power & Light personnel spend much time in the towns served by Uintah, and have made proposals to these towns for either franchised operation by Utah Power & Light in the towns or have offered encouragement to the towns to "go municipal" with their electrical operation.

A statement also made that "REA members may have to pay higher rates to help repay the excess amount paid for the property." Through an interconnection power sale contract between Uintah Power & Light and Moon Lake Electric, it will actually be possible for Moon Lake to lower its rates to its member-consumers, and it will also be possible for Uintah to lower its system rates. This lowering of rates will be a matter of fact in a very short time, and is in sharp contrast to a rate increase of over 7 percent recently put into effect by Utah Power & Light Co.

We trust that the above information may, at least in part, bring into focus and establish some proper perspective relative to some of the incorrect and misleading statements made by Mr. Naughton of the Utah Power & Light Co.

EXHIBIT O

STATEMENT OF JOHN J. BUGAS, GENERAL MANAGER, COLORADO-UTE ELECTRIC ASSOCIATION, MONTROSE, COLO.

In an appearance before this committee on April 4, the Public Service Co. of Colorado, the Utah Power & Light Co., and the Public Service Co. of New Mexico presented testimony about the rural electrification program and the Colorado-Ute Electric Association which, by errors, inaccuracies, and half-truths, was obviously designed to create an entirely false impression of Colorado-Ute.

I respectfully request that these remarks be included in the hearing record so that it may more accurately reflect Ute's position on its own activities. My remarks will be limited to the misstatements made by Public Service Co. of Colorado and Utah Power & Light Co.

Colorado-Ute wishes to state emphatically that its decision to seek a loan for the construction of a large coal-fired generating plant was made solely by its own board of directors. This decision was based on Ute's own studies and Ute's own power needs.

Colorado-Ute categorically denies the companies' charges that its Hayden plant was conceived or promoted by, or is the product of, any "collusion" with any Federal agency or agencies.

The Colorado-Ute Electric Association also made its own decision to seek the approval of the Public Utilities Commission of the State of Colorado for a certificate of public convenience and necessity to construct the proposed plant and related transmission facilities.

That Public Utilities Commission, after its longest, most comprehensive (over 2,000 pages of testimony), and exhaustive hearing, and, incidentally, the only steam plant application to be heard by them ever, granted Colorado-Ute the requisite authority for construction of the Hayden plant.

Almost every allegation or misrepresentation contained in the statements of these two power companies before this committee was heard in this extended PUC hearing and rejected. We regret the companies have come to this committee to again try a case they lost before the Colorado Public Utilities Commission. This record should not be burdened by dead issues, invalid charges, or extraneous matter.

The action by the Colorado PUC approving the Hayden plant and related transmission facilities is a most significant confirmation of the care exercised by the Administrator of the Rural Electrification Administration in reviewing generation and transmission loan applications. We think this committee will find the long and arduous process through which Colorado-Ute has gone ample evidence that there is no "secrecy," that the loans approved by the Administrator are sound and in the public interest, and that the companies have no valid grounds for complaint in this matter. They are trying to breathe life into an issue judged and decided by competent authority under the terms of the Rural Electrification Act laid down by the Congress.

One of the most serious charges made by these companies is that there is a great "collusion" among certain Federal agencies to bring about a "federalized" power system in contravention of the respective authority granted to these agencies by the Congress. This noxious allegation rests on the assertion that Colorado-Ute is but a tool in the plans and schemes of REA and the Bureau of Reclamation to "bypass" the Congress. This utter fabrication cannot be left without answer.

These companies go so far in attempting to push this distortion that they offer a partial quotation from the decision of the Colorado PUC as though this out-of-context quote affirmed their position that the Ute application was a "joint application of Ute and the Bureau;" that Ute was "in effect the 'chosen instrumentality' of the Bureau * * * to build a plant which the Bureau itself has not been authorized to build by Congress;" and that Ute had no need for the plant but was building it for the benefit of Salt River.

This artful partial quote is bracketed above and below in the PUC decision by language which completely negates the "chosen instrumentality" and "collusion" line of the companies. May we, in honesty and for your information, supply the full context:

"COLORADO RIVER STORAGE PROJECT BENEFITS

"It is clear that the construction of the Hayden plant will benefit the Colorado River storage project by allowing substantial savings to be made in construction

of Bureau of Reclamation transmission lines, as well as further savings in the curtailment of transmission losses. Further benefits will accrue to the said project by the availability of steam generation to firm-up the hydroelectric generation. The total amount of such benefits may well be in the neighborhood of $200 million. These benefits will make funds available at a substantially faster rate for the construction of participating irrigation projects in the Upper Division (Colorado, Utah, Wyoming, and New Mexico) States. Approximately one-half of these projects will be built in the State of Colorado. If the Bureau of Reclamation were seeking a certificate of convenience and necessity to build the Hayden plant before an Upper Division States Public Utilities Commission, there would be no question but what the certificate should be issued. It may well be, as has been inferred in this case, that Ute is in effect, the 'chosen instrumentality' of the Bureau of Reclamation to build a plant which the Bureau itself has not been authorized to build by Congress. Even if this should be the fact, it has no bearing in the instant case. The benefits which will accrue to the Colorado River storage project by construction of the Hayden plant are simply incidental benefits, not directly related to the convenience and necessity of the 40,000 Colorado farm families which Ute plans to serve from the Hayden plant."

The decision then states:

"The application of Ute must stand or fall on its own merits."

And how did it fare? It stood "by a preponderance of the evidence."

The commission found and ordered "that public convenience and necessity require the construction of a 150,000-kilowatt steam electric generating plant near Hayden, Colo., together with its usual attendant facilities and the following transmission lines * * *" These lines are then listed specifically. To make such finding, the commission had to reject as fallacious (as it did) the company contention that Colorado River storage project power would be cheaper than Hayden power.

The commission also had to reject, and it did, the contention that prospective availability of power company power or Bureau power should preclude Ute from any opportunity of self-generation. Ute, as a public utility, must have management discretion to generate if such determination is prudent and in the public interest as opposed to Bureau or power company interest. We again quote fully on this point from the Colorado PUC decision:

"We do not feel, however, that it was the intent of the [Colorado] legislature to give to investor-owned utilities preferential treatment. In other words, we interpret the act under strict construction to mean that a consumer-owned [as Ute is] utility has the right and privilege to select its own source of power, so long as its election is reasonable and prudent, and consistent with the public interest. That, we believe to be the basic right of every utility, be they investor-owned or consumer-owned or municipal."

The concurring opinion added luster to this ringing declaration for equality by the commission by saying "it would appear unwise to refuse to allow one utility to build generation facilities on the ground that another utility is willing to, in effect, provide generation facilities for the other. Certainly, it would not be argued before this commission that the fact that Ute might be willing to build generation facilities to serve protestants' [Utah Power & Light through Western Colorado Power Co. and Colorado Public Service] needs would preclude protestants from constructing their own generation facilities."

Last year these two power companies sought to amend the Rural Electrification Act to deny funds for G. & T. loans by REA anywhere an investor-owned utility would offer to supply the power. This the Congress wisely rejected. This obnoxious, monopoly-producing concept was also rejected by the Colorado Public Utilities Commission; it would appear that even the power companies have abandoned this direct approach.

These same two power companies also attempted last year to stop congressional appropriations to REA for G. & T. loans, yet Congress approved them.

Having failed with the Congress in 1962, they turned to the Colorado PUC. Having failed there, they return here, ex post facto, to shed self-righteous tears about what the Congress and the PUC found beneficial and in the public interest.

It is obvious that these companies will not be content until they can substitute their wills for the wills of the rural electrics, the Bureau of Reclamation, REA, and the Congress; until they can substitute their judgment for the judgment of Ute, the Congress, the REA Administrator, and the Colorado PUC; until they, in fact, stand alone as the sole prosecutor, judge, and jury for the entire electric power business, thrusting aside as incompetent and misled every other company,

agency, or commission that might limit their own "sovereign" right to dictate all power policy for all people for all time.

We have every faith that the Congress will not be so blinded by the companies' artful misinformation as to crush down the consumer-owned right of self-generation, so long an integral part of the Rural Electrification Act as approved by the Congress, and defined and defended so ably by a courageous Colorado Public Utilities Commission.

Certainly time will require changes in the REA program and in rural electric operations. We pledge that Ute will be in the vanguard of change when that time comes; but the companies have defined no present urgency or economic foundation for altering the REA Act via the appropriation route.

These companies have proved only a vast capacity to so badly distort simple business facts as to render worthwhile progress even more difficult. Progress cannot come from confusion, misinformation, and distortion. Ute was, and is, willing to have its case "stand or fall on its own merit." To this end we attach a most sensible and illuminating editorial from an independent weekly published in Denver (Colo.) Cervi's Rocky Mountain Journal of March 6, 1963.

We commend to this committee the Colorado Public Utilities Commission's evaluation, analysis, and ringing endorsement of the right of rural electrics to self-generation; we urge that REA's request for loan fund appropriations be approved without restriction so that agency may proceed as it has so successfully for so many years to make sound loans of demonstrated value to the entire Nation.

There follows a point-by-point evaluation of some of the distortions and inaccuracies laid before this committee by these two companies who lost this same argument before the duly and legally constituted State factfinding agency in Colorado.

Fiction: Mr. Naughton alleges that Ute members once purchased power at wholesale from Utah Power & Light at "reasonable and regulated" rates.

Fact: These rates were so high, and the quality and quantity of service so undependable, that the co-ops sought and secured an earlier G. & T. loan. That rate was, and is, twice the "6 mills" quoted for storage project power. The wholesale rate of U.P. & L. is the highest in the West and second only to New England in the United States.

Fiction: The Utah statement says that Colorado-Ute has 12 members with a load of 80,000 kilowatts and a firm capacity of 100,000 kilowatts.

Fact: The firm capacity of Ute is as follows:

	Kilowatts
Nucla plant	38,000
Collbran project	13,000
CRSP allocation (1965)	21,000
Total	72,000

This total firm capability is less than the load admitted by U.P. & L.

Fiction: The companies allege that the 150,000-kilowatt Hayden plant is but the first unit of 600,000-kilowatt installation, leaving the implication that any subsequent units are also to be financed through REA.

Fact: The Salt River project, with money it has obtained privately, is financing about one-third of the present plant. It is expected that Salt River will, for its own needs and with its own money, construct the next unit, thus bringing additional outside investment into Colorado.

This also clarifies the allegation of some "evil" in having 100,000 kilowatts go initially to Salt River. 50,000 kilowatts constitutes Salt River's prepaid share of the Hayden plant; the other 50,000 kilowatts will be sold to Salt River subject to recapture for Ute's own use when needed. It is sound business to finance jointly a larger, more efficient unit so that the combined needs will fully utilize the plant capacity, resulting in maximum plant efficiency and the lowest price for all concerned. The investor-owned companies in America have engaged in this practical and industry-approved practice for many years.

The Salt River is fully paying its own way. The concept of exchange between Ute and Salt River is no different than the concept of exchange between U.P. & L. and the Arizona Public Service Co. which U.P. & L. finds to its advantage.

Fiction: Both companies find some evil in the Bureau's interest in the construction of the Hayden plant.

Fact: The Bureau should be interested, just as the Colorado Water Conservation Board is interested because of benefits to the Colorado River storage project

and to the State of Colorado created, as we have indicated, by the addition of steam-electric generating facilities.

The plant and the program *initiated* and pushed by Ute and Salt River *saves* construction cost for the Bureau, decreases line loses, speeds up Colorado River storage project repayment and thus reduces interest costs, all of which will develop at least $200 million of additional revenue for irrigation projects which are, after all, the purpose of the project as power is *not*.

The Bureau would have been sadly negligent had it done nothing to ensure these benefits in contracts nor done anything to support such contracts and project benefits in Ute's application. The Bureau was equally diligent in seeking project gain in negotiations with the power companies. They stated early and late, *and* in the Colorado PUC hearings, that they would negotiate with *any* utility making any reasonable offer.

Fiction: It is alleged again that some "collusion" exists between REA and the Bureau for the building of the Hayden plant, with Ute as a mere "errand boy" to the scheme.

Fact: The fact emerges from U.P. & L.'s own statement that "without the Colorado-Ute plant *or a similar steam plant*," a 345,000-volt line between Glen Canyon and Phoenix "could not have been made to appear economically feasible." [Italic supplied.]

So the cat is out of the bag. It is true that *any steam plant*, located as the Hayden plant will be located and utilizing the same contracts which exist between Ute, Salt River, and the Bureau, would require the same Glen Canyon-Phoenix capacity and yield the same known benefits to the storage project.

Had the now-crying companies previously been willing, as they were not, to make a reasonable offer, they could be building this plant. They weep over their own error, not ours.

It makes solid economic sense to *displace* 600,000 kilowatts of the 900,000 kilowatts produced at Glen Canyon with 600,000 kilowatts of steam capacity north and east of Shiprock, N. Mex. Sufficient line capacity to move the entire capacity of Glen Canyon must go in *some* direction from the Glen Canyon powerplant. Electricity cares not about direction. To move the power *physically* from Glen Canyon in Arizona 500 to 600 miles to the Colorado market would involve tremendous line losses and *greater* investments in lines because of the greater distance. It is far more economical and sensible to send Glen Canyon power the 190 miles to Phoenix with a like amount of power moving an equal or lesser distance from a steamplant in Colorado to the Colorado market. A map of the area showing the geography and distances involved will make this clear. It becomes merely a bookkeeping matter in keeping the accounts straight. Additionally, once the interconnection is made, values can be realized from displacement, diversity, and backup of steam plant capacity.

Fiction: Public Service Co. of Colorado alleges that G. & T. loans are "unnecessary and wasteful * * *."

Fact: The Ute loan successfully passed the acid test of public convenience and necessity at the PUC *after* passing the loan requirement tests of REA. The Ute plan will *return* an extra $2½ million annually to the storage project as an "incidental" benefit. Public Service will be receiving a *tax gratuity* of over $1 million annually under the 3-percent rule, an amount it apparently plans to keep for the company only. Ute need not blush.

Fiction: The companies really give a workout to "secrecy" on REA loans and to "managed" news and lack of general knowledge on G. & T. loans.

Fact: Neither company has ever taken a plant application to its PUC for the exhaustive review which the Ute application endured. After this massive public review of the Ute loan by the Colorado PUC, any charge of "secrecy" is absurd; a bigger fishbowl could not be found. As we have said, the PUC affirmed the loan after these wide-open hearings.

Actually, the Ute loan, projected steamplant, and Bureau intertie were long known by the company, the Congress, and the public prior to the granting of the loan by REA. Colorado-Ute appeared before the House Committee on Appropriations in June 1961, *10 months prior* to the announcement of the loan by REA, and offered the outline of the plant that is now the Hayden plant and the proposed Bureau intertie. The same information was presented to the Senate Appropriations Committee the following September.

Following these appearances, and as a part of the Bureau-utility negotiations running through the late fall and winter of 1961–62, both of the companies here complaining agreed to move power from the projected Ute plant for the Bureau. Having used flow charts and discussed the amount and location of consumer-

owned steam generation to be a part of the total Colorado River storage project transmission grid and delivery system, the companies can hardly profess surprise or lack of knowledge about the plant or the transmission lines. In fact, they were sharply called to task by the Secretary of the Interior when they opened their campaign to wipe out the Ute plant after they had agreed it was a part of the total transmission system and delivery plan for the storage project.

"Surprise" or "secrecy"? No—just predetermined opposition. In their view, one argument serves as well as any other against the independent rural electric generation plans.

Fiction: Much is made in company argument about "arbitrary" feasibility standards and inadequate check by the REA Administrator in judging "alternative" power sources before granting G. & T. loans.

Fact: In the Ute case even these companies testified in due time that the cost of storage project power was clearly less than they could hope to offer. They even said they "could not compete" with storage project costs. REA did check with storage project power cost and found power from the Hayden plant to be available for less; the Colorado PUC checked and also found Hayden power less than CRSP power. So this argument, this power company ghost, too, is laid away.

Fiction: The old "no tax" story.

Fact: Any organization or business without income pays no income tax, period. It is an opportunity open to all.

We agree that loans are made at 2 percent. We also agree that REA administrative costs have been some $110 million during its 28 years of existence. We cannot agree that, since the Nation and its taxpayers have had ample return on this investment in rural development, the companies should condemn this progress.

The Utah Power & Light Co. was happy to participate in the benefits of 2-percent money beginning with the operation of Ute's Nucla plant in 1959. They have enjoyed these benefits so much, in fact, that they have attempted through court proceedings to prevent Ute from canceling the contract between them which provides for U.P. & L. operation of the plant and entitlement to the benefits of excess power from Ute's 2-percent Nucla plant and the beneficial use of Ute's adequate 2-percent transmission facilities. This was especially helpful since their own was inadequate.

Fiction: The company here runs a thread that the REA Administrator makes G. & T. loans without knowing whether or not they are in the public interest.

Fact: His judgment as to the validity of the Colorado-Ute loan was confirmed to be in the public interest by the Colorado Public Utilities Commission after searching inquiry. If the company wishes to insist that a Federal officer, subject to congressional control, is incompetent, they may do so.

Fiction: The company alleges that the Administrator made the Ute loan solely to prevent estoppel by the Congress.

Fact: This is nonsense. The Administrator made the loan as promptly as he could in order to enable Ute to meet its power needs and its projections of "on-line" need for the plant. In any event, the Congress did hear the companies' cries last year and subsequently approved the loan authorization to REA. The feasibility of this loan, we again point out, was reaffirmed by the Colorado PUC.

Fiction: The company launches a long tirade designed to show that the Administrator made the Ute loan without essential information on plant location, coal supply, or cost, and without an interconnection contract with the Bureau.

Fact: The Administrator knew at the time the loan application was approved, as did Ute and the company, that western Colorado abounds with adequate and feasible plant locations, that there are huge coal reserves in western Colorado not being utilized, and that the Bureau had outlined in a letter of intent its requirements for a contract to wheel Hayden power. To insure that a proper contract emerged for each of these items, the Administrator, following his usual custom in G. & T. loans, approved the loan application but retained control of the loan funds until all necessary contracts had been executed. The validity of this judgment, too, has been confirmed. A stop order on the loan pending execution of contracts should stand equal in the judgment of the companies to a welcomed stop order pending clearance by the proper State authority.

Fiction: The company alleges the whole loan concept is suspect and that the Administrator should not advance funds to Ute because the Commission in Colorado did not approve certain of Ute's proposed transmission lines.

Fact: This is a bold attempt to mislead the committee and to breathe new life into an issue raised by the company before the Commission and before the REA Administrator and rejected by both of them.

Ute specifically informed the Commission that it hoped to obtain wheeling agreements in two instances where company lines could be utilized. The nonduplicating line from Bayfield, Colo., to Shiprock, N. Mex., was not granted by the Commission because, by subsequent action, a paralleling or duplicating line was applied for by Western Colorado Power Co. Since in the Ute case and in other hearings it was ascertained that one line in this area could serve both companies, the two were directed by the PUC to negotiate thereon.

Colorado-Ute, in all instances, is willing, able, and anxious to enter into fair agreements for wheeling, exchange, or joint ownership with the company owning or building the line. If the company in its area and Western in its area will each agree to fair wheeling and interchange offers similar to those now in effect between U.P. & L. and P.S.C. with the Bureau of Reclamation, they themselves will be answering this question. Only as a last resort will Ute seek authority to build where wheeling is possible.

Fiction: The company alleges that it will have a "revenue loss directly attributable" to the Hayden plant.

Fact: The Colorado Public Utilties Commission opinion disposed of this bit of company misinformation when it said: "The protestants herein will not lose any of their present customers as the result of the construction of the Hayden plant."

Fiction: The company uses the word "purported" in describing the grant of authority from the Colorado Public Utilities Commission.

