

# ONE CENT POWER . . . . Symbol for Better Living

Address of Pres. Owen W. Hurd before the Northwest Public Power Association May 7, 1953

Recently on a trip East I ran across a newspaper advertisement which read something like this: "Electricity is today's biggest bargain. While everything else is going up, your electric company is holding down electric rates. Use low cost electricity plentifully