Fact: The grant from the PUC is just that: A grant. It can be and is being reviewed by the courts. The two companies petitioned the Commission for a rehearing in the application and an order staying the effective date of the grant. The PUC first denied the request for a rehearing and then declined to issue any order staying the effective date of the grant. Undaunted, the companies petitioned the district court for an order staying the effective date of the Commission's order for Ute to proceed with construction of a plant at Hayden. This petition the court denied. As a result, the order of the PUC is valid and Ute is proceeding under that order.

Fiction: The company states that a letter from their counsel has advised the Administrator that REA cannot advance funds under the loan.

Fact: The letter was sent. This letter, however, has been reviewed by the Administrator and the General Counsel for the Department of Agriculture and has been rejected. The Administrator's authority is determined by the Congress and interpreted by his Counsel and the courts. Company counsel is charged with neither of these duties.

Fiction: The company alleges by quotations from the PUC order that the Federal Government will "lose" approximately $1 million annually on the Colorado-Ute loan simply because it loans the money to Ute at 2 percent.

Fact: This is an unfortunate arithmetical error in the decision. A 2-percent differential on a $22 million loan cannot exceed $440,000. The company allegation is about half true.

Fiction: The company is greatly concerned that a State commission, as the Colorado Commission said in its order, cannot set a Federal interest rate or formulate Federal policy.

Fact: For once we must agree. The company, if it wishes to kill the whole REA G. & T. program, properly is trying to do so before the Congress. We hope that in this they are not successful.

Fiction: President Person of Public Service Co. of Colorado says: "I for one cannot believe that we have come to the point in this country where Congress itself would knowingly condone the aggressive expansion of a national federalized electric power system * * *."

Fact: May we enlist in any cause to prevent any "federalized" electric power system since the rural electrics are part and parcel of the private power sector? We would, however, urge the company to join us in the equally important cause of preventing a final monopolization of the industry by the power companies. Their present efforts to deny independent generation to rural electrics is an obvious and essential step forward in their final monopolization plot.

These are the reasons for which we so strongly urge this committee to continue the REA G. & T. program, to continue its full funding, and thereby insure the survival of some competition, if only by example, in a monopoly field.

Thank you.

[From the Cervi's Rocky Mountain Journal, Denver, Colo., Mar. 6, 1963]

THERE IS NO WAY IT COULD BE SAID ANY BETTER—OH, COME OFF OF IT

The way the Public Service Co. of Colorado distorts the truth about the rural electric associations—organizations made up of consumers who own their own companies—does it no credit in intellectual integrity.

Because the Public Service Co. has enormous prestige and stature many persons are unwilling to believe that such a company could stoop to less than sportsmanlike conduct. But it does.

It was encouraging, therefore, to see the Colorado Rural Electric Association strike back at the private utility by indirection and nail down its misrepresentations.

The truth is that 75 percent of rural Colorado still would be without electricity if it had remained for the Public Service Co. to do something about getting hot juice out to the brush.

The 23 REA's in Colorado, whose members are almost all Republicans, still are no competitive match for the giant and monopolistic Public Service Co.

This newspaper has no animosity toward the Public Service Co. but we wish sincerely that it would stop imposing on our sense of right reason and stop conning us about socialism—whatever that is.

Why can't the Public Service Co. live and let live? The REA's are not hurting them and it simply isn't true that they don't pay taxes.

As the REA advertisements point out, the rurals are getting only 8 percent of the electric business of the State—and this is business the Public Service Co. didn't want.

If public ownership of electric power is so terrible, why doesn't the Public Service Co. launch a campaign to force Colorado Springs, the most conservative and the most Republican community in Colorado, to sell its municipally owned electric power system to a private company?

We would also remind Mr. Robert Person, the estimable president of the Public Service Co., that the world's leading opponents of communism in the last 50 years, the Popes of the Catholic Church, have stressed in papal encyclicals the benefits to be derived from the "socialization" of services that all of the people require in common—and that certainly includes in this age electricity.

May we patiently and good-naturedly request, therefore, that Mr. Person et al. simply knock it off and stop flaying the air with ideological nonsense? Honestly, nobody is listening and those Republican farmers who own these REA's couldn't care less.

EXHIBIT P

STATEMENT OF WALTER HARRISON, EXECUTIVE MANAGER, GEORGIA ELECTRIC MEMBERSHIP CORP.

My name is Walter Harrison, executive manager of the Georgia Electric Membership Corp., Millen, Ga., which is the statewide service organization of the 41 rural electric cooperatives of Georgia. We serve approximately 300,000 rural homes and establishments with over 65,000 miles of distribution lines and statistically 98 percent of the farms receive central station power either through a cooperative or investor owned utilities. That's a good record.

The power companies in Georgia have also a good record. They serve throughout 97.7 percent of Georgia. We share their enthusiasm about the continuing power needs of our people and the 1963 budget of the Georgia Power Co. for construction is at an alltime high. And we quote from their 1962 annual report:

"The Georgia Power Co. continues to invest more money in productive facilities in the State than does any other industrial concern. In the 10 years since 1952, the company has invested more than $452 million in new and improved generating plants, transmission, distribution, and other electric facilities.

"Georgia's present accelerated growth and the anticipated growth for the near future is requiring the company to make greater investments than ever before in new and expanded facilities for serving its customers throughout the State. Property additions and investments in the company's electric system in 1962 amounted to $70,225,267. This exceeds by far the previous record construction year of 1958 when $51,388,873 was spent for expansion of the system. Also, this is nearly $15 million more than the amount invested by the 80 large industrial plants that were located on the company's lines during the year.

"Georgia Power's construction budget for 1963 is even greater, totaling $88 million. This is more than $32,500,000 larger than the combined capital investments of all the new industries which located in the company's service area in 1962. Similar huge amounts are expected to be invested by the Georgia Power Co. in 1964 and 1965, with the 3-year budget for 1963–65 amounting to about $263 million."

Our askings from your honorable committee are on a comparable basis. We are in a growing economy and a growing America. We are committed, as well as dedicated, to serve the power requirements of those that were too long denied and are now being served by 1,000 rural electric cooperatives across the Nation.

The hue and cry is for economy but it is always for the other fellow to practice.

If the Government will take away all protections for big business; remove salary and wage restrictions; stop providing windfalls for private utilities through accelerated depreciation and other tax-saving devices, we are confident that the American farmer can stand his own; however, he can not match wits with protected bigness. If our Government will put everybody on the same footing we are ready to toe the mark and start a new business decade in America.

Our power company friends seem to be disturbed about generation and transmission loans. They cite the early days of the rural electric program—no G. & T. loans—and now an increase in loans to G. & T. organizations.

There must be a reason for this upturn in G. & T. loan requirements. The missionary days of the rural electrics from 1936–44 provided a vehicle for a "lovefeast." We couldn't make any one mad. Many of our power company friends thought that they would take over the co-ops and the facilities that they had built. They guessed wrong. Just as they guessed wrong about rural America wanting central station power.

The demand for lines was great. About the time we were in the "stretch," World War II came along and materials and manpower were short. As soon as hostilities were over and materials were available, we feverishly went to work. We found out more about the electric business—the rate structures, the high prices in effect and the like. Stocktaking took place, the rural people demanded lower rates, tempers flared, a demand for independence ensued and thus a generation and transmission program was born.

The utilities since the days of Edison to World War II had never had it so good. Through a propaganda campaign, the like of which has never been seen before, the American people were lulled to sleep—ratewise, powerwise and otherwise.

The attitude of the private utilities in general has caused the demand for G. & T. facilities. The co-ops have been demanding and now are insisting that they enjoy the status of first-class citizens in the power industry.

The power companies are constantly using "regulated rates" as a smokescreen to prevent the American public from becoming aroused on the subject of rates. However, for their information (the investor-owned utilities) the American public is geting concerned at the growing trend of attempts to "regulate the regulators."

The rural electric cooperatives and the program of generation and transmission are the needed "birch rods in the closet" to protect the ratepayers of America.

CO-OPS TO TAKE OVER NATION'S POWER SYSTEMS

In Georgia language this is hogwash.

For 25 years my association with the cooperative electric program has been:

A member of a local board of directors of a cooperative;

I am currently president of the cooperative and have a record of 16 years in this position;

Have served on the board of directors of the National Rural Electric Cooperative Association for 17 consecutive years;

I am currently serving as an executive committeeman on this board;

Have served as president of this group for 2 years—

and let me say this—

At no time have I ever heard a word to the effect that the cooperative would like to create a power dynasty and take over the private utilities of Georgia or of the Nation;

At no time has any statement been made that the power companies were not a great part of the Nation's economy;

At no time has there been heard any schemes or ideas of "empire building" on the part of the rural electrics;

Paramount at all times has been our slogan "nonpartisan, nonprofit, 1-cent electricity for every farm"—

and, gentlemen, you have made this program possible. We are your creations. Let us breath freely and serve rural America.

TITLE 5 LOANS

There has been much discussion on the above-type loans.

Although much has been said and a mountain has been created out of a molehill, there is little to complain about.

Utilities through the years have either given or loaned to industrial undertakings. Cooperative boards of directors are a conservative lot and you need not have fear that they are going to get their "feet" too wet, or jeopardize their operations. Rural electrics feel the need for "crossroad" industrial undertakings; with urban explosion it is necessary that the co-ops get some small industrial loads—we do not seek Du Pont, Ford, or General Motors plants. We seek some small loads to take the place of those that have been served and moved into the larger cities. As of September 1, 1962, we in Georgia had 46,222 idle services (meters). A little prudent "seed corn" investment in a grist mill; small woodworking plant; feed mill or a ski lift, will not hurt but would be helpful.

Keep in mind that we do not have any account 426 to charge things to—and we quote from January 1963 issue of Public Power:

"Georgia Power Co., for example, reported 'donations' of $129,774.71 and 'Payment to city of Rome, Ga., for agreement not to establish a municipal electric system in competition with respondent' of $50,000. The company did not report any political or advertising expenses in account 426."

OPERATING RESERVES

Our utility friends would have us clean the till and never look to the future, when renewal and replacement funds will be necessary, and likewise when common disasters might strike.

Our systems are getting older. We pay on principal and interest every 90 days. We must keep the systems in good operating condition.

Many poles purchased during World War II have had to be replaced due to inferior treatment.

Ice storms within the past 3 years did damage in excess of $3 million; cyclones and hurricanes have taken their toll in Georgia. In one of the Gulf States an entire headquarters building was demolished by a hurricane.

We cannot "run" to Washington every time that we have disasters. We must be prepared to move and move quickly and thus liquid reserves are necessary.

Contrary to what the propagandists would have you believe we do not borrow 2-percent money and reinvest it in 4-percent securities. Every dime we borrow and expend must be substantiated by proper documents and submitted to Rural Electrification Administration in Washington. They are good accountants and overseers.

OUR 2-PERCENT INTEREST RATE

Under the Pace amendment of 1944 our rate of interest was reduced to 2 percent in an effort to bring about area coverage. We considered this a mandate and we have kept inviolate this commitment.

It has been stated that for 19 of the 27 years of our existence, the cost of money to the Government has been less than 2 percent.

The 2-percent interest paid by the rural electric cooperatives amounts to 7.7 percent of their total operating revenue. Commercial power companies only pay 6.1 percent of their total operating revenue as interest on long-term debts.

Soon after the rural electric cooperative program was inaugurated the cost of line was in the neighborhood of $600 to $700 per mile. Today that same line is costing $2,250 to $2,500 per mile to build.

We have an average of 4.3 member-consumers per mile in contrast to 33.3 customers per mile for the commercial companies.

THE ATTACK ON 2-PERCENT MONEY

The utility guns are centered on our 2-percent money. The electric and telephone programs borrow at the same rate of interest.

Without the 2-percent money our rural people would never have gotten the improved telephone service that they today enjoy.

In Georgia 38 loans have been made to telephone borrowers by REA. Only four of the borrowers are cooperatives. The other 34 are independents. A total of $45,999,000 has been loaned. The Bell Telephone interests have not openly condemned the 2-percent interest rate. Why do the private electric utilities?

We cannot charge rural electrics a different rate than the telephone borrowers in this REA program. Both are essential to rural America and its welfare. We are building America stronger.

COMPETITION

There should be no competition between the commercial companies and the cooperatives.

The private companies had 50 years to do the job. They did not elect to do the job even after the executive order of President Roosevelt approved it on May 11, 1935.

For 12 months they had the right. No one else did.

In the basic act competition was eliminated:

We can serve only the unserved.

We cannot serve in communities above 1,500 population.

We have had, for the most part, limitation on the loads that we can serve.

Very few, if any, of the cooperatives have industrial development departments.

Why all the hue and cry about competition—does it mean monopoly should be made more secure? Let us pray not.

PRESIDENT'S ADVISORY COMMITTEE ON FEDERAL CREDIT PROGRAMS

No doubt on February 14, 1963, President Kennedy was shocked at the report of this Committee which called for increased interest rates to many and particularly to the rural electric cooperatives.

President Kennedy, Vice President Johnson, and Secretary of Agriculture Freeman have again and again stated the 2-percent interest rate to the rural electrics have their wholehearted approval.

Low-cost money is essential if we are to do the continuing job of electrifying the rural areas of America.

High-sounding committees such as captioned above rather remind me of how the big bankers and insurance companies of America clamored for Government help during the depression of the thirties. As soon as their portfolios became liquid they forgot their frustrations; stopped committing suicide and started to cursing the Government. Ain't it great to be a free American—such pronouncements are disgusting to thousands who have watched the untold billions being spent in foreign countries. We need to build a stronger America.

Now let's set up a committee to investigate the financing of commercial electric utilities; their rate structures and how they are built and whether or not the American public is being taken for a hayride—ratewise and otherwise.

Freedom of speech is one of our foundation stones—we have had our say, and we are grateful for the opportunity of making this statement concerning a program that we think has been good for Georgia, Georgians, and all Americans.

REBUTTAL STATEMENT SUBMITTED BY THE ALABAMA POWER CO.

ALABAMA POWER CO.
Birmingham, Ala., April 24, 1963.

Hon. SPESSARD L. HOLLAND,
Chairman, Subcommittee on Department of Agriculture and Related Agencies, Senate Appropriations Committee, Washington, D.C.

DEAR MR. HOLLAND: The prepared statement and remarks of Mr. Clyde T. Ellis, who represented the National Rural Electric Cooperative Association, on April 4, before the committee, contained omissions and misleading conclusions to which the attention of your committee is invited.

In his statement, Mr. Ellis did not meet basic issues involved in the generating and transmission loan policy of REA presented by our industry. These are:

1. Loans are being made to build generating and transmission facilities that are not needed, as the service from such facilities is already available from investor-owner tax-paying utilities.

2. G. & T. loans, with costs properly computed, are not making electricity available at lower cost.

3. The G. & T. loans being granted cause serious impairment of State and Federal tax revenues, and corresponding loss to the taxpayers.

4. REA is making these G. & T. loans to extend the power program of other governmental agencies contrary to the fixed policy of the Congress.

5. The G. & T. loans are impairing investments made by investor-owned utilities.

Mr. Ellis does not make any adequate defense of the secrecy under which these G. & T. loans are being made, such secrecy being particularly obnoxious where the loans being made are punitive in character.

There can be no moral or economic justification for imposing, on our consumers and other taxpayers, the additional burden of financing unnecessary and destructive co-op generating and transmission systems, while REA cooperatives contribute nothing through income taxes in support of the functions of the Federal Government.

Mr. Ellis' prepared statement claims that "the job of electrifying rural America could never have been accomplished without the Federal lending program and the REA agency to administer the program * * *." The investor-owned utilities are fully in accord with the original intent of the REA program—the electrifying of rural America. Indeed, these companies, including Alabama Power Co., have been pioneers in the field. Today investor-owned utilities serve almost one-half of the farms of America. Alabama Power Co. is today serving substantially more rural customers than all of the cooperatives in that area of Alabama south of the TVA service area. I believe that the Federal loan program was a great stimulus to getting electricity to farms more quickly than would otherwise have been possible during the great depression and the war years, but that this would "never have been accomplished" is simply not substantiated by the results achieved by the investor-owned utilities in extending electric service to the farmers. In those States which have no REA-financed cooperatives, rural electrification has progressed as fast or faster than in States which have rural electric cooperatives. For example, Connecticut, which has 98.9 percent of its farms electrified, Massachusetts which has 98.8 percent, and Rhode Island, which has 97.5 percent of its farms electrified, are all above the national average, and these States have no rural electric cooperatives. Of the 10 States with farm electrification of 98.5 percent or higher, investor-owned utilities, not rural electric cooperatives, serve the majority of the electrified farms.

Mr. Ellis stated that he believed that the power companies, if they acquired the cooperatives, would, in time, dispose of the less profitable areas, and that ultimately people in these areas would be without electric service. This is ridiculous and is belied by the fact that the investor-owned utilities now serve many lines where customer density is no greater than on REA systems.

Mr. Ellis states that "the service * * * which is now provided by the commercial power companies in the rural areas is both better and at less cost than it would be except for us." Mr. Ellis' claim that rural electric competition has brought about better, lower cost service is simply not supported by fact. Through the years, unit cost of power in both urban and rural areas has been reduced by the investor-owned utilities through technological advances, and by interconnection and coordinated operation which permit the economies inherent in large generating stations.

In his remarks, Mr. Ellis stated "* * * because we do not, certainly, compete for anything they serve—we never take a user away from them * * *." This statement is not true. In Alabama, the Alabama Electric Cooperative has received approval of a loan application to build a $20,350,000 steamplant and related facilities which, if allowed to be completed, will supplant service to approximately 35,000 users now served with central station power generated and transmitted by Alabama Power Co. and Gulf Power Co., income-tax-producing facilities.

Mr. Ellis has stated, "With respect to where the money comes from in the rural electric systems, initially, of course, nearly all comes through this committee, comes from the Federal Government * * * ." Mr. Ellis speaks as if the

Federal Government has an inexhaustible supply of funds obtained from some magical source. Of course, these funds come from taxpayers, principally income-tax payers and are supplemented by deficit financing. Investor-owned utilities comprise one of the largest sources of income tax revenues to the Federal Government in support of its military and space programs and even in support of its rural electrification program. By contrast, these cooperatives supply not 1 penny to the Federal Government through the medium of income tax. Indeed, many of these cooperatives having surplus funds which could be used to reduce the burden of the 2 percent interest on the Federal Government invest such funds in income-producing securities and, as Mr. Ellis says, are invested "in Government bonds at the highest rate they can get."

This rebuttal to Mr. Ellis' testimony is concerned solely with REA's program of granting loans to cooperatives to build generating plants, and associated transmission lines. In the light of my testimony and, indeed, much of Mr. Ellis' testimony, it is apparent that the intent of Congress is being thwarted by the continued action of the REA in approving these wasteful and destructive loans. I again respectfully urge that all appropriations for generation and transmission projects be withheld unless REA justifies to you the specific projects it proposes.

Thank you again for giving me the opportunity of appearing before the committee.

Sincerely,

WALTER BOULDIN, *President.*

REBUTTAL STATEMENT SUBMITTED BY THE UTAH POWER & LIGHT CO.

UTAH POWER & LIGHT CO.,
Salt Lake City, Utah, April 23, 1963.

HON. SPESSARD L. HOLLAND,
Chairman of the Subcommittee of Department of Agriculture and Related Agencies of the Senate Appropriations Committee, Washington, D.C.

DEAR SENATOR HOLLAND: During the April 4 hearings concerning REA appropriations before your subcommittee, you expressed your intent to allow witnesses to present rebuttal testimony.

In reviewing the testimony of Mr. Clyde Ellis, who testified on behalf of the National Rural Electric Association, I find many statements that are not accurate, and one in particular should be corrected. He stated:

"I have contained in my statement here defensive replies to other charges which the power companies are making about taxes and other things. We believe that generally by any reasonable formula we are paying more taxes than they are, except on income and on profit. We do not make profits so we do not pay the profits taxes. But if you base it on miles of line or upon investment or on any other reasonable measure that I know, we believe our taxes are less equitable."

I am attaching tax data for the States of Idaho, Colorado, and Utah, which I request be made a part of the record of the hearings together with this letter. The data shows that in Idaho and Utah, the cooperatives pay local taxes at a rate less than one-third the rate of payment by Utah Power & Light Co. and in Colorado only about two-thirds.

With respect to Mr. Ellis' statement concerning dual rates—Utah Power & Light Co. does not have such a rate in its billing structure. Our company supplies electric power and energy for resale to both the REA co-ops and municipalities under identical rates which are approved and supervised by the State public service commission.

I trust this data will help clarify the record.

Sincerely,

E. A. HUNTER,
Vice President and Commercial Manager.

IDAHO

Chapter 35, section 63-3502, Idaho code specifies a 3.5 percent "in lieu of tax" on cooperative electrical associations annual gross earnings.

Based upon the above formula, Utah Power & Light Co. in the year 1961 paid ad valorem tax in the State of Idaho at a rate of 11.2 percent of its gross earnings

in addition to the payment of State income tax, kilowatt-hour tax, and franchise tax when required.

(Ratio of co-op taxes to company taxes, 31.3 percent.)

Utah

REA	Depreciated investment, Dec. 31, 1960 [1]	Assessed value 1961 [2]	Ratio
Garkane Power Association	$4,030,904	$420,300	10.4
Moon Lake Electric Association	8,125,301	608,894	7.5
Escalante Valley Electric Association	250,353	29,157	11.6
Flowell Electric Association	367,032	41,547	11.3
Total	12,773,590	1,0998 98	8.6

[1] 1960 annual statistical report (Bulletin 1-1) REA, Department of Agriculture.
[2] Utah State Tax Commission report.

REA	Depreciated investment, Dec. 31, 1960	Assessed value 1961	Ratio
Utah Power & Light Co	$173,850,856	$48,554,135	27.9

NOTE.—Ratio of co-op taxes to company taxes, 30.8 percent.

Colorado

REA	Depreciated investment Dec. 31, 1960 [1]	Assessed value 1961 [2]	Ratio
Grand Valley Rural Power Lines	$1,483,314	$322,230	21.7
Gunnison County Electric Association	815,264	170,060	20.9
Delta-Montrose Rural Power Lines Association	1,420,210	275,440	19.4
San Miguel Power Association	2,627,349	550,650	21.0
La Plata Electric Association	1,649,389	388,780	23.6
Empire Electric Association	3,830,876	685,450	17.9
White River Electric Association	2,385,610	510,810	21.4
Mountain Parks Electric Association	2,937,264	520,580	17.7
Total	17,149,276	3,424,000	20.0

	Depreciated investment Dec. 31, 1960	Assessed value 1961	Ratio
The Western Colorado Power Co	$12,860,842	$3,725,810	29.0

[1] 1960 annual statistical report (REA Bulletin 1-1) REA, Department of Agriculture.
[2] Annual report of the Colorado Tax Commission for the year 1961.

NOTE.—Ratio of co-op taxes to company taxes, 69.0 percent.

REBUTTAL STATEMENT OF CARROLL H. BLANCHAR, PRESIDENT, PUBLIC SERVICE CO. OF INDIANA, INC., IN REBUTTAL TO TESTIMONY OF MR. CLYDE ELLIS, GENERAL MANAGER OF THE NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION

I appreciate the opportunity to comment on some of the statements relative to Public Service Co. of Indiana, Inc., which were made by Mr. Clyde Ellis and Mr. Frank E. Ratts before your committee. My reply will be limited to answering (1) their contention that the $60,225,000 loan from the Rural Electrification Administration (REA) to Indiana Statewide Rural Electric Cooperative, Inc. (Statewide), was not made in secrecy, and (2) the inference that Public Service

Co. has only a so-called dual rate for its service to rural electric membership corporations (called REMC's in Indiana).

With respect to the matter of secrecy on the $60,225,000 loan to Statewide, the facts essential to the determination of the economic justification for the loan have been kept secret and are not to this day available to the public. In fact, we are convinced that many of the officials of the 16 REMC's which will receive power from the proposed plant to be built by Statewide do not know how much the power will cost them. The facts that a loan application had been made to REA and that a loan was approved by REA on June 15, 1961, are not secret—these facts received a great deal of publicity. But try to find out from REA the economic and engineering justification for the loan and you will quickly find out about the policy of secrecy thrown around the making of such loans. These are public funds that are being disbursed, and it is the taxpayers' money that is involved. Taxpayers are entitled to the facts.

If REA has nothing to conceal, then the REA Administrator should be the first one to make any and all data justifying the loans available to the public. If the REA Administrator will not do this, then I urge your committee not to appropriate any money to be loaned by REA for generation and transmission facility purposes unless, in a public hearing before this committee, the REA Administrator (i) has presented such facts as establish the necessity for such a loan in order that electric energy may be available for a rural area at reasonable cost, and (ii) has placed before this committee the facts supporting the estimated entire cost of supplying electric energy under the proposed program for which funds are to be loaned, including the portion of such costs as will fall upon the taxpayers of the country both because of the interest rates at which the loan is to be made and because of the exemption of the borrower from Federal income taxes.

As to the so-called dual rate claim, the facts are as follows: In 1937 the Public Service Commission of Indiana, on the petition of the REMC's ordered in effect for electric service to them, a preferential rate, which is today approximately 28 percent lower than the companies' standard rate to other purchasers of electric energy for resale. Such preferential treatment was required by the State commission as a then necessary aid to the advancement of the rural electrification program. Under the rate the company earns a return of but about 2 percent per annum on the property devoted to the service. This preferential rate has been continually available to electric co-ops in our service area since 1937, and is available to them today. While the rate itself is today lower than the rate originally filed, the terms and conditions are substantially the same as originally agreed upon. Many contracts have been made between the REMC's and the company under such rate schedule and the REA has approved such contracts over a period of more than 25 years.

The company also has on file with the Public Service Commission of Indiana an optional rate (rate REMC's–O) for REMC's which contains as one of its features a 3-mill additional charge for electric energy supplied to the REMC's for resale to large nonfarm customers who use in excess of 80,000 kilowatt-hours a month. Such additional charge for such energy has the effect of providing a purchase price per killowatt-hour for the energy to be resold to large nonfarm users (i.e., large industrial customers) that is substantially the same as the charge for energy sold by the company under its standard rate applying to sales for resales. Five REMC's have accepted this rate and, in 1962, these five purchased power under this rate at an average price of 7.98 mills per killowatt-hour, a reduction of approximately one-half mill from the average cost per kilowatt-hour under rate REMC. Rate REMC–O preserves the preferential rate in the case of energy purchased by the REMC's and resale to their farm, urban, commercial, and small industrial customers. In fact, the energy for such customer can be purchased by them at a cost approximately 4 percent lower than the cost under rate REMC. In our opinion, it is only fair that if REMC's desire to serve large industrial loads, such energy should be purchased at the standard wholesale rate. But, in any event, the option is wholly with each REMC as to whether or not it desires to use rate REMC–O. Both rates are on file with, and have been approved by, the State regulatory commission.

REBUTTAL STATEMENT OF ARKANSAS POWER & LIGHT CO.

Comments in response to testimony of Mr. Clyde Ellis, general manager of the National Rural Electric Cooperative Association on April 4, 1963

We very much appreciate the opportunity extended by the committee to have included in the record comments which we feel should be made in response to certain of the testimony which was submitted to the committee by Mr. Clyde Ellis, general manager of the National Rural Electric Cooperative Association. Mr. Ellis' attempt to describe situations which, in his opinion, make necessary an increasing loan program by REA to rural electric cooperatives, and particularly the loans for generation and transmission facilities, is based almost entirely on conditions which are not present in the State of Arkansas where the REA has, nevertheless, approved large loans for generation and transmission facilities. Some of the points Mr. Ellis made were that the rural electric cooperatives are constantly having to struggle to obtain an adequate power supply, that they are subjected to dual rates by the investor-owned companies which limits their ability to connect large loads, that they are subjected to pirating of customers and invasion of service areas, and that they are harassed by the investor-owned companies with whom they are forced to do business.

We would like to point out to the committee that in the State of Arkansas, both the investor-owned companies and the rural electric cooperatives have specific territorial assignments with respect to service areas, granted by the Arkansas Public Service Commission, and that on both sides there has been careful observance of these territorial assignments. There has been no pirating of rural electric cooperative customers by the Arkansas Power & Light Co.

There is now and will continue to be ample power capacity in Arkansas to meet the present and future needs of the rural electric cooperatives, as well as all other consumers, without the construction of REA generating plants and transmission lines. We do not believe that there has been any question raised as to the adequacy of the present or future power capacity available to the rural electric cooperatives in Arkansas.

The rates under which the rural electric cooperatives have been served by the Arkansas Power & Light Co. are single level rates; that is, they have no dual rate factor which would restrict the right of the cooperative to connect any particular customer. This is true of the rate schedules which are now available to the cooperatives.

Arkansas Power & Light Co. has cooperated with the rural electric cooperatives since the time of their organization, and we do not believe that anyone who makes any attempt to be fair and objective could describe the relationship that has existed through the years as anything other than businesslike and cordial.

Mr. Ellis, in discussing the cost of power, stated that it was a high percentage of the REA's total cost of operation and that it "runs about on an average 35 percent of our total revenues." This, also, is untrue in the case of Arkansas. Based on the figures published in the 1961 annual statistical report, "Rural Electrification Borrowers," published by the Rural Electrification Administration of the U.S. Department of Agriculture, the cost of purchased power required an average of only 22.17 percent of the operating revenues of the 18 rural electric cooperatives in Arkansas. This figure ranged from a low of 15.12 percent of revenues to a high of 31.74 percent, which was the only one above 30 percent.

Inasmuch as the conditions which Mr. Ellis presents as justifying or even requiring rural electric cooperatives to construct and operate their own generating and transmission facilities are not present in our service area, we are hard put to find any reason why the Rural Electrification Administration approved the loan for Arkansas Electric Cooperative Corp. to construct a 100-mw. plant near Augusta, Ark., and 630 miles of transmission lines which will duplicate adequate existing facilities of Arkansas Power & Light Co. It is our sincere belief that even with the advantages of 2-percent financing and preferential tax treatment, the cooperatives will not be able to match the very favorable rates now available to them from our company. However, because of the wall of secrecy which has been and is now maintained around the application and engineering estimates on which it is based, we are not able to submit proof of this belief.

We strongly reiterate our recommendation that, in order to be assured that the use of the large sums of money appropriated for REA purposes is in accord with the overall public interest, the REA Administrator be required to convince your committee that each of the loans for generation and transmission facilities is in fact justified. If Mr. Ellis' horror story is true in any particular case, which we repeat is not so in Arkansas, certainly this could be presented for your committee's consideration. We urge that no funds be appropriated for generation and transmission purposes until each of the projects for which funds are proposed has been reviewed by your committee.

STATEMENT OF J. ROBERT WELSH IN REBUTTAL TO TESTIMONY OF REA ADMINISTRATOR CLAPP

The cross-examination of Mr. Clapp by Senator Ellender, and the Senator's comments on the Upshur G. & T. loan, have already exposed the essential subterfuges and illegal contractual relationships which are involved in the lease and power contracts between the Upshur Cooperative and SPA. Solely on the basis of these subterfuges and illegal arrangements has the loan been justified as economically feasible by Administrator Clapp. I would like to say that a similar arrangement between a cooperative and SPA was held illegal under both State and Federal law by the Supreme Court of Arkansas in the case of *Arkansas Electric Cooperative Corporation, et al.* v. *Arkansas Missouri Power Company, et al.*, 255 S.W. 2d, 674; I request that the committee condemn all such contractual arrangements that the Administrator has made.

I have it upon advice of counsel that the lease agreement, and possibly other aspects of the contracts between the Upshur Cooperative and SPA, under the Federal Power Act would require the approval of the Federal Power Commission before they become binding and effective. I urge the committee to investigate this matter and to seek the advice of its own counsel thereon. If my information is correct, then the whole scheme may fall to the ground for want of the necessary regulatory approval by Federal Power Commission.

Secondly, the payments of the lease of Upshur's transmission line and the output of Upshur's generating plant must be made by SPA, if at all, from SPA's continuing fund. That fund has, by action of the Congress, lost its "blank check" characteristics, and no payments may now be made from this fund unless the same are authorized and approved by the Congress in annual appropriation bills. The Congress of the United States, and in particular, the Senate committee handling SPA appropriations, has already firmly gone on record to the effect that it is opposed to contractual arrangements of the type envisioned in the Upshur-SPA scheme, and that further appropriations to the continuing fund to support such arrangements will not be made. Mr. Clapp knows of this legislative history and knows the Congress has said that it will no longer make appropriations to SPA's continuing fund to subsidize cooperatives, nor approve a back-door approach, to provide SPA with facilities for which it has been denied direct appropriations.

The claim of the Upshur Cooperative and Administrator Clapp that G. & T. loans, and, inferentially, the Ushur loan, are necessary to assure the cooperative's exclusive service in certain territory in order to secure territorial integrity for the co-op, is wholly inconsistent with Texas law and the action taken in 1960 and 1961 by Upshur and REA counsel. On July 1, 1960, Upshur Cooperative received from its counsel, Mr. Edwin M. Fulton, a legal opinion to the effect that the Tex-La contract was invalid under the Texas antitrust statutes (Vernon's Civil Statutes of the State of Texas, art. 7426–7428A, both inclusive). Mr. Fulton was of the opinion that since the Tex-La contract required Southwestern Electric Power Co. to supply all the requirements of the members of Tex-La, including the Upshur Cooperative in certain areas, article 7428 of the Texas antitrust statutes had been violated.

He insisted, in other words, upon a strict compliance with the Texas antitrust statutes, and REA counsel went along with him to the extent that Southwestern Electric Power Co. was required to amend its contract with Tex-La to meet this antitrust objection. This Southwestern Electric Power Co. cheerfully did. Now we find that the Administrator testifies that unless G. & T. loans are made, he cannot compel an investor-owned electric company to stay out of the territory that is served or partially served by a cooperative. He expects ironclad agree-

ments between a wholesale supplier of a distribution cooperative, and that cooperative for territory allocations and in default of such agreements, and as a penalty against the wholesale supplier who will not make such a contract, the Administrator states a G. & T. loan will be made to the distribution cooperative. Again, if the Administrator had made the slightest inquiry of his counsel, he would realize that territorial agreements under which a supplier of electric power and energy contracts to stay out of a cooperative's so-called territory are wholly illegal under the Texas antitrust statutes, and that no supplier, including Southwestern Electric Power Co., could make such an agreement. The lending authority of the Administrator should not be used as a club in an attempt to compel illegal agreements between cooperatives and wholesale suppliers or to require the legislature of a State to abandon or repeal longstanding legislative policies such as the antitrust statutes of the State of Texas.

Following is a copy of my letter of April 25 to REA Administrator Norman Clapp with respect to his recent loan to the Upshur Rural Electric Cooperative Corp.

SOUTHWESTERN ELECTRIC POWER CO.,
April 25, 1963.

Subject: REA loan to Upshur Rural Electric Cooperative Corp.

Mr. NORMAN M. CLAPP,
Administrator, Rural Electrification Administration, Washington, D.C.

DEAR MR. CLAPP: Our conference with you last year and subsequent correspondence regarding our contract with Upshur Rural Electric Cooperative Corp., the Tex-La contract which is available to Upshur, and the application of Upshur for a G. & T. loan are important records that you will recall. We believed your statements as Administrator of the Rural Electrification Administration were ones in which we could place confidence, and that we could count on fair consideration of the proposals that were before you. Your approval of the REA loan to Upshur on February 18, 1963, and the totally unsupported statements to the press regarding Southwestern Electric Power Co. and its contracts, along with the evident disregard of your statements and policies, have destroyed the confidence we placed in your statements to us and to the Congress. Lest we be accused of hasty judgment, I am setting forth below examples where your actions are in complete disagreement with your statements.

(1) On December 20, 1962, you wrote to me and stated:

"You may be assured that we, too, are certainly anxious that every REA borrower obtain its power supply at the lowest possible cost."

You are well aware that since 1960 Upshur Rural Electric Cooperative Corp. could have bought its firm power supply under the Tex-La contract at less cost than it was paying Southwestern Electric Power Co. for power under our 1945 contract. Had Upshur purchased its power under the Tex-La contractual arrangement, it could have saved approximately $45,000 since the Tex-La contract became effective. It is difficult to reconcile your anxiety for the members of Upshur with the fact that Upshur has unnecessarily paid $45,000 and apparently will continue to pay more than necessary for some time.

In your December 20, 1962, letter to me you stated:

"It is also most important that the source provide for an adequate and dependable supply, and that the sale and delivery of this power is not hampered by unfair restrictions."

The Tex-La contractual arrangement meets your criteria, the best proof of which is the fact that you have approved power supply contracts made between Tex-La Electric Cooperative, Inc., and four distribution cooperatives we have been serving. Why is the Tex-La contractual arrangement satisfactory and approved for four cooperatives and not a satisfactory and approved power supply for Upshur?

(2) The Tex-La contractual arrangement, you will recall, gives the cooperatives the preference rights to which they are entitled in the sale of hydroelectric power from Government dams in our Southwest area. This is the contract which the president of Tex-La Electric Cooperative, Inc., and the Administrator of Southwestern Power Administration have stated is a good contractual arrangement under which distribution cooperatives receive dependable power at low cost. The contract was brought to your attention shortly after you were appointed Administrator of REA, and was approved.

In your letter to Senator Allen J. Ellender dated May 15, 1962, with regard to the Tex-La contract you stated:

"The situation which Mr. Welsh has brought up is rather difficult for REA in that Mr. Welsh is urging REA to require Upshur Rural Electric Cooperative Corp. to join the Tex-La cooperative group in a joint power supply contract with the Southwestern Electric Power Co. REA has no authority to require the Upshur cooperative to participate in the proposed Tex-La agreement or any other specific power supply arrangement. Such participation by the Upshur cooperative must necessarily be by voluntary action of its board of directors.

"REA is, however, anxious that every cooperative should obtain its power supply from the lowest cost source possible providing that the supply is adequate, dependable and unhampered by unfair restrictions. Until the Upshur loan application is completly evaluated we are not in position to compare unit power costs available to that cooperative."

You have approved the Tex-La contract for four cooperatives we serve; so, the contract must not contain unfair restrictions. The contract does meet criteria B and C of REA Bulletin 20–6. Your statement above to Senator Ellender says you are unwilling to enforce your own criteria. Why?

In your testimony before the House subcommitee on February 27, 1962, in answer to Mr. Whitten's question regarding the purchase of power from electric companies, you stated:

"First of all, let me say this: That the attitude of REA, certainly the attitude of the Administrator of REA, is a hundred percent behind your statement that if this power is available from commercial companies, on fair and reasonable terms and at reasonable rates, this is all we ask.

"And we feel that the cooperatives should, under those circumstances, get their power from the commercial power companies."

We had every confidence that you, as Administrator of the REA, intended to comply with your own statements. However, you permitted Upshur-Rural Electric Cooperative Corp. to completely reject the Tex-La contract, and you have approved a G. & T. loan to Upshur—all in disregard of your own statements to the House Subcommittee on Appropriations.

(3) In your testimony before the Senate Subcommittee on Appropriations on April 4, 1963, you stated the distribution cooperatives must have territorial protection and that G. & T. loans were one way of securing that protection. Southwestern Electric Power Co. made contracts with several distribution cooperatives which contained a provision No. 13 "to effect the orderly and economical electrification of the area" in an attempt at territorial division. We had such a contract with Wood County Electric Cooperative, Inc., and it brought suit against Southwestern Electric Power Co. in 1951 with the result that the district court of Wood County, Tex., declared provision No. 13 of the contract to be void and a violation of the Texas statute against monopolies and restraint of trade. It is illegal in Texas to write into a power sales agreement provision for territorial integrity such as you prescribe. Are we to understand that you approved the G. & T. loan to Upshur-Rural Electric Cooperative Corp. because neither our contract with Upshur nor the Tex-La contract contained provisions that are in violation of the Texas antitrust statute?

(4) In your February 18, 1963, announcement approving the G. & T. loan to Upshur-Rural Electric Cooperative Corp. you stated that preliminary agreement had been reached between Upshur and the Southwestern Power Administration. In the testimony you gave on April 4, 1963, before the Senate Subcommittee on Appropriations, you admitted that the financial payments by SPA for power from the proposed Upshur plant and the lease of the proposed Upshur transmission lines were essential to justify the loan to Upshur. As you are aware, any such payments by SPA to Upshur are a violation of the law controlling payments from SPA's continuing fund. The legislative history regarding use of the continuing fund was introduced into the record during your testimony on April 4, 1963. To date, SPA has carefully observed the injunction of the Congress and has not used the continuing fund in violation of the 1949 amendment.

With respect to the Upshur loan, I wish to direct your attention to a registered mail letter dated November 11, 1960, written to Mr. D. G. Wright, Administrator of Southwestern Power Administration, by Mr. J. L. Johns, manager of Upshur-Rural Electric Cooperative Corp. The last paragraph reads as follows:

"Mr. Wright, I was dumfounded when I learned that Interior had filed a protest with REA against our loan request to build our own generation. I am expecting an answer from you as to why you and the Department of Interior should have interest to the point of filing the protest."

I also direct your attention to a registered mail letter dated November 17, 1960, written to Mr. J. L. Johns, manager of Upshur Rural Electric Cooperative Corp.,

by Mr. D. G. Wright, Administrator of Southwestern Power Administration. On the second and third pages Mr. Wright says:

"It should come as no surprise to you that the Department of the Interior and the REA cooperate in seeking a solution to power supply problems such as that which confronts your cooperative. As agencies of the Federal Government they are engaged in the common purpose of securing the distribution of federally owned power at the lowest possible rates consistent with sound business principles, and at the same time securing an adequate, dependable, and reasonably priced source of power supply for REA cooperatives which seek REA loans.

This purpose has been secured in the six States served by this Administration as evidenced by the fact that power rates to REA cooperatives in this area compare favorably with the rates available in other areas of the United States, and also by the fact that such cooperatives are purchasing a greater share of the available federally owned power than in any other area. Accordingly, it was proper that REA be advised of the availability to your cooperative of federally owned power, and it was equally proper to suggest that the possibilities of such service be considered before recourse be had to an alternative *and more expensive source of power.* [Italic by Mr. Welsh.]

"At the risk of laboring the point, I am compelled to again point out, as I have in the past, that the construction of an isolated generating plant of small capacity under present conditions is not economically feasible. This Administration has a direct interest in this matter since, in the past when such plants have been constructed in this area, we have been called upon *to alleviate their financial difficulties* through interconnections and integration agreements which were written for that purpose. Such agreements may be justified under certain conditions, but such is not the case in connection with your cooperative, and I have so advised interested REA representatives." [Italics by Mr. Welsh.]

I hope you will particularly observe the two statements I have underscored, above.

Further evidence that Southwestern Power Administration is observing the injunction of the Congress not to use the continuing fund to subsidize G. & T. cooperatives is found in the minutes of the meeting of the Advisory Committee on Power for the Southwest held in the offices of SPA on October 4, 1962, and attended by cooperative managers from the area. The minutes disclosed the following statement:

"Mr. Wright stated that the 'rope' is stretched to the ultimate—that he cannot give anybody any more relief, and that SPA is seeking relief—and will have to have full costs in the future."

It is obvious from the above that the Administrator of Southwestern Power Administration believes the Upshur generating plant should not be built, and that SPA cannot pay any more subsidies to cooperatives that are in trouble, for, as he says, the "rope is stretched to the ultimate."

Only one conclusion can be reached. There is a scheme between the Rural Electrification Administration and the Department of the Interior under which the Upshur powerplant and transmission line will be built regardless of your own criteria, for the sole purpose of building a federally subsidized power system to compete unfairly with Southwestern Electric Power Co., to serve customers who are receiving central station service, to destroy the investments Southwestern Electric Power Co. has made pursuant to solemn agreements with the cooperatives and the Government, and to gradually put Southwestern Electric Power Co. out of business. These will be the effects of your approval of the Upshur G. & T. loan, and I respectfully request you to say if these were your intentions during our discussion lat year, in your correpondence with me, and in your statements to the Subcommittee on Appropriations of the House and the Senate.

Yours sincerely,

J. ROBERT WELSH, *President.*

REBUTTAL OF STATEMENT OF A. CLAY STEWART TO BE FILED WITH THE AGRICULTURE SUBCOMMITTEE OF THE SENATE APPROPRIATIONS COMMITTEE

There are a number of areas in which Mr. Clyde T. Ellis, general manager of the National Rural Electric Cooperative Association, made statements, while true to the facts stated, did not convey the whole story. For example, he stated "the power companies complain that we do not pay taxes, which is false because the fact is we pay all the taxes which we owe." If Mr. Ellis was trying to make a true statement, he would have given the examples of Kentucky

property tax in which the law states that the Rural Electric Cooperative Corporations are subject to franchise and property tax the same as investor-owned utility companies. The "joker" is that the assessments of the Rural Electric Cooperative Corporations are so ridiculously low that the taxes which they "owe" are not at all in keeping with the property tax which the investor-owned utility companies "owe." For example, Kentucky Utilities Co., at the end of 1960, had a net plant per book of $159,549,000, and the assessment for property tax purposes was $99,380,000, or 62.3 percent of net plant. The 26 Rural Electric Cooperative Corporations and one Generation and Transmission Cooperative in Kentucky had a combined net plant at the end of 1960 $137,293,500, and were assessed, for property tax purposes, $21,978,000, or 16 percent of net plant. In other word, Kentucky Utilities Co.'s assessment was almost four times that of the Rural Electric Cooperative Corporations and, therefore the tax on property would be almost four times that of the Rural Electric Cooperative Corporations on the same property.

Mr. Ellis made a great play as to the interest rates the Rural Electric Cooperative Corporations pay, and drew an example of cost of interest in customers per mile of line. His example was the State of Texas, in which he says there are 2.4 consumers per mile of line and the interest cost would be $18.33 per customer. The Rural Electric Cooperative Corporations in Kentucky have 4.68 customers per mile of line.

Mr. Ellis further talks about the need for generation and transmission plants to serve as a yardstick for electric rates. Already the East Kentucky Rural Electric Cooperative Corporation (G. & T.) serves 41 percent of the requirements of the distribution Rural Electric Cooperatives, and Federal wholesale power agencies (TVA) serves 39 percent of the requirements and the investor-owned utilities serves 20 percent as of 1961.

In my testimony, I stated that the Big Rivers Rural Electric Cooperative Corporation had received approval of a loan from the Rural Electrification Administration of $18 million and the case was pending before the Public Service Commission of Kentucky. On the very date I made that statement, the Public Service Commission of Kentucky approved the application and granted a certificate of convenience and necessity, after having the case under consideration only 5 working days. When Big Rivers becomes a reality, the generation and transmission cooperatives will serve nearly 58 percent of the total Rural Electric Cooperative Corporations' load in Kentucky and Federal wholesale power agencies will serve 39 percent with the investor-owned utilities serving only 3 percent. These figures vary greatly from Mr. Ellis' statement "we are, in fact, the power companies' largest single customer." The Rural Electric Cooperative Corporations buy 38 percent of their power from the power companies. Mr. Ellis further states "the percentage is not increasing—or very little, if any."

It might be of interest to members of the committee to also note that of the 20 percent of the Rural Electric Cooperative Corporations' load in Kentucky, purchased from investor-owned companies, the cost of power averaged 7.49 mills in 1961, whereas in the same year the 16 member Rural Electric Cooperative Corporations who purchased their power from East Kentucky Rural Electric Cooperative Corporation (G. & T.) paid an average of 8.11 mills.

To state or infer that the Rural Electrification Administration through its Rural Electric Cooperative Corporations does not make strong efforts to obtain and serve customers inside and contiguous to cities already served by investor-owned electric companies is to deliberately ignore the facts.

To state or infer that the Rural Electric Cooperative Corporations do not actively interfere in municipal elections involving federally subsidized electricity—where such interference is deliberate and gratuitous—is to deliberately ignore the facts.

A specific case in point will be found in Campbellsville, Ky., where the Taylor County RECC built a lengthy extension of 2,200 feet to serve a bowling alley abutting on and surrounded by city property, all of which was served by Kentucky Utilities Co. To serve the bowling alley, the RECC had to build under company lines then serving the adjoining garage and municipal pumping station, and a company-served subdivision beyond that.

In 1959, a short-lived organization known as Citizens for Low Cost Power was organized in Glasgow, Ky. (population 7,025). Its stated primary purpose was to promote the cause of public power in those communities in Kentucky excepted from the area limitation provisions of the 1959 TVA Self-Financing Act.

Membership in the organization consisted of those in each of the excepted cities who were advocating municipal ownership. The bulk of the attendance at each meeting was composed of REA "Minute Men." Among the speakers on each program were RECC officials.

In that same year, the city of Glasgow established a Glasgow Electric Plant Board for the purpose of conducting a campaign for municipal ownership of the city's electric system and the use of TVA power. Among the five members of the plant board were J. B. Galloway, manager of Farmers' RECC; I. L. Redford, former employee of Farmers' RECC; Luther Wells, son of the former president of Farmers' RECC. The attorney for Farmers' RECC, Cecil Wilson, was attorney for the plant board.

During the election campaign, uniformed members of Farmers' RECC actively campaigned for municipal ownership during regular working hours.

Although Mr. Galloway was an ardent supported of TVA power for Glasgow, he has, for many years, successively fought the efforts of a large number of the cooperative members who want the RECC to purchase power from TVA and reduce existing rates. He has since discharged his own attorney over the issue of RECC service inside the city limits and the issue of TVA power for Farmers' RECC.

In the first election in Glasgow, municipal ownership was defeated by 182 votes. In the second election, the following year, municipal ownership, with stepped-up RECC assistance, was passed by 78 votes.

During the election campaign, Farmers' RECC ran half-page paid advertisements in local newspapers advocating TVA power for Glasgow, power that the maanger of Farmers' RECC refused to seek for his own members.

GULF POWER CO.,
Pensacola, Fla., May 10, 1963.

Hon. SPESSARD L. HOLLAND,
Old Senate Office Building,
Washington, D.C.

MY DEAR SENATOR HOLLAND: During the hearings before the Senate Agriculture Appropriations Subcommittee you requested that Mr. Clapp furnish information relative to the higher cost of electric energy purchased by the Choctawhatchee Electric Cooperative from the Alabama Electric Cooperative (8.2 mills) than that purchased from Gulf Power Co. (6.7 mills).

Supplemental information furnished by Mr. Clapp has just come to my attention and in view of your expressed interest, I call your attention to a condition apparently not known by Mr. Clapp.

The rate schedule under which we supply the requirements of Choctawhatchee Electric Cooperative provides for service at either the distribution voltage (12 kilovolts) of the cooperative or, if the cooperative elects, at 44,000 volts. The rate schedule provides a discount for service at 44,000 volts. This rate schedule provision was apparently not known to or brought to Mr. Clapp's attention.

Calculations, based on information available for calendar year 1962, show the average cost to the cooperative assuming service at distribution voltage for four delivery points (DeFuniak, Freeport, Villa Tasso, and Santa Rosa) would be 6.8 mills per kilowatt-hour. In such a case the 44,000-volt lines and substations would be furnished by the company as it does now at the Santa Rosa delivery point and formerly did at Laurel Hill and Baker prior to these being connected to the Alabama Electric Cooperative system. This application of our actual rate schedule in effect we believe is a more accurate determination of costs than that of Mr. Clapp's using an annual cost for the cooperatives 44,000-volt system which, according to his calculations, results in a rate of 9.05 mills.

I appreciate your continued interest in this problem and trust that this additional information will be helpful.

Yours very truly,

R. L. PULLEY, *President.*

P.S.—I note from Mr. Clapp's supplemental statement that the actual cost of Alabama Electric Cooperative energy is 7.7 mills. It is my understanding that Choctawhatchee guaranteed for a 5-year period a rate of 7.55 mills for the SPADAT load at Eglin. To whatever rate Alabama Electric Cooperative sells to Choctawhatchee (8.2 mills in 1962 according to Mr. Clapp's statement) should be added the annual carrying charges on the $2,225,000 loan recently obtained. Based on this information Choctawhatchee will sell to SPADAT at below cost.

R. L. P.

OAK CREEK STAR ROUTE,
Flagstaff, Ariz., May 14, 1963.

Hon. SPESSARD L. HOLLAND,
Senate Office Building, Washington, D.C.

DEAR SENATOR HOLLAND: I recently became aware of testimony presented to the Agriculture Subcommittee of the Senate Appropriations Committee by Clyde T. Ellis, general manager of the National Rural Electric Cooperative Association, concerning the sale of the Verde Electric Cooperative, Inc. to Arizona Public Service Co.

As a former member and director of the cooperative, I can state that Mr. Ellis' testimony is not a factual account of the activity concerning this sale and I would like to beg your indulgence to set the record straight.

I first moved to the Oak Creek Canyon area of Arizona in May 1947 at about the time the cooperative had its beginning.

I was served electric power at that time by the then Arizona Power Co., of Prescott, Ariz. This company later became a part of Arizona Public Service Co.

In 1950, when the utility and the cooperative signed a territorial agreement, and the utility contracted to supply wholesale power to the cooperative, I was one of the utility company's customers who was transferred to the co-op system.

This swapping of areas as a part of the agreement had mutual advantages for both organizations—although let me state emphatically that I was absolutely not in favor of becoming a part of the co-op's operation. My basic reason for feeling this way was that I felt the co-op had no reason for being in this area. It was not needed and served no purpose that could not have been better served by private enterprise.

Be that as it may, I did become a consumer-member of the co-op and took an active interest in its affairs.

In 1955, when it was apparent to many of our members that we were simply going deeper into debt as a co-op and had no prospects of doing any better, several of us formed a committee to try to effect a sale of the co-op facilities to Arizona Public Service Co., of which our utility was now a part.

During this period I had considerable correspondence with Senator Goldwater, to enlist his aid in helping us get out from under this debt that hung over our heads.

In 1955, after meetings between our committee and representatives of the company, and the co-op board of directors and the company, a lease-purchase arrangement was offered by Public Service.

This proposal received the approval of the Agriculture Department in late summer of 1955 and was voted on by the co-op members at a special meeting December 20, 1955.

At this meeting 177 members voted to sell and 125 voted to retain the property. Even though we had an ample majority in favor of the proposition it failed to carry because of a restriction in the bylaws which required that a majority of the total membership must approve the sale.

In February 1958 I was asked by friends and neighbors to run for election to the board of directors of the co-op so that we would have representation on that body and would be in a position to know what was going on. I was elected at that time.

A few short months as a director convinced me that the future of our co-op was indeed bleak. Our system was in extremely bad condition, our rates were considerably higher than those of Arizona Public Service, we were not really able to give adequate service, and our debt to the Federal Government was simply staggering. At about this time, it was near $600,000 for a co-op that was serving considerably less than 500 customers.

We once again formed a citizens' committee of cooperative members and asked Arizona Public Service Co. if they would consider purchasing the facilities.

They told us they would, but they felt the proper procedure for us to follow would be to ask our board of directors to invite the company to make an offer to buy.

We passed petitions calling for a special meeting of the members, at which the membership voted overwhelmingly directing the board of directors to invite Public Service to make an offer for the co-op which could be considered by the membership.

The company did submit an offer on July 30, 1958, calling for payment of approximately $600,000, or an amount sufficient to retire our debt to the Government.

In addition, the company offered us the same rates as existed in their surrounding area—these rates being on the average 25 percent lower than the co-op's. They also offered us their standard minimum charge of 93 cents per month which was considerably under the co-op minimum, and offered to apply the minimum only when service was used. This was particularly attractive to many co-op members, since this area is basically a seasonal recreation area, and many homes were closed up entirely for the winter months. And, of course, we knew that the utility would contribute considerably more to the area in taxes than the co-op and would thereby help lighten the tax burden for the rest of us.

The board of directors, the other eight of whom opposed the sale, set the meeting date for Wednesday, August 27. This was done even though our meetings were normally held on Fridays to accommodate the large number of our members who lived in Phoenix and spent their summer weekends in the area.

Mr. Ellis attended this meeting and pleaded with us not to sell our co-op. The membership paid no attention to him, however, and 239 members voted for the sale and 115 voted no. This was a majority of better than 2 to 1, yet the proposal again failed to carry by only 18 votes because of the restriction which required a majority of the total membership.

(I feel it is important to point out that at this time our co-op had slightly more than 500 names on our books. Of this total, some 70 persons were either deceased, had sold their property and moved away, or were persons who had purchased property, taken out $5 memberships but had never taken service. These names rightfully had no place on our membership roster, but the board of directors insisted that they be counted as active members. In this fashion, each of these "active" members actually constituted a "no" vote.)

The members interested in selling then realized that unless we took further, more constructive action, we might be saddled with this broken-down co-op system for the rest of our lives.

We passed petitions calling for another special meeting at which time we voted to amend the bylaws to remove the deadwood from the membership rolls, restore an earlier provision which permitted each member to vote three proxies, and to make it possible for a majority of persons voting either in person or by proxy to approve a sale of the facilities.

We then asked Arizona Public Service to renew their offer, which they did, and you'll recall that this offer was for $600,000.

When the board of directors realized what we intended to do, they called a special meeting for 8 p.m. October 10, 1958, at which time the members were to vote to sell the co-op to Public Service for $697,700, even though Public Service had made no such offer.

Our committee, as was our legal right, called a special meeting of the members for 7:30 p.m. the same evening, or a half hour preceding the board-called meeting. At this meeting we voted successfully 231 yes to 80 no to sell our cooperative—or by a margin of nearly 4 to 1.

The sale of the facilities was finally consummated in March 1959.

In his testimony before the Senate, Mr. Ellis made the statement that Public Service had sent people into this area telling us that the co-op was socialistic and by implication, un-American. Let me state clearly for the record, that this did not happen. Public Service did not send representatives into the area until they were invited to do so by our committee.

I have copies of every piece of literature and advertising placed by the company during this period and there simply is no reference in any of these to socialism or the co-op being socialistic.

I listened to most of the public speeches that were made by Public Service representatives and in none of those did I hear them make any reference to the proposal except insofar as the business aspects of it were concerned.

Mr. Ellis also made reference to the fact that a four-lane highway had been constructed into Cottonwood from Phoenix and gave the impression that this made the area more attractive. The highway of which he speaks, was built from Phoenix to Flagstaff and bypasses Cottonwood by some 15 miles.

He also stated that there was a retired persons area being built up. This is not true. There are a large number of retired couples in the area, but the area of which I believe he speaks was an area that was to include a golf course, country club, and summer homesite area. Since Mr. Ellis was here to try to keep us from selling our co-op, exactly 31 homes have been built in that area—hardly a lucrative enough situation to attract a company to pay $600,000.

One more item that I would like to mention is that Mr. Ellis wrote a story in his magazine detailing the meeting of August 27, 1958, in wich he attributed

some remarks to me. Let me state, unequivocally, that his statements are not in keeping with the facts.

Thank you for bearing with me through this recitation. I feel that when unfactual statements are given to a subcommittee of the U.S. Senate that these statements should be corrected.

It would please me if you would see fit to have this material entered into the Congressional Record, so that a true and factual record of the sale of the Verde Electric Cooperative, Inc. will be available.

Sincerely,

LOUIS O. RAACKE.

EXCERPTS FROM THE LETTER AND ATTACHMENTS RECEIVED FROM THE ACTING SECRETARY OF AGRICULTURE WHICH PERTAIN TO RURAL ELECTRIFICATION ADMINISTRATION

DEPARTMENT OF AGRICULTURE,
Washington, D.C., June 14, 1963.

Hon. SPESSARD L. HOLLAND,
Chairman, Subcommittee on Department of Agriculture and Related Agencies, Committee on Appropriations, U.S. Senate.

DEAR SENATOR HOLLAND: Submitted herewith are the Department's recommendations with respect to H.R. 6754, the Department of Agriculture and related agencies appropriation bill, 1964, as passed by the House of Representatives.

Also enclosed are separate statements dealing with several matters included in the House report, as follows:

* * * * * * *

Attachment B.—Authorization for temporary employment.

* * * * * * *

Except for the above, and the recommendations and comments submitted herewith, the provisions of the House bill are satisfactory to the Department.

Representatives of the Department will be glad to supply any additional information you require.

Sincerely yours,

CHARLES S. MURPHY,
Acting Secretary.

* * * * * * *

Attachment B

AUTHORIZATION FOR TEMPORARY EMPLOYMENT

The House bill amended the language, which appears in a number of items throughout the bill, with respect to temporary employment and the employment of experts and consultants. The first such item, as included in the House bill, appears on page 2, lines 9 through 14, as follows: "*Provided*, That appropriations hereunder shall be available for field employment pursuant to the second sentence of section 706(a) of the Organic Act of 1944 (5 U.S.C. 574), and not to exceed $75,000 shall be available for employment under section 15 of the act of August 2, 1946 (5 U.S.C. 55a)."

As carried in the appropriation acts for a number of years, the provision applied the dollar limitation to both of the cited authorities.

The Department interprets the House action as meaning that there would be no limitation on the amount which could be used for temporary employment of persons or organizations in the field, by contract or otherwise, without regard to the Classification Act; and that the dollar limitation would apply only to temporary employment of experts and consultants in Washington, D.C.

A similar provision to that quoted above was included in the items for the Cooperative State Experiment Station Service, the Economic Research Service, the Office of Information, and salaries and expenses, Rural Electrification Administration. In these four instances, however, the word "field" was not included in the amended language. The Department interprets this to mean that in these four agencies there would be no limitation on the amount which could be used for temporary employment, other than experts and consultants, either in Washington or the field.

The Department will proceed accordingly if the bill as finally enacted includes these provisions in their present form.

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RURAL ELECTRIFICATION ADMINISTRATION

SALARIES AND EXPENSES

(House hearings, pt. 4, p. 2401; Senate hearings, pt. 2, p. 1)

1963 appropriation (including $418,200 appropriated in the Supplemental Appropriation Act, 1963)	$10,442,200
1964 estimate	11,344,000
House bill	11,162,000
Restoration requested	182,000

AMENDMENT REQUESTED BY THE DEPARTMENT

Page 27, line 2, strike out "$11,162,000" and insert "$11,344,000," an increase of $182,000, to restore the budget estimate.

HOUSE REPORT (P. 36)

"*Salaries and expenses.*—An appropriation of $11,162,000 is recommended for the coming fiscal year, an increase of $719,800 over 1963 and a decrease of $182,000 in the budget estimate.

"The increase will provide $431,800 to cover 80 percent of the pay act increases for the coming year, plus $300,000 for the employment of 15 additional employees to implement the surveys, audits and supervision necessary to carry out recommendations contained in the earlier discussions of REA loans. These increases are partially offset by a reduction of $12,000 due to savings resulting from the centralized data-processing operation."

JUSTIFICATION OF AMENDMENT BY THE DEPARTMENT

The House bill is $182,000 below the budget estimate for 1964 and $719,800 above the 1963 appropriation.

The Department strongly recommends that the reduction of $182,000 made by the House be restored.

The House reduction consists of the following:

(*a*) $141,940 in the budget request for pay act costs.

Estimated pay act costs in 1964 and funds provided to meet them are as follows:

Total estimated pay act costs on base for 1964	$991,940
Deduct amount provided by supplemental in 1963	418,200
Cost for which no additional appropriation has been provided	573,740
Amount provided in House bill	431,800
Restoration requested by the Department	141,940

(*b*) $40,060 for engineering activities.

An increase was included in the appropriation for "Salaries and expenses" to provide some additional employees to assist in carrying out recommendations made by the committee in connection with REA loans. However, the decrease of $182,000 below the budget estimate, due primarily to required absorption of a part of the cost of pay act increases, will reduce the normal engineering, accounting and management loan servicing activities below the level considered prudent in maintaining loan security, and will restrict urgently needed engineering development work in the telephone program, which will delay the progress of the telephone program in the more difficult and sparsely settled areas.

U.S. DEPARTMENT OF AGRICULTURE,
RURAL ELECTRIFICATION ADMINISTRATION,
Washington, D.C., June 28, 1963.

Hon. SPESSARD L. HOLLAND,
Chairman, Subcommittee on Agriculture,
Senate Appropriations Committee,
U.S. Senate.

DEAR SENATOR HOLLAND: Pursuant to the request from Mr. Schafer, clerk of the subcommittee, we are furnishing the following data for all power-type borrowers:

(1) The name, address, and REA designation of each power-type borrower.

(2) The net number of megawatt-hours (1 megawatt-hour equals 1,000 kilo-

watt-hours) generated and the average net cost per kilowatt-hour generated. The data are furnished for calendar year 1962 except on those borrowers where records are kept on a fiscal year basis. This average cost includes all production expenses, plus applicable taxes, insurance, interest, and depreciation. A statement has been included with respect to methods of operation which could influence the average costs.

(3) The number of megawatt-hours and cost per kilowatt-hour of power purchased from others by the borrower during the year. This information has been detailed to include the name of each supplier, the amount of megawatt-hours purchased from each supplier and the average cost per kilowatt-hour. The type of power and energy purchased whether it is firm, economy, interchange, standby, etc., has also been designated. The power and energy purchased is usually introduced into the borrower's transmission system, commingled with self-generated power and delivered over the borrower's transmission system to the member-borrowers' delivery points.

(4) The average cost per kilowatt-hour sold during the year. The average cost includes all costs of generation, purchased power, transmission, losses, and administrative and general expense, and is based on all energy sold during the year.

(5) The total number of megawatt-hours sold during the year and the average revenue per kilowatt-hour received together with the megawatt-hours sold to member REA borrowers and the overall average price per kilowatt-hour paid by the member-borrowers. In instances where the total number of megawatt-hours sold is greater than sales to members and there is a difference in the average revenue received, the differences are generally due to sales to others and the various conditions of service.

(6) Member users and average price paid, fiscal year 1962.

The amount by which the average revenue received exceeds the total cost per kilowatt-hour sold is the margin above the cost of service and is the members' or patrons' additional equity in the facilities of the borrower.

The borrowers' data are arranged by States and REA designation. The tabulation summarizes the numerical data for each borrower.

In addition, we are furnishing a statement which we believe is responsive to your questions concerning the Sho-Me Power Corp. of Marshfield, Mo.

Sincerely yours,

NORMAN M. CLAPP,
Administrator.

G. & T. BORROWERS

Attachments (32)

Alabama	42	Missouri	70
Arkansas	32	Missouri	71
Colorado	46	Missouri	72
Colorado	50	Nebraska	94
Iowa	81	Nebraska	96
Iowa	83	Nebraska	104
Iowa	84	New Mexico	18
Iowa	85	North Dakota	20
Iowa	86	North Dakota	40
Kansas	53	North Dakota	42
Kentucky	59	Oklahoma	32
Michigan	46	South Carolina	50
Michigan	47	South Dakota	43
Minnesota	70	South Dakota	44
Missouri	59	Texas	121
Missouri	60	Wisconsin	64

1. Alabama Electric Cooperative, Inc., Andalusia, Ala.
Alabama 42, Montgomery (G. & T.).

2. During calendar year 1962, this borrower generated 276,476 megawatt-hours. The cost of generation for this period, including production expense, interest, insurance, depreciation and taxes averaged 5.13 mills per kilowatt-hour. The borrower's plants are operated to meet the load requirements of the system.

3. During 1962 this borrower purchased 53,094 megawatt-hours of firm power and energy from the Alabama Power Co. at an average cost of 6.86 mills per kilowatt-hour.

4. The cost per kilowatt-hour sold, including all production and transmission costs, purchased power, losses and administrative and general expense was 7.60 mills per kilowatt-hour.

5. During this year this borrower sold 316,184 megawatt-hours at an average price of 8.26 mills per kilowatt-hour. Of this total amount sold, 168,006 megawatt-hours were sold to REA borrowers at an average price of 8.73 mills per kilowatt-hour. The remaining energy was sold to industrial loads and several municipalities which also are members. These loads were acquired with the acquisition of the properties of the Alabama Water Service Co. The difference in total revenue received per kilowatt-hour for all kilowatt-hours sold and the average paid by REA borrowers is due to the different load characteristics of the members served.

The amount by which the average revenue received exceeds the total cost per kilowatt-hour sold is the margin above the cost of service and is the members' or patrons' additional equity in the facilities of the borrower.

6. Member cooperative purchasers (mills per kilowatt-hour (fiscal year 1962)):

South Alabama Electric Cooperative, Troy, Ala	8.5
Pea River Electric Cooperative, Ozark, Ala	8.5
Southern Pine Electric Cooperative, Brewton, Ala	8.4
Wiregrass Electric Cooperative, Hartford, Ala	9.0
Covington Electric Cooperative, Andalusia, Ala	9.0
Choctawhatchee Electric Cooperative, DeFuniak Springs, Fla	8.2
Overall weighted average to all member cooperatives	8.7

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1. KAMO Electric Cooperative, Inc., Vinita, Okla.
Arkansas 32, Benton (G. & T.).

2. This borrower is a transmission cooperative and does not generate any power and energy for its member loads. The borrower owns one 1,000 kilovolt-ampere diesel generating unit which is leased to one of its members for standby purposes. All costs associated with this unit are borne by this member.

3. This borrower during the fiscal year 1962, purchased its entire power and energy requirements for resale to its members. A total of 399,336 megawatt-hours were purchased at an average cost of 6.28 mills per kilowatt-hour. Of this amount, 206,074 megawatt-hours were purchased from the Grand River Dam Authority at an average cost of 5.56 mills per kilowatt-hour, and 193,262 megawatt-hours from the Southwestern Power Administration at 7.04 mills per kilowatt-hour. These averages do not reflect any transmission credits received from either Grand River Dam Authority or Southwestern Power Administration.

4. The cost per kilowatt-hour sold during this period, including the cost of purchased power, transmission costs and transmission credits received from Grand River Dam Authority and Southwestern Power Administration, administrative and general expense was 6.64 mills per kilowatt-hour.

5. The total number of kilowatt-hours sold during this period to all members was 399,553 megawatt-hours at an average price of 6.85 mills per kilowatt-hour. No energy was resold to other consumers.

The amount by which the average revenue received exceeds the total cost per kilowatt-hour sold is the margin above the cost of service and is the members' or patrons' additional equity in the facilities of the borrower.

6. Member cooperative purchasers (mills per kilowatt-hour (fiscal year 1962)):

Ozarks Electric Cooperative Corp., Fayetteville, Ark	7.0
Barton County Electric Cooperative, Lamar, Mo	7.2
Ozark Electric Cooperative, Mount Vernon, Mo	7.3
Osage Valley Electric Cooperative Association, Butler, Mo	7.4
New-Mac Electric Cooperative, Neosho, Mo	7.2
Southwest Electric Cooperative, Bolivar, Mo	7.2
Sac Osage Electric Cooperative, El Dorado Springs, Mo	7.2
Barry Electric Cooperative, Cassville, Mo	7.0
Northeast Oklahoma Electric Cooperative, Vinita, Okla	7.1
East Central Oklahoma Electric Cooperative, Okmulgee, Okla	6.4
Central Rural Electric Cooperative, Stillwater, Okla	6.5
Verdigris Valley Electric Cooperative, Collinville, Okla	6.6
Indian Electric Cooperative, Cleveland, Okla	6.3
Cookson Hills Electric Cooperative, Stigler, Okla	6.8
Lake Region Electric Cooperative, Wagoner, Okla	7.0
Overall weighted average to all member cooperatives	6.9

1. Colorado-Ute Electrical Association, Inc., Montrose, Colo.
Colorado 46, Ute (C. & T.)

2. During the calendar year 1962, 133,610 net megawatt-hours were generated in this borrower's plant. The cost of generation including production expense, interest, insurance, depreciation and taxes averaged 7.91 mills per kilowatt-hour. This plant is operated by the Western Colorado Power Co. This borrower pays this company 4.98 mills per kilowatt-hour for the operation and maintenance of this plant.

3. During this period, 881 megawatt-hours of firm power were purchased from the Bureau of Reclamation at an average cost of 4.58 mills per kilowatt-hour.

4. The cost per kilowatt-hour sold including production and transmission cost, purchased power, losses and administrative and general expense was 13.08 mills per kilowatt-hour.

5. During the year this borrower sold to all consumers 117,238 megawatt-hours at an average price of 11.19 mills per kilowatt-hour. The same number of megawatt-hours was sold to member REA borrowers at a price of 10.72 mills per kilowatt-hour. The difference in the overall revenue received per kilowatt-hour and the price paid by members represents temporary payment by the company for capacity deficiencies under the company-cooperative contract. The deficit operation of this borrower is due to substantial increases in expense during this year resulting from increases in plant and other costs for which there was not a corresponding increase in load and revenue.

6. Member cooperative purchasers (mills per kilowatt-hour (fiscal year 1962)):

Delta-Montrose Rural Power Lines Association, Delta, Colo	11.2
San Miguel Power Association, Nucla, Colo	10.7
La Plata Electric Association, Durango, Colo	10.7
Empire Electric Association, Cortez, Colo	10.8
Overall weighted average to all member cooperatives	10.8

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1. Arkansas Valley G. & T., Inc., Pueblo, Colo.
Colorado 50, Southeast (G. & T.)

2. The 16,500-kilowatt generating unit for which money was loaned to this borrower is installed in the Canon City generating plant of the Southern Colorado Power Co. and is lease-operated by this company. The company pays all costs on this unit and in turn sells power and energy to this borrower for resale to its members.

3. The amount of energy purchased from this company under the terms of the lease-operating agreement during calendar year 1962 was 47,133 megawatt-hours at an average cost of 8.48 mills per kilowatt-hour. A higher rate is applicable when the member demands exceed 10,800 kilowatts.

4. The average cost per kilowatt-hour sold during this year was 8.48 mills per kilowatt-hour and just includes the cost of purchased power.

5. During this year, 47,133 megawatt-hours were sold to member REA borrowers at an average price of 8.48 mills per kilowatt-hour. No energy was sold to other consumers.

6. Member cooperative purchasers (mills per kilowatt-hour (fiscal year 1962)):

Southeast Colorado Power Association, La Junta, Colo	8.47
San Isabel Electric Association, Pueblo, Colo	8.54
Sangre De Cristo Electric Association, Buena Vista, Colo	8.67
Overall weighted average to all member cooperatives	8.5

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1. Southwestern Federated Power Cooperative, Inc., Creston, Iowa.
Iowa 81, Union (G. & T.).

2. During calendar year 1962, this borrower generated 107,169 megawatt-hours of energy. The cost of generation for this period including production expense, interest, insurance, depreciation, and taxes averaged 9.90 mills per kilowatt-hour. The borrower's plant is operated to meet the load requirements of the system.

3. No power was purchased by this borrower during this year.

4. The cost per kilowatt-hour sold including all production and transmission costs, losses and administrative and general expense was 13.90 mills per kilowatt-hour.

5. During the year, this borrower sold 103,826 megawatt-hours at an average price of 15.40 mills per kilowatt-hour. Of this total amount sold, 90,561 megawatt-hours were sold to members of REA borrowers at an average price of 16.19 mills per kilowatt-hour. The remaining energy was sold to the Iowa Southern Utilities Co. on a temporary basis, in consideration of the transmission and power exchange arrangement with this company which permits the deferral of construction of certain transmission lines by this borrower.

The amount by which the average revenue received exceeds the total cost per kilowatt-hour sold is the margin above the cost of service and is the members' or patrons' additional equity in the facilities of the borrower.

6. Member cooperative purchasers (mills per kilowatt-hour (fiscal year 1962)):

Adams County Cooperative Electric Co., Corning, Iowa	13.6
Farmers Electric Cooperative, Greenfield, Iowa	16.6
Nyman Electric Cooperative, Stanton, Iowa	17.5
Clarke Electric Cooperative, Osceola, Iowa	17.2
Rideta Electric Cooperative, Mount Ayr, Iowa	15.7
Overall weighted average to all member cooperatives	16.0

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1. Central Iowa Power Cooperative, Marion, Iowa.
Iowa 83, Cedar Rapids (G. & T.).

2. During the calendar year 1962, 477,473 net megawatt-hours were generated in this borrower's plant. The cost of generation for this period including production expense, interest, insurance, depreciation, and taxes averaged 6.85 mills per kilowatt-hour. This plant is operated by the Iowa Electric Light & Power Co. and is scheduled by the company, as required, to obtain the most economical operation to meet the borrower's load requirements. This borrower pays the company 5.12 mills per kilowatt-hour delivered for the operation and maintenance of this plant.

3. No power was purchased by this borrower during the year.

4. The cost per kilowatt-hour sold including all production and transmission costs and administrative and general expense was 11.06 mills per kilowatt-hour.

5. During this year this borrower sold 285,977 megawatt-hours at an average price of 11.16 mills per kilowatt-hour. All of this energy was sold to member REA borrowers at a price of 10.20 mills per kilowatt-hour. The difference in the overall revenue received per kilowatt-hour and the price paid by members represent payments by the company for excess capacity in accordance with the company-cooperative operating agreement. The difference in the number of megawatt-hours generated and the megawatt-hours sold represents the amount of energy produced by the borrower's plant and used by the Iowa Electric Light & Power Co. in its own system.

The amount by which the average revenue received exceeds the total cost per kilowatt-hour sold is the margin above the cost of service and is the members' or patrons' additional equity in the facilities of the borrower.

6. Member cooperative purchasers (mills per kilowatt-hour (fiscal year 1962)):

Marshall County Rural Electric Cooperative, Marshalltown, Iowa	9.8
Guthrie County Rural Electric Cooperative Association, Guthrie Center, Iowa	9.5
Maquoketa Valley Rural Electric Cooperative, Anamosa, Iowa	9.9
Benton County Electric Cooperative Association, Vinton, Iowa	9.7
Greene County Rural Electric Cooperative, Jefferson, Iowa	9.8
Linn County Rural Electric Cooperative Association, Marion, Iowa	9.6
TIP Rural Electric Cooperative, Brooklyn, Iowa	9.8
Buchanan County Rural Electric Cooperative, Independence, Iowa	9.1
Overall weighted average to all member cooperatives	9.7

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1. Corn Belt Power Cooperative, Humboldt, Iowa.
Iowa 84, Hamilton (G. & T.).

2. During the calendar year 1962, this borrower generated 316,877 megawatt-hours. The cost of generation for this period, including production expense, interest, insurance, depreciation and taxes, averaged 9.58 mills per kilowatt-hour. The borrower's plants are operated to meet the load requirements of its system. The borrower supplemented its generation with economy energy as available from the Iowa power pool.

3. During 1962, this borrower purchased 20,728 megawatt-hours of economy and interchange energy at an average cost of 3.90 mills per kilowatt-hour.

4. The cost per kilowatt-hour sold, including all production and transmission costs, purchased power, losses, and administrative and general expense, was 13.26 mills.

5. During this year the borrower sold 319,729 megawatt-hours at an average price of 13.96 mills per kilowatt-hour. Of this total amount, 300,457 megawatt-hours were sold to member REA borrowers at an average price of 13.72 mills per kilowatt-hour. The remaining energy was sold to others on a nonfirm basis. The overall revenue received per kilowatt-hour reflects the capacity deficiency revenues of the borrower from the Iowa power pool.

The amount by which the average revenue received exceeds the total cost per kilowatt-hour sold is the margin above the cost of service and is the patrons' and members' additional equity in the facilities of the borrower.

6. Member cooperative purchasers (mills per kilowatt-hour (fiscal year 1962)):

Glidden Rural Electric Cooperative, Glidden, Iowa	14.1
Humboldt County Rural Electric Cooperative, Humboldt, Iowa	13.8
Boone Valley Electric Cooperative, Renwick, Iowa	11.1
Buena Vista County Rural Electric Cooperative, Storm Lake, Iowa	13.5
Franklin Rural Electric Cooperative, Hampton, Iowa	14.0
Grundy County Rural Electric Cooperative, Grundy Center, Iowa	13.4
Butler County Rural Electric Cooperative, Allison, Iowa	14.0
Calhoun County Electric Cooperative Association, Rockwell City, Iowa	13.9
Wright County Rural Electric Cooperative, Clarion, Iowa	14.2
Pocahontas Rural Electric Cooperative, Pocahontas, Iowa	12.8
Hancock County Rural Electric Cooperative, Garner, Iowa	14.0
Hardin County Rural Electric Cooperative, Iowa Falls, Iowa	13.6
D. E. K. Rural Electric Cooperative, Estherville, Iowa	13.8
Sac County Rural Electric Cooperative, Sac City, Iowa	14.4
Overall weighted average to all member cooperatives	13.7

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1. Northwest Iowa Power Cooperative, Le Mars, Iowa.
Iowa 85, Cherowa (G. & T.).

2. This transmission borrower does not own any generation and purchases all its power and energy requirements.

3. The entire power and energy requirements of this borrower for resale to its members were purchased from the Bureau of Reclamation. During calendar year 1962, 178,868 megawatt-hours were purchased at an average cost of 3.91 mills per kilowatt-hour which reflects the 1 mill per kilowatt-hour wheeling discount received by the borrower for ownership of its transmission system.

4. The cost per kilowatt-hour sold during this period, including transmission costs, purchased power and administrative and general expense, was 8.02 mills per kilowatt-hour.

5. During this period, the borrower sold to its members 178,868 megawatt-hours at an average price per kilowatt-hour of 9.23 mills per kilowatt-hour. The overall revenue received per kilowatt-hour sold was 9.70 mills per kilowatt-hour which reflects the additional wheeling credits received from the Bureau of Reclamation for wheeling to municipalities. No additional energy was resold to consumers other than borrower members.

The amount by which the average revenue received exceeds the total cost for kilowatt-hours sold is the margin above the cost of service and is the members' or patrons' additional equity in the facilities of this borrower.

6. Member cooperative purchasers (mills per kilowatt-hour (fiscal year 1962)):

Sioux Electric Cooperative Association, Orange City, Iowa	9.2
Plymouth Electric Cooperative Association, Le Mars, Iowa	9.2
Harrison County Rural Electric Cooperative, Woodbine, Iowa	9.2
Monona County Rural Electric Cooperatve, Onawa, Iowa	9.1
South Crawford Rural Electric Cooperative, Denison, Iowa	9.2
Nishnabotna Valley Rural Electric Cooperative, Harlan, Iowa	9.2
O'Brien County Rural Electric Cooperative, Primghar, Iowa	9.2
Woodbury County Rural Electric Cooperative Association, Moville, Iowa	8.9
Cherokee County Rural Electric Cooperative, Cherokee, Iowa	9.2
Ida County Rural Electric Cooperative, Ida Grove, Iowa	8.8
Overall weighted average to all member cooperatives	9.1

1. L. & O. Power Cooperative, Rock Rapids, Iowa.
Iowa 86, Rock Rapids (G. & T.).

2. This transmission borrower does not own any generation and purchases all its power and energy requirements.

3. During the calendar year 1962, this borrower purchased 53,935 megawatt-hours at an average cost of 4.02 mills per kilowatt-hour from the Bureau of Reclamation. This cost reflects the 1 mill per kilowatt-hour wheeling credit received by this borrower from the Bureau of Reclamation for ownership of its transmission system. The borrower in addition paid $16,751 to Northern States Power Co. for standby power during this year. No energy was purchased from the company during the year.

4. The average cost per kilowatt-hour sold during this year including transmission cost, purchased power, losses, and administrative and general expenses, was 6.66 mills per kilowatt-hour.

5. The amount of energy sold to all member REA borrowers during this year was 52,877 megawatt-hours at an average price of 7.96 mills per kilowatt-hour. No energy was sold to other than member REA borrowers.

The amount by which the average revenue received exceeds the total cost per kilowatt-hour sold is the margin above the cost of service and is the members' or patrons' additional equity in the facilities of the borrower.

6. Member cooperative purchasers (mills per kilowatt-hour (fiscal year 1962)):

Lyon Rural Electric Cooperative, Rock Rapids, Iowa	8.0
Osceola Electric Cooperative, Sibley, Iowa	8.2
Southwestern Minnesota Cooperative Electric, Pipestone, Minn	7.9
Overall weighted average to all member cooperatives	8.0

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1. Sunflower Electric Cooperative, Inc., Wakeeney, Kans.
Kansas 53, Central (G. & T.).

2. This borrower does not operate the 22,000-kilowatt steam generating unit for which money was loaned by REA. This generating unit is installed in the Hill City plant of the Central Kansas Power Co. and is lease-operated by this company. The company pays all costs on this unit and in turn sells power and energy to the borrower under a negotiated rate for resale to its members.

3. During calendar year 1962, this borrower purchased 72,980 megawatt-hours at a cost of 10.35 mills per kilowatt-hour under this lease-operating arrangement with the Central Kansas Power Co. The amount of capacity available to this borrower at this rate is limited to 18,700 kilowatts.

4. The average cost per kilowatt-hour sold during this year was 10.35 mills per kilowatt-hour and includes all cost of power purchased. No additional transmission costs or administrative and general costs are included.

5. During the year, 72,980 megatwatt-hours were sold to the member REA borrowers at an average cost of 10.35 mills per kilowatt-hour. No energy was resold to other than member REA borrowers.

6. Member cooperative purchasers (mills per kilowatt-hour (fiscal year 1962)):

The Norton-Decatur Cooperative Electric Co., Inc., Norton, Kans	10.4
The Lane-Scott Electric Cooperative, Inc., Dighton, Kans	10.5
The Western Cooperative Electric Association, Inc., Wakeeney, Kans	10.1
Northwest Kansas Electric Cooperative Association, Inc., Bird City, Kans	10.4
Great Plains Electric Cooperative, Inc., Colby, Kans	10.7
Overall weighted average to all member cooperatives	10.35

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1. East Kentucky Rural Electric Cooperative Corp., Winchester, Ky.
Kentucky 59, Fayette (G. & T.).

2. During the calendar year 1962, this borrower generated 597,255 megawatt-hours. The cost of generation for this period, including production expense, interest, insurance, depreciation, and taxes averaged 5.09 mills per kilowatt-hour. The borrower's plants are operated to meet the load requirements of the system.

3. During 1962, this borrower purchased a total of 48,670 megawatt-hours at an average cost of 4.65 mills per kilowatt-hour. Of this amount (1) 35,144 megawatt-hours were interchange and maintenance standby energy obtained from

TVA at an average cost of 4.56 mills per kilowatt-hour, (2) 9,286 megawatt-hours of interchange energy from Kentucky utilities at an average cost of 3.20 mills per kilowatt-hour, (3) 4,002 megawatt-hours of firm power and energy from Kentucky utilities at an average cost of 8.64 mills per kilowatt-hour for isolated delivery points, and (4) 238 megawatt-hours of temporary power an energy from Kentucky Power Co. at an average cost of 8.01 mills per kilowatt-hour.

4. The cost per kilowatt-hour sold, including all production and transmission costs, purchased power, losses, and administrative and general expense was 7.70 mills per kilowatt-hour.

5. During this year, the borrower sold 610,969 megawatt-hours at an average price of 7.94 mills per kilowatt-hour; of this amount, 610,806 megawatt-hours were sold to member REA borrowers. The remaining energy was sold to others under varying conditions of service.

The amount by which the average revenue received exceeds the total cost per kilowatt-hour sold is the margin above the cost of service and is the members' or patrons' additional equity in the facilities of the borrower.

6. Member cooperative purchases (mills per kilowatt-hour (fiscal year 1962)):

Jackson County Rural Electric Cooperative Corp., McKee, Ky	8.1
Salt River Rural Electric Cooperative Corp., Bardstown, Ky	8.2
Taylor County Rural Electric Cooperative Corp., Campbellsville, Ky	7.9
Inter-County Rural Electric Cooperative Corp., Danville, Ky	8.4
Shelby Rural Electric Cooperative Corp., Shelbyville, Ky	8.5
Farmers Rural Electric Cooperative Corp., Glasgow, Ky	8.3
Owen County Rural Electric Cooperative Corp., Owentown, Ky	7.9
Blue Grass Rural Electric Cooperative Corp., Nicholasville, Ky	8.0
Fox Creek Rural Electric Cooperative Corp., Lawrenceburg, Ky	8.3
Harrison County Rural Electric Cooperative, Cynthiana, Ky	8.3
Clark Rural Electric Cooperative Corp., Winchester, Ky	7.9
Nolin Rural Electric Cooperative Corp., Elizabethtown, Ky	7.9
Fleming Mason Rural Electric Cooperative Corp., Flemingsburg, Ky	8.0
South Kentucky Rural Electric Cooperative Corp., Somerset, Ky	8.1
Licking Valley Rural Electric Cooperative Corp., West Liberty, Ky	7.8
Cumberland Valley Rural Electric Cooperative Corp., Corbin, Ky	7.9
Overall weighted average to all member cooperatives	8.1

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1. Wolverine Electric Cooperative, Inc., Big Rapids, Mich.
Michigan 46, Newaygo (G. & T.).

2. During the calendar year 1962, this borrower generated 105,283 megawatt-hours. The cost of generation for this period, including production expense, interest, insurance, depreciation and taxes, averaged 10.12 mills per kilowatt-hours. The borrower's plants are operated to meet the load requirements of the system.

3. During 1962 this borrower purchased a total of 11,057 megawatt-hours of firm and nonfirm power at an average cost of 10.73 mills per kilowatt-hour. Of this total, 8,612 megawatt-hours of firm power and energy were purchased from the Consumers Power Co. at an average cost of 11.47 mills per kilowatt-hour. Nonfirm energy was purchased from the following sources: (1) Fred Siegle, 48 megawatt-hours at 8.50 mills per kilowatt-hour; (2) Miller Dairy, 788 megawatt-hours at 8.50 mills per kilowatt-hour; and (3) Western Michigan Electric Co-operative, 1,609 megawatt-hours at 7.94 mills per kilowatt-hour.

4. The cost per kilowatt-hour sold, including all production and transmission costs, purchased power, losses, and administrative and general expenses was 13.14 mills per kilowatt-hour.

5. During the year this borrower sold 112,109 megawatt-hours at an average price of 13.29 mills per kilowatt-hour. Of this total amount sold, 104,675 megawatt-hours were sold to member REA borrowers at an average price of 13.66 mills per kilowatt-hour. The remaining 7,434 megawatt-hours were sold to others under varying conditions of service.

The amount by which the average revenue received exceeds the total cost per kilowatt-hour sold is the margin above the cost of service and is the members' or patrons' additional equity in the facilities of the borrower.

6. Member cooperative purchases (mills per kilowatt-hour (fiscal year 1962)):

Tri-County Electric Cooperative, Portland, Mich	13.6
O. & A. Electric Cooperative, Newaygo, Mich	13.7
Oceana Electric Cooperative, Hart, Mich	13.9
Overall weighted average to all member cooperatives	13.7

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1. Northern Michigan Electric Cooperative, Inc., Boyne City, Mich.
Michigan 47, Cheboygan (G. & T.).

2. During calendar year 1962, this borrower generated 101,511 megawatt-hours. The cost of generation for this period, including production expense, interest, insurance, depreciation, and taxes, averaged 10.38 mills per kilowatt-hour. The borrower's plants are operated to meet the load requirements of the system.

3. During 1962, this borrower purchased 3,498 megawatt-hours of firm power and energy from the Consumers Power Co. at an average cost of 12.29 mills per kilowatt-hour.

4. The cost per kilowatt-hour sold, including all production and transmission costs, purchased power, losses, and administrative and general expense, was 14.43 mills per kilowatt-hour.

5. During this year, the borrower sold member borrowers 99,406 megawatt-hours at an average price of 16.15 mills per kilowatt-hour. No energy was sold to other consumers.

The amount by which the average revenue received exceeds the total cost per kilowatt-hour sold is the margin above the cost of service and is the members' or patrons' additional equity in the facilities of the borrower.

6. Member cooperative purchases (mills per kilowatt-hour (fiscal year 1962)):

Presque Isle Electric Cooperative, Onaway, Mich	16.1
Top O'Michigan Rural Electric Co., Boyne City, Mich	16.2
Cherryland Rural Electric Cooperative Association, Traverse City, Mich	15.9
Overall weighted average to all member cooperatives	16.1

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1. Rural Cooperative Power Association, Elk River, Minn.
Minnesota 70, Hennepin (G. & T.).

2. During calendar year 1962, this borrower generated 225,036 net megawatt-hours in its steam and diesel plants. The cost of generation for this period, including production expense, interest, insurance, depreciation and taxes, averaged 9.67 mills per net kilowatt-hour. These plants were operated to meet the load requirements of the system depending upon the availability of power and energy from others.

3. During the calendar year 1962, this borrower purchased 60,529 megawatt-hours of firm and nonfirm power and energy at an average cost of 3.98 mills per kilowatt-hour from three power sources as follows: (1) Northern States Power Co., 30,484 megawatt-hours of displacement energy for an average cost of 4.02 mills per kilowatt-hour; (2) U.S. Bureau of Reclamation, 30,037 megawatt-hours of firm and nonfirm power and energy at an average cost of 3.93 mills per kilowatt-hour; and (3) Carlton County Cooperative Power Association, 8 megawatt-hours of nonfirm power at an average cost of 12 mills per kilowatt-hour.

4. The total cost per kilowatt-hour sold, including all production and transmission costs, purchased power, losses, and administrative and general expense, was 13.49 mills per kilowatt-hour.

5. During this same period this borrower sold 272,346 megawatt-hours at an average price of 14.14 mills per kilowatt-hour. Of this amount, 254,473 megawatt-hours were sold to member REA borrowers at an average price of 14.44 mills per kilowatt-hour. The remaining 17,873 megawatt-hours were sold to others including an REA borrower on a nonfirm basis.

The amount by which the average revenue received exceeds the total cost per kilowatt-hour sold is the margin above the cost of service and is the members' or patrons' additional equity in the facilities of the borrower.

6. Member cooperative purchasers (mills per kilowatt-hour (fiscal year 1962)):

East Central Electric Association, Braham, Minn	14.6
Carlton County Cooperative Power Association, Kettle River, Minn	19.4
Anoka Electric Cooperative, Anoka, Minn	14.8

Kandiyohi Cooperative Electric Power Association, Willmar, Minn	14.8
Wright-Hennepin Cooperative Electric Association, Maple Lake, Minn	15.1
Mille Lacs Electric Cooperative, Aitkin, Minn	14.6
North Pine Electric Cooperative, Finlayson, Minn	15.6
Overall weighted average to all member cooperatives	14.9

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1. Sho-Me Power Corp., Marshfield, Mo.
Missouri 59, Cole (G. & T.).

2. During the fiscal year ending June 30, 1962, this borrower generated 8,139 megawatt-hours. The cost of generation for this period including production expense, interest, insurance, depreciation, and taxes averaged 9.36 mills per kilowatt-hour. This plant was operated as required to meet member loads.

3. During the year, this borrower purchased a total of 425,907 megawatt-hours of firm power and energy at an average cost of 4.53 mills per kilowatt-hour from three power suppliers as follows: (1) Southwestern Power Administration, 171,612 megawatt-hours at an average cost of 5.20 mills per kilowatt-hour after credits allowed by SPA for furnishing of transmission facilities; (2) Central Electric Power Cooperative, 251,596 megawatt-hours at an average cost of 4.01 mills per kilowatt-hour; and (3) Union Electric Co., 2,699 megawatt-hours at an average cost of 10.23 mills per kilowatt-hour.

4. The cost per kilowatt-hour sold including all production and transmission costs, purchased power less facility credits allowed by SPA, losses, all costs related to this borrower's distribution system and administrative and general expense was 8.70 mills per kilowatt-hour.

5. During the fiscal year, this borrower sold 420,203 megawatt-hours at an average price of 9 mills per kilowatt-hour. Of this amount, 217,000 megawatt-hours were sold to members REA distribution borrowers at a cost of 7.51 mills per kilowatt-hour. The remaining energy was sold to this borrower's retail consumers and others under varying conditions of service.

The amount by which the average revenue received exceeds the total cost per kilowatt-hour sold is the margin above the cost of service and is the members' or patrons' additional equity in the facilities of the borrower.

6. Member cooperative purchasers (mills per kilowatt-hour (fiscal year 1962)):

Intercounty Electric Cooperative, Licking, Mo	7.6
Laclede Electric Cooperative, Lebanon, Mo	7.5
Three Rivers Electric Cooperative, Linn, Mo	8.0
White River Valley Electric Cooperative, Tipton, Mo	7.5
Howell-Oregon Electric Cooperative, West Plains, Mo	7.6
Southwest Electric Cooperative, Bolivar, Mo	7.6
Crawford Electric Cooperative, Bourbon, Mo	7.4
Webster Electric Cooperative, Marshfield, Mo	7.7
Se-Ma-No Electric Cooperative, Mansfield, Mo	7.7
Gascosage Electric Cooperative, Dixon, Mo	7.3
Weighted average to all member distribution cooperatives	(7.5)
M. & A. Electric Power Cooperative, Poplar Bluff, Mo	5.2
Central Electric Power Cooperative, Jefferson City, Mo	5.0
Overall weighted average to all member cooperatives	7.4

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1. M. & A. Electric Power Cooperative, Poplar Bluff, Mo.
Missouri 60, Ripley (G. & T.).

2. During fiscal year ending June 30, 1962, this borrower generated 33,599 net megawatt-hours. The cost of generation for this period including production expense, interest, insurance, depreciation and taxes averaged 8.25 mills per kilowatt-hour. This plant is operated to meet the load requirements of the system.

3. During this period, this borrower purchased 118,929 megawatt-hours of firm power and energy and dump energy at an average cost of 4.94 mills per kilowatt-hour from four power sources as follows: (1) Southwestern Power Administration, 107,000 megawatt-hours of firm and dump energy at an average cost of 4.07 mills per kilowatt-hour, (2) Black River Electric Cooperative, 7,742 megawatt-hours of firm energy delivered to isolated substations at an average cost of 9.34 mills per kilowatt-hour—Black River Electric Cooperative does not gen-

erate but purchased this power from Union Electric Co. of Missouri—(3) Sho-Me Power Corp., 3,660 megawatt-hours of firm energy delivered to isolated substations at an average cost of 5.16 mills per kilowatt-hour, (4) Arkansas Missouri Power Co., 527 megawatt-hours of firm energy delivered to isolated substations at an average cost of 11.58 cents per kilowatt-hour. The cost of energy purchased from SPA reflects the transmission credits received from SPA. The high cost of energy purchased from Arkansas Missouri reflects the minimum bill penalty due to discontinuance of service from this source.

4. The cost per kilowatt-hour sold including all production and transmission costs, purchased power, losses, and administrative and general expenses was 8.11 mills per kilowatt-hour in this same period.

5. During this fiscal year this borrower sold 147,633 megawatt-hours at an average price of 8.76 mills per kilowatt-hour; of this amount, 139,477 megawatt-hours were sold to member REA borrowers at an average cost of 9.01 mills per kilowatt-hour. The remaining energy was sold to others under varying conditions of service.

The amount by which the average revenue received exceeds the total cost per kilowatt-hour sold is the margin above the cost of service and is the members' or patrons' additional equity in the facilities of the borrower.

6. Member cooperative purchasers (mills per kilowatt-hour (fiscal year 1962)):

Pemiscot-Dunklin Electric Cooperative, Hayti, Mo	9.2
Scott-New Madrid-Mississippi Electric Cooperative, Sikeston, Mo	9.0
Ozark Border Electric Cooperative, Poplar Bluff, Mo	8.9
Black River Electric Cooperative, Fredericktown, Mo	9.0
Overall weighted average to all member cooperatives	9.0

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1. Northeast Missouri Electric Power Cooperative, Palmyra, Mo.
Missouri, 70, Shelby (G. & T.).

2. During fiscal year ending June 30, 1962, this borrower generated 82,390 net megawatt-hours. The cost of generation for this period including production expense, interest, insurance, depreciation and taxes averaged 10.47 mills per kilowatt-hour. These plants are operated to meet the load requirements of the system. During the year, borrower generation was supplemented with dump hydroenergy as made available from other sources.

3. During fiscal year ending June 30, 1962, this borrower purchased 38,996 megawatt-hours of dump hydroenergy and interruptible capacity and energy from the Southwestern Power Administration at an average cost of 1.54 mills per kilowatt hour.

4. The cost per kilowatt-hour sold including all production and transmission costs, purchased power, losses, and administrative and general expenses was 11.70 mills per kilowatt-hour.

5. During the year this borrower sold 113,183 megawatt-hours at an average price of 12.97 mills per kilowatt-hour. Of this amount 107,860 megawatt-hours were sold to member REA borrowers at an average price of 13.22 mills. The remaining 5,323 megawatt-hours were sold on a nonfirm basis.

The amount by which the average revenue received exceeds the total cost per kilowatt-hour sold is the margin above the cost of service and is the members' or patrons' additional equity in the facilities of the borrower.

6. Member cooperative purchases (mills per kilowatt-hour (fiscal year 1962)):

Southern Iowa Electric Cooperative, Bloomfield, Iowa	12.7
Missouri Rural Electric Cooperative Association, Palmyra, Mo	13.5
Lewis County Rural Electric Cooperative Association, Lewistown, Mo	13.8
Ralls County Electric Cooperative, New London, Mo	13.3
Macon Electric Cooperative, Macon, Mo	12.9
Tri-County Electric Cooperative Association, Lancaster, Mo	13.8
Overall weighted average to all member cooperatives	13.3

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1. Central Electric Power Cooperative, Jefferson City, Mo.
Missouri 71, Moniteau (G. & T.).

2. During fiscal year ending June 30, 1962, this borrower generated 323,452 net megawatt-hours in its 59,000-kilowatt steamplant. The cost of generation for this period including production expense, interest, insurance, depreciation.

and taxes averaged 5.73 mills per kilowatt-hour. Of the installed capacity, 15,000 kilowatts were exchanged, and the accompanying kilowatt-hour generated during the year related to this capacity were determined in accordance with borrower's power exchange arrangement with SPA then in effect. The remaining capacity was used directly to meet member borrowers' load requirements.

3. During fiscal year ending June 30, 1962, this borrower purchased 135,433 megawatt-hours of firm power energy and dump energy at an average cost of 5.42 mills per kilowatt-hour from two power sources as follows: (1) Southwestern Power Administration, 131,696 megawatt-hours of firm and dump energy for an average cost of 5.43 mills per kilowatt-hour, and (2) Sho-Me Power Corp., 3,737 megawatt-hours of firm energy at an average cost of 5.05 mills per kilowatt-hour.

4. The cost per kilowatt-hour sold including all production and transmission cost, purchased power, losses and administrative and general expenses was 4.94 mills per kilowatt-hour. This cost reflects operations under the borrower's power exchange arrangement with SPA, which provides reciprocal benefits to the parties through integration of the parties' power and transmission resources.

5. During this same period, this borrower sold 440,455 megawatt-hours at an average price of 5.86 mills per kilowatt-hour. Of this amount 188,859 megawatt-hours were sold to member distribution REA borrowers at an average price of 7.98 mills per kilowatt-hour and 251,596 megawatt-hours was sold to a member G. & T. REA borrower (Sho-Me Power Corp.) at an average price of 4.01 mills per kilowatt-hour, on a firm basis.

The amount by which the average revenue received exceeds the total cost per kilowatt-hour sold is the margin above the cost of service and is the members' or patrons' additional equity in the facilities of the borrower.

6. Member cooperative purchasers (mills per kilowatt-hour (fiscal year 1962)):

Boone Electric Cooperative, Columbia, Mo	8.2
Howard Electric Cooperative, Fayette, Mo	7.7
Callaway Electric Cooperative, Fulton, Mo	7.7
Consolidated Electric Cooperative, Mexico, Mo	7.7
Central Missouri Electric Cooperative, Sedalia, Mo	8.9
Three Rivers Electric Cooperative, Linn, Mo	8.4
Co-Mo Electric Cooperative, Tipton, Mo	8.2
Cuivre River Electric Cooperative, Troy, Mo	7.6
Overall weighted average distribution member purchaser	(8.1)
Sho-Me Power Corp., Marshfield, Mo	4.0
Overall weighted average to all borrower purchasers	5.7

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1. N. W. Electric Power Cooperative, Inc., Cameron, Mo.
Missouri 72, Gentry (G. & T.).

2. During the fiscal year ending June 30, 1962, this borrower generated 77,787 net megawatt-hours. The cost of generation for this period including production expense, interest, insurance, depreciation, and taxes averaged 14.39 mills per kilowatt-hour. The output of this plant was exchanged and the kilowatt-hours generated during the year were determined in accordance with the borrower's power exchange arrangements with SPA then in effect.

3. During the year this borrower purchased a total of 235,985 megawatt-hours of power and energy at an average cost of 6.29 mills per kilowatt-hour from two power sources as follows: (1) Southwestern Power Administration, 225,305 megawatt-hours of firm power and energy at an average cost of 6.40 mills per kilowatt-hour and 953 megawatt-hours of dump energy at 1.50 mills per kilowatt-hour; (2) Kansas City Power & Light Co., 9,727 megawatt-hours of firming energy at an average cost of 4.24 mills per kilowatt-hour.

4. The average total cost per kilowatt-hour sold during this year including production and transmission costs, purchased power, losses and administrative and general expenses was 5.77 mills per kilowatt-hour. This cost reflects operations under the borrower's power exchange arrangement with SPA, which provides for reciprocal benefits to the parties through integration of the parties' power and transmission resources.

5. This borrower sold 231,509 megawatt-hours at an average price of 7.57 mills per kilowatt-hour to its member REA borrowers. No energy was sold to other than member REA borrowers.

The amount by which the average revenue received exceeds the total cost per kilowatt-hour sold is the margin above the cost of service and is the members' or patrons' additional equity in the facilities of the borrower.

6. Member cooperative purchasers (mills per kilowatt-hour (fiscal year 1962)):

Northwest Missouri Electric Cooperative, Savannah, Mo	9.0
Atchison-Holt Electric Cooperative, Rock Port, Mo	7.8
Platte-Clay Electric Cooperative, Platte City, Mo	7.3
Farmers' Electric Cooperative, Chillicothe, Mo	7.5
Grundy Electric Cooperative, Trenton, Mo	7.5
West Central Electric Cooperative, Higginsville, Mo	8.0
Nodaway-Worth Electric Cooperative, Maryville, Mo	8.0
North Central Missouri Electric Cooperative, Milan, Mo	7.2
Overall weighted average to all member cooperatives	7.6

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1. The Central Nebraska Public Power & Irrigation District, Hastings, Nebr. Nebraska 94, Adams (G. & T.).

2. This borrower generated 528,567 megawatt-hours during calendar year 1962. The cost of generation during this period, including production expense, interest, insurance, depreciation, and taxes averaged 5.17 mills per kilowatt-hour. The entire output of this plant is made available to the Nebraska Public Power System. This system operates the generating and transmission facilities of the Loup River Public Power District (an REA borrower) and the Platte Valley Public Power & Irrigation District. This system, in turn, supplies the power and energy requirements of 27 Nebraska rural public power districts who are REA borrowers.

3. This borrower does not purchase power for the purpose of making energy available to the Nebraska Public Power System.

4 and 5. The entire output of this plant is sold to the Nebraska Public Power System which, in turn, reimburses this borrower for the annual cost for the output of this unit. See material on Loup River Public Power District for sales to the 27 rural public power districts.

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1. Loup River Public Power District, Columbus, Nebr. Nebraska 96, Loup (G. & T.).

2. The 30,000 kilowatts of steam generating capacity for which loan funds were made available to this borrower is operated in conjunction with other generating facilities of the Nebraska Public System not financed by REA. This borrower also utilizes the output of the generating plant of the Central Nebraska Public Power and Irrigation District and the transmission line leased from the Nebraska Electric Generation & Transmission Cooperative (REA borrowers) to supply the power and energy requirements of 27 rural public power districts who are also REA borrowers.

3. This borrower is not required to submit to REA the amount or cost of power purchased.

4. This borrower is not required to submit to REA the overall cost of power sold.

5. This borrower is not required to submit to REA data on its total sales or revenue received. The 27 rural public power districts who are REA borrowers purchased during the fiscal year ending June 30, 1962, 764,212 megawatt-hours at an average cost of 8.70 mills per kilowatt-hour. The system's rate schedule, under which it sells power to the rurals, is reviewed every 3 years.

6. The following rural public power districts are served (mills per kilowatt-hour (fiscal year 1962)):

Polk County Rural Public Power District, Stromsburg, Nebr	9.0
Eastern Nebraska Public Power District, Syracuse, Nebr	8.2
Howard Greeley Rural Public Power District, St. Paul, Nebr	8.6
Burt County Public Power District, Tekamah, Nebr	8.7
Cuming County Public Power District, West Point, Nebr	8.4
Cedar-Knox County Rural Public Power District, Hartington, Nebr	8.8
Butler County Rural Public Power District, David City, Nebr	8.8
Seward County Rural Public Power District, Seward, Nebr	8.9
Stanton County Public Power District, Stanton, Nebr	8.8

York County Rural Public Power District, York, Nebr	9.3
Wayne County Public Power District, Wayne, Nebr	8.9
Northeast Nebraska Rural Public Power District, Emerson, Nebr	8.6
Elkhorn Rural Public Power District, Battle Creek, Nebr	8.7
Southern Nebraska Rural Public Power District, Grand Island, Nebr	9.7
Norris Public Power District, Beatrice, Nebr	8.5
Dawson County Public Power District, Lexington, Nebr	9.2
McCook Public Power District, McCook, Nebr	7.6
Niobrara Valley Electric Membership Corp., O'Neill, Nebr	8.7
Cornhusker Rural Public Power District, Columbus, Nebr	8.9
Custer Public Power District, Broken Bow, Nebr	8.6
North Central Public Power District, Creighton, Nebr	8.8
KBR Rural Public Power District, Ainsworth, Nebr	8.8
Twin Valleys Public Power District, Cambridge, Nebr	8.9
Southwest Public Power District, Palisade, Nebr	8.1
Franklin County Rural Public Power District, Franklin, Nebr	8.7
Loup Valleys' Rural Public Power District, Ord, Nebr	8.7
South Central Public Power District, Nelson, Nebr	8.8
Overall weighted average to all 27 rural districts	8.7

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1. Nebraska Electric Generation & Transmission Cooperative, Inc., Columbus, Nebr.

Nebraska 104, West Point (G. & T.).

2. This borrower has no generating facilities. A loan was made to this borrower for the construction of a high voltage transmission line. This line is leased to the Loup River Public Power District and Platte Valley Public Power & Irrigation District. These two districts operate as the Nebraska Public Power System. This line enables the system to purchase Bureau of Reclamation power as part of their power resources to serve 27 Nebraska rural public power districts who are REA borrowers.

3, 4, and 5. This borrower does not purchase or sell power.

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1. Plains Electric Generation & Transmission Cooperative, Inc., Albuquerque, N. Mex.

New Mexico 18, Plains (G. & T.).

2. During calendar year 1962, this borrower generated 192,347 net megawatt-hours. The cost of generation for this period, including production expense, interest, insurance, depreciation and taxes averaged 6.42 mills per net kilowatt-hour. The plant is operated to meet the load requirements of the system.

3. During the year this borrower purchased 72,710 megawatt-hours of energy at an average cost of 5.84 mills per kilowatt-hour from three power sources as follows: (1) U.S. Bureau of Reclamation, 47,593 megawatt-hours of firm and secondary energy for an average cost of 5.43 mills per kilowatt-hour; (2) Public Service Co. of New Mexico, 25,051 megawatt-hours of firming capacity and energy for an average cost of 6.63 mills per kilowatt-hour; (3) city of Raton, 66 megawatt-hours for exchange energy at an average cost of 4 mills per kilowatt-hour.

4. The cost per kilowatt-hour sold including all production and transmission costs, purchased power, losses, and administrative and general expenses was 8.48 mills per kilowatt-hour.

5. During this year 257,851 megawatt-hours of energy was sold to member REA borrowers at an average price of 9.43 mills per kilowatt-hour. No energy was sold to other consumers.

The amount by which the average revenue received exceeds the total cost per kilowatt-hour sold is the margin above the cost of service and is the members' or patrons' additional equity in the facilities of the borrower.

6. Member cooperative purchasers (mills per kilowatt-hour (fiscal year 1962)):

Kit Carson Electric Cooperative, Taos, N. Mex	9.8
Otero County Electric Cooperative, Cloudcroft, N. Mex	9.3
Mora-San Miguel Electric Cooperative, Mora, N. Mex	9.9
Northern Rio Arriba Electric Cooperative, Chama, N. Mex	9.6
Sierra Electric Cooperative, Truth or Consequences, N. Mex	9.1

Springer Electric Cooperative, Springer, N. Mex	10.4
Socorro Electric Cooperative, Socorro, N. Mex	9.6
Central New Mexico Electric Cooperative, Mountainair, N. Mex	9.4
Continental Divide Electric Cooperative, Grants, N. Mex	8.7
Columbus Electric Cooperative, Deming, N. Mex	9.9
Jemez Mountain Electric Cooperative, Espanola, N. Mex	9.6
Overall weighted average to all member cooperatives	9.4

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1. Minnkota Power Cooperative, Inc., Grand Forks, N. Dak.
North Dakota 20, Grand Forks (G. & T.).

2. During calender year 1962, this borrower generated 44,737 megawatt-hours. The cost of generation for this period including production expense, interest, insurance, depreciation and taxes averaged 19.36 mills per kilowatt-hour. These plants are operated as required to meet the load or on standby as determined by the availability of power and energy from other sources.

3. During 1962 this borrower purchased 330,312 megawatt-hours of energy at an average cost of 3.81 mills per kilowatt-hour. Of this amount, 305,922 megawatt-hours of firm and secondary power were purchased from the U.S. Bureau of Reclamation at an average cost of 3.78 mills per kilowatt-hour; 24,381 megawatt-hours of displacement power and energy were purchased from the Northern States Power Co. at an average cost of 4.06 mills per kilowatt-hour; and 9 megawatt-hours of nonfirm energy were purchased from the municipality of Thief River Falls at a cost of 2.50 mills per kilowatt-hour.

4. The cost per kilowatt-hour sold, including all production and transmission costs, purchased power, losses and administrative and general expense was 10.02 mills per kilowatt-hour.

5. During this year this borrower sold 352,427 megawatt-hours at an average price of 10.39 mills per kilowatt-hour. Of this total, 348,142 megawatt-hours were sold to member REA borrowers at an average price of 10.38 mills per kilowatt-hour. The remaining kilowatt-hours were sold to other consumers under varying conditions of service.

The amount by which the average revenues received exceeds the total cost per kilowatt-hour sold is the margin above the cost of service and is the members' or patrons' additional equity in the facilities of the borrower.

6. Member cooperative purchasers (mills per kilowatt-hour (fiscal year 1962)):

Red River Valley Cooperative Power Association, Halstad, Minn	10.6
Red Lake Electric Cooperative, Red Lake Falls, Minn	10.5
Itasca-Mantrap Cooperative Electrical Association, Park Rapids, Minn	10.8
P.K.M. Electric Cooperative, Warren, Minn	10.5
North Star Electric Cooperative, Baudette, Minn	13.3
Beltrami Electric Cooperative, Bemidji, Minn	10.4
Roseau Electric Cooperative, Roseau, Minn	13.9
Clearwater-Polk Electric Cooperative, Bagley, Minn	10.7
Cass County Electric Cooperative, Kindred, N. Dak	10.8
Nodak Rural Electric Cooperative, Grand Forks, N. Dak	10.3
Sheyenne Valley Electric Cooperative, Finley, N. Dak	10.8
Cavalier Rural Electric Cooperative, Langdon, N. Dak	11.4
Overall weighted average to all member cooperatives	10.8

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1. Dakotas Electric Cooperative, Inc., Bismarck, N. Dak.
North Dakota 40, Burleigh (G. & T.).

2. The 7,500-kilowatt-generating unit for which money was loaned to this borrower is installed in the Beulah plant of the Montana-Dakota Utilities Co. This unit and transmission lines are operated and being purchased by the company. The company pays all costs on these facilities and in turn sells power and energy to this borrower as may be required by the borrower to supplement the power purchased from the U.S. Bureau of Reclamation.

3. During the calendar year 1962, this borrower purchased its entire power and energy requirements totaling 194,340 megawatt-hours from the U.S. Bureau of Reclamation at an average cost of 5.01 mills per kilowatt-hour.

4. Total cost per kilowatt-hour sold, including purchased power, and administrative and general expenses, was 5.28 mills per kilowatt-hour.

5. During the year, 194,340 megawatt-hours of energy was sold to member REA borrowers at an average cost of 5.51 mills per kilowatt-hour. No energy was sold to other consumers.

The amount by which the average revenue received exceeds the total cost per kilowatt-hour sold is the margin above the cost of service and is the members' or patrons' additional equity in the facilities of the borrower.

6. Member cooperative purchasers (mills per kilowatt-hour (fiscal year 1962)):

Mor-Gran-Sou Electric Cooperative, Inc., Flasher, N. Dak	5.7
James Valley Electric Cooperative, Edgeley, N. Dak	5.8
KEM Electric Cooperative, Linton, N. Dak	5.8
McKenzie Electric Cooperative, Watford City, N. Dak	5.6
Oliver-Mercer Electric Cooperative, Hazen, N. Dak	5.8
West Plains Electric Cooperative, Dickinson, N. Dak	5.4
Slope Electric Cooperative, New England, N. Dak	5.7
Capital Electric Cooperative, Bismarck, N. Dak	5.7
Northern Electric Cooperative, Aberdeen, S. Dak	5.8
Cam Wal Electric Cooperative, Selby, S. Dak	5.8
FEM Electric Association, Ipswich, S. Dak	5.8
Oahe Electric Cooperative, Blunt, S. Dak	5.7
Moreau-Grand Electric Cooperative, Timber Lake, S. Dak	4.7
Grand Electric Cooperative, Bison, S. Dak	4.6
Overall weighted average to all member cooperatives	5.5

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1. Central Power Electric Cooperative, Inc., Minot, N. Dak.
North Dakota 42, Ward (G. & T.).

2. During the calendar year 1962, this borrower generated 258,836 megawatt-hours. The average cost per kilowatt-hour generated during this year including production expense, interest, insurance, depreciation and taxes was 4.92 mills per kilowatt-hour. This plant was operated to meet the load requirements of the system.

3. Firm and secondary power and energy were purchased during this year in the amount of 40,257 megawatt-hours from the Bureau of Reclamation at an average cost of 5 mills per kilowatt-hour.

4. The average cost of energy sold during this year including production and transmission costs, purchased power, wheeling charges, losses and administrative and general expense was 6.81 mills per kilowatt hour.

5. The total amount of energy sold during the year was 280,837 megawatt hours at an average price of 7.55 mills per kilowatt-hour. Of this amount 209,741 megawatt-hours were sold to member REA borrowers at an average price of 9.01 mills per kilowatt-hour. The remaining energy was sold to others on a nonfirm basis.

The amount by which the average revenue received exceeds the total cost per kilowatt-hour is the margin above the cost of service and is the members' or patrons' additional equity in the facilities of the borrower.

6. Member cooperative purchasers (mills per kilowatt-hour (fiscal year 1962)):

Baker Electric Cooperative, Cando, N. Dak	9.3
Tri-County Electric Cooperative, Carrington, N. Dak	8.8
Verendrye Electric Cooperative, Velva, N. Dak	8.5
R. S. R. Electric Cooperative, Milnor, N. Dak	9.3
North Central Electric Cooperative, Bottineau, N. Dak	8.8
James Valley Electric Cooperative, Edgeley, N. Dak	9.4
Capital Electric Cooperative, Bismarck, N. Dak	8.4
McLean Electric Cooperative, Garrison, N. Dak	9.0
Overall weighted average to all member cooperatives	8.9

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1. Western Farmers Electric Cooperative, Anadarko, Okla.
Oklahoma 32, Comanche (G. & T.).

2. During calendar year 1962, this borrower generated 401,357 net megawatt-hours. The cost of generation for this period including production expense, interest, insurance, depreciation, and taxes averaged 4.36 mills per kilowatt-hour. Of this borrower's 78,400 kilowatts of generating capacity, 30,000 kilowatts were exchanged, and the accompanying megawatt-hours generated during

the year related to this capacity were determined in accordance with the borrower's power exchange arrangement with SPA then in effect. The remaining capacity was used directly to meet the borrower's load requirements.

3. During the year, this borrower purchased a total of 86,323 megawatt-hours of firm power and energy and dump energy at an average cost of 9.90 mills per kilowatt-hour from 4 sources as follows: (1) Southwestern Power Administration, 56,235 megawatt-hours of firm and dump energy at an average cost of 10.91 mills per kilowatt-hour; (2) Southwest Rural Electric Association, 16,937 megawatt-hours of firm energy at an average cost of 8.07 mills per kilowatt-hour; (3) Caddo Electric Cooperative, 12,510 megawatt-hours of firm energy at an average cost of 7.96 mills per kilowatt-hour; and (4) Cotten Electric Cooperative, 641 megawatt-hours of firm energy at an average cost of 7.40 mills per kilowatt-hour. The purchases in (2), (3), and (4) above were delivered to isolated substations and purchased by the members from commercial companies.

4. The average cost per kilowatt-hour sold, including all production and transmission costs, purchased power, losses, and administrative and general expenses averaged 4.97 mills for the year. This cost reflects operations under the borrower's power exchange arrangements with SPA, which provide for reciprocal benefits to the parties through integration of the parties' power and transmission resources.

5. The total sales of this borrower for calendar year 1962 were 411,903 megawatt-hours for an average price of 6.83 mills per kilowatt-hour. Of this amount, 366,342 megawatt-hours were sold to member REA borrowers at an average price of 6.76 mills per kilowatt-hour. The remaining energy was sold to others under varying conditions of service.

The amount by which the average revenue received exceeds the total cost per kilowatt-hour sold is the margin above the cost of service and is the members' or patrons' additional equity in the facilities of the borrower.

6. Member cooperative purchasers (mills per kilowatt-hour (fiscal year 1962)):

Cimarron Electric Cooperative, Kingfisher, Okla	7.0
Caddo Electric Cooperative, Binger, Okla	7.0
Oklahoma Electric Cooperative, Norman, Okla	6.8
Alfalfa Electric Cooperative, Cherokee, Okla	6.9
Southwest Rural Electric Association, Tipton, Okla	7.0
Northfork Electric Cooperative, Sayre, Okla	7.3
Rural Electric Cooperative, Lindsay, Okla	6.0
Kiwash Electric Cooperative, Cordell, Okla	7.2
Cotten Electric Cooperative, Walters, Okla	6.1
Harmon Electric Association, Hollis, Okla	8.2
Northwestern Electric Cooperative, Woodward, Okla	6.8
Overall weighted average to all member cooperatives	6.7

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1. Central Electric Power Cooperative, Inc., Cayce, S.C.
South Carolina 50, Santee (G. & T.).

2. This borrower does not own any generation facilities. The entire power and energy requirements for its members are purchased by the borrower from the South Carolina Public Service Authority. The loan to this borrower was for transmission facilities to serve its members. These facilities are leased to and operated by the South Carolina Public Service Authority. The authority pays the entire cost on these facilities.

3. During calendar year 1962, this borrower purchased 448,856 megawatt-hours from the South Carolina Public Service Authority at an average cost of 6.40 mills per kilowatt-hour in accordance with the provisions of the lease agreement between the parties.

4. Total cost per kilowatt-hour sold, including purchased power, losses, and administrative and general expense was 6.60 mills per kilowatt-hour.

5. During the same period, 440,055 megawatt-hours were sold to member REA borrowers at an average cost of 6.65 mills per kilowatt-hour. No energy was sold to other consumers. The amount by which the average revenue received exceeds the total cost per kilowatt-hour sold is the margin above the cost of service and is the members' or patrons' additional equity in the facilities of the borrower.

6. Member cooperative purchasers (mills per kilowatt-hour (fiscal year 1962)):

Aiken Electric Cooperative, Aiken, S.C	6.65
Lynches River Electric Cooperative, Pageland, S.C	6.65
Fairfield Electric Cooperative, Winnsboro, S.C	6.65
Edisto Electric Cooperative, Bamberg, S.C	6.65
Marion Electric Cooperative, Marion, S.C	6.65
Pee Dee Electric Cooperative, Darlington, S.C	6.65
Marlboro Electric Cooperative, Bennettsville, S.C	6.65
Santee Electric Cooperative, Kingstree, S.C	6.65
Black River Electric Cooperative, Sumter, S.C	6.65
Coastal Electric Cooperative, Walterboro, S.C	6.65
Horry Electric Cooperative, Conway, S.C	6.65
Tri-County Electric Cooperative, St. Matthews, S.C	6.65
Newberry Electric Cooperative, Newberry, S.C	6.65
Salkehatchie Electric Cooperative, Barnwell, S.C	6.65
Mid-Carolina Electric Cooperative, Lexington, S.C	6.65
Palmetto Electric Cooperative, Ridgeland, S.C	6.65
Overall weighted average to all member cooperatives	6.65

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1. East River Electric Power Cooperative, Inc., Madison, S. Dak.
South Dakota 43, Minnehaha (G. & T.).

2. This borrower has no generating facilities. It purchases all of its power and energy requirements from the U.S. Bureau of Reclamation at various delivery points.

3. During calendar year 1962, this borrower purchased from the U.S. Bureau of Reclamation a total of 351,786 megawatt-hours for an average cost of 3.96 mills per kilowatt-hour. The average cost per kilowatt-hour reflects the 1 mill per kilowatt-hour wheeling discount received from the Bureau by the borrower for ownership of its transmission lines.

4. The cost per kilowatt-hour sold including purchased power, transmission costs, losses, and administrative and general expense was 6.89 mills per kilowatt-hour.

5. During this period, this borrower sold 339,796 megawatt-hours to its member REA borrowers at an average price of 7.67 mills per kilowatt-hour. No energy was sold to other consumers.

The amount by which the average revenue received exceeds the total cost per kilowatt-hour sold is the margin above the cost of service and is the members' or patrons' additional equity in the facilities of the borrower.

6. Member cooperative purchasers (mills per kilowatt-hour (fiscal year 1962)):

Traverse Electric Cooperative, Wheaton, Minn	7.5
Clay-Union Electric Corp., Vermillion, S. Dak	7.2
Union County Electric Cooperative, Elk Point, S. Dak	7.2
Lincoln-Union Electric Co., Alcester, S. Dak	7.4
Sioux Valley Empire Electric Association, Colman, S. Dak	7.3
Whetstone Valley Electric Cooperative, Milbank, S. Dak	7.6
H-D Electric Cooperative, Clear Lake, S. Dak	7.4
Codington-Clark Electric Cooperative, Watertown, S. Dak	7.4
Turner-Hutchinson Electric Cooperative, Marion, S. Dak	7.3
Lake Region Electric Association, Webster, S. Dak	7.3
Northern Electric Cooperative, Aberdeen, S. Dak	7.2
Intercounty Electric Association, Mitchell, S. Dak	7.4
Bon Homme-Yankton Electric Association, Tabor, S. Dak	7.3
Tri-County Electric Association, Plankinton, S. Dak	7.4
McCook Electric Cooperative, Salem, S. Dak	7.4
Ree Electric Cooperative, Miller, S. Dak	7.4
Kingsbury Electric Cooperative, De Smet, S. Dak	7.4
Charles Mix Electric Association, Lake Andes, S. Dak	7.4
Beadle Electric Cooperative, Huron, S. Dak	7.4
Spink Electric Cooperative, Redfield, S. Dak	7.3
Douglas Electric Cooperative, Armour, S. Dak	7.6
Overall weighted average to all member cooperatives	7.3

1. Rushmore Electric Power Cooperative, Inc., Rapid City, S. Dak.
South Dakota 44, Pennington (G. & T.).

2. The 16,500-kilowatt and the 10,000-kilowatt units for which this borrower received REA loans are installed in the Kirk and Osage plants of the Black Hills Power & Light Co. and are lease operated by this company. The lease agreement provides that the company pays all costs on these units and in turn sells power to the borrower as may be required by the borrower to supplement its firm power purchases from the Bureau of Reclamation.

3. During the calendar year of 1962, this borrower purchased its entire power requirements which totaled 143,906 megawatt-hours of firm power and energy at an average cost of 5.53 mills per kilowatt-hour. Of this amount 93,702 megawatt-hours were purchased from the U.S. Bureau of Reclamation at an average cost of 5 mills per kilowatt-hour and 50,204 megawatt-hours were purchased from the Black Hills Power & Light Co. at an average of 6.46 mills per kilowatt-hour.

4. The total cost per kilowatt-hour sold including purchased power, and administrative and general expenses, was 5.84 mills per kilowatt-hour.

5. During this year the borrower sold 143,906 megawatt-hours to its members REA borrowers at an average price of 5.92 mills per kilowatt-hour. No power was sold to other consumers.

The amount by which the average revenue exceeds the total cost per kilowatt-hour sold is the margin above the cost of service and is the members' or patrons' additional equity in the facilities of the borrower.

6. Member cooperative purchasers (mills per kilowatt-hour (fiscal year 1962)):

West River Electric Association, Wall, S. Dak	5.6
Black Hills Electric Cooperative, Custer, S. Dak	5.5
Butte Electric Cooperative, Newell, S. Dak	5.6
Lacreek Electric Association, Martin, S. Dak	5.4
West Central Electric Cooperative, Murdo, S. Dak	5.6
Tri-County Electric Association, Sundance, Wyo	6.7
Overall weighted average to all member cooperatives	6.0

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1. Brazos Electric Power Cooperative, Inc., Waco, Tex.
Texas 121, Brazos (G. & T.).

2. During calendar year 1962, this borrower generated 388,360 megawatt-hours. The cost of generation for this period including production expense, interest, insurance, depreciation, and taxes averaged 4.21 mills per kilowatt-hour. The borrower's plants are operated to meet the load requirements of the system.

3. During the year, this borrower purchased 140,660 megawatt-hours of firm energy and nonfirm power and energy at an average cost of 6.84 mills per kilowatt-hour. These energy purchases were as follows: (1) Firm power and energy at isolated delivery points: (*a*) Gulf States Utilities, 6,989 megawatt-hours at 6.84 mills per kilowatt-hour; (*b*) Lower Colorado River Authority, 14,179 megawatt-hours at 6.04 mills per kilowatt-hour; (*c*) Southwestern Electric Service, 128 megawatt-hours at 8.44 mills per kilowatt-hour; (*d*) West Texas Utilities, 32,907 megawatt-hours at 7.05 mills per kilowatt-hour; (*e*) Texas Electric Service Co., 30,563 megawatt-hours at 6.38 mills per kilowatt-hour; (*f*) Texas Power & Light, 15,587 megawatt-hours at 6.46 mills per kilowatt-hour; (*g*) Southwestern Power Administration, 21,181 megawatt-hours at 7.11 mills per kilowatt-hour. (2) Supplemental and emergency power was purchased from the following: (*a*) Texas Power & Light, 205 megawatt-hours at 2.75 cents per kilowatt-hour; (*b*) city of Bryan, 96 megawatt-hours at 5.05 cents per kilowatt-hour; (*c*) city of Denton, 16 megawatt-hours at 3.61 cents per kilowatt-hour; (*d*) city of Garland, 1,971 megawatt-hours at 2.15 cents per kilowatt-hour; (*e*) city of Greenville, 7 megawatt-hours at 2.97 cents per kilowatt-hour; (*f*) city of Weatherford, 2,377 megawatt-hours at 6.47 mills per kilowatt-hour. (3) The remaining 14,454 megawatt-hours of energy purchased were obtained from the Morris Sheppard Dam at an average cost of 5.54 mills per kilowatt-hour.

4. The cost per kilowatt-hour sold including all production and transmission costs, purchased power, losses, and administrative and general expense was 7.96 mills per kilowatt-hour.

5. During this year, the borrower sold 494,560 megawatt-hours at an average price of 8.84 mills per kilowatt-hour. Of this total amount sold, 438,357 megawatt-hours were sold to REA borrowers at an average price of 8.89 mills per

kilowatt-hour. The remaining energy was sold to others under varying conditions of service.

The amount by which the average revenue exceeds the total cost per kilowatt-hour sold is the margin above the cost of service and is the members' or patrons' additional equity in the facilities of the borrower.

6. Member cooperative purchasers (mills per kilowatt-hour (fiscal year 1962)):

Bartlett Electric Cooperative, Bartlett, Tex	9.4
Belfalls Electric Cooperative, Rosebud, Tex	9.9
Hill County Electric Cooperative, Itasca, Tex	9.8
Limestone County Electric Cooperative, Mart, Tex	9.2
Denton County Electric Cooperative, Denton, Tex	9.3
McLennan County Electric Cooperative, McGregor, Tex	9.4
Navarro County Electric Cooperative, Corsicana, Tex	9.5
Cooke County Electric Cooperative Association, Muenster, Tex	8.2
Erath County Electric Cooperative, Stephenville, Tex	9.3
Hamilton County Electric Cooperative Association, Hamilton, Tex	9.1
J–A–C Electric Cooperative Association, Bluegrove, Tex	8.3
Johnson County Electric Cooperative Association, Cleburne, Tex	9.2
Wise Electric Cooperative, Decatur, Tex	9.2
Comanche County Electric Cooperative, Comanche, Tex	8.9
Fort Belknap Electric Cooperative, Olney, Tex	8.2
Tri-County Electric Cooperative, Azle, Tex	9.4
Mid-South Electric Cooperative Association, Navasota, Tex	9.5
Robertson Electric Cooperative, Franklin, Tex	9.5
B–K Electric Cooperative, Seymour, Tex	9.1
Overall weighted average to all member cooperatives	8.9

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1. Dairyland Power Cooperative, LaCrosse, Wis.
Wisconsin 64, LaCrosse (G. & T.).

2. During calendar year 1962, this borrower generated 1,151,773 megawatt-hours. The cost of generation for this period including production expense, interest, insurance, depreciation, and taxes averaged 5.75 mills per kilowatt-hour. The borrower's plants are operated to meet the load requirements of the system.

3. During the year, this borrower purchased emergency energy in the amount of 4 megawatt-hours from Lake Superior District Power Co. at an average cost of 6.50 mills per kilowatt-hour and from Northern States Power Co. the borrower purchased 5 megawatt-hours of emergency energy at an average cost of 10 mills per kilowatt-hour and spinning reserve capacity for $173. The overall average cost of these purchases is 2.86 cents per kilowatt-hour.

4. The cost per kilowatt-hour sold including all production and transmission costs, losses and administrative and general expense was 8.80 mills per kilowatt-hour.

5. During the year, this borrower sold 1,073,197 megawatt-hours at an average price of 10.66 mills per kilowatt-hour. Of this total amount sold, 921,357 megawatt-hours were sold to member REA borrowers at an average price of 11.40 mills per kilowatt-hour. The remainder of the energy was sold to other consumers under varying conditions of service.

The amount by which the average revenue received exceeds the total costs per kilowatt-hour sold is the margin above the cost of service and is the members' or patrons' additional equity in the facilities of the borrower.

6. Member cooperative purchasers (mills per kilowatt-hour (fiscal year 1962)):

Jo-Carroll Electric Cooperative, Elizabeth, Ill	12.5
Winnebago Rural Electric Cooperative Association, Thompson, Iowa	11.2
Hawkeye Tri-County Electric Cooperative, Cresco, Iowa	12.2
Cedar Valley Electric Cooperative, St. Ansgar, Iowa	10.9
Allamakee-Clayton Electric Cooperative, Postville, Iowa	11.8
Tri-County Electric Cooperative, Rushford, Minn	11.4
People's Cooperative Power Association, Rochester, Minn	11.1
Freeborn-Mower Electric Cooperative, Albert Lea, Minn	11.8
Chippewa Valley Electric Cooperative, Cornell, Wis	11.9
Taylor County Electric Cooperative, Medford, Wis	11.6
Oakdale Cooperative Electrical Association, Oakdale, Wis	10.5
Buffalo Electric Cooperative, Alma, Wis	12.0

Clark Electric Cooperative, Greenwood, Wis	12.8
Pierce-Pepin Electric Cooperative, Ellsworth, Wis	10.5
Richland Cooperative Electric Association, Richland Center, Wis	11.6
Trempealeau Electric Cooperative, Arcadia, Wis	10.9
Barron County Electric Cooperative, Barron, Wis	9.8
Vernon Electric Cooperative, Westby, Wis	11.4
Grant Electric Cooperative, Lancaster, Wis	11.4
Lafayette Electric Cooperative, Darlington, Wis	12.2
Jackson Electric Cooperative, Black River Falls, Wis	11.7
Dunn County Electric Cooperative, Menomonie, Wis	12.1
St. Croix County Electric Cooperative, Baldwin, Wis	11.9
Crawford Electric Cooperative, Gays Mills, Wis	12.1
Eau Claire Electric Cooperative, Eau Claire, Wis	11.7
Polk-Burnett Electric Cooperative, Centuria, Wis	11.7
Jump River Electric Cooperative, Ladysmith, Wis	12.0
Overall weighted average to all member cooperatives	11.5

SHO-ME POWER CORP., MARSHFIELD, MO.

Sho-Me Power Corp. was organized in February 1947, as the successor to Sho-Me Power Cooperative. The cooperative was organized in 1941 under the Cooperative Companies Act of Missouri, by distribution cooperatives for the purpose of providing a source of adequate, low priced power for the cooperatives. Following a Missouri Supreme Court decision in 1946 that the cooperative could not engage in the electric utility business under that act, a reorganization was carried out with the court's approval. The reorganization included formation of the Sho-Me Power Corp. under the General and Business Corporation Act, and the transfer of the cooperative's assets and liabilities to the corporation.

Prior to the reorganization, the cooperative had issued 33 shares of stock, which were held by 32 distribution cooperatives and the cooperative's secretary. At the time the reorganization was completed in December 1947, the successor corporation had issued 108 shares of stock, which were held as follows: Each of the 9 incorporators held 1 share, and 11 distribution cooperatives held 9 shares each.

At the present time, Sho-Me Power Corp. has 88 shares of stock outstanding held as follows: 7 of the original incorporators hold 1 share each and 9 distribution cooperatives hold 9 shares each.

At the time of the reorganization, Sho-Me Power Cooperative was furnishing a portion of the power requirements of six cooperatives at an average price of 12.1 mills per kilowatt-hour. At present, Sho-Me Power Corp. supplies all or a part of the power requirements of 10 cooperatives at an average price of 7.5 mills per kilowatt-hour.

During fiscal year 1962, Sho-Me Power Corp. operated its 3,000 kilowatt hydroplant as required for meeting peak loads of the system. The cost of generation, including production expense, interest, insurance, depreciation, and taxes averaged 9.36 mills per kilowatt-hour for the year.

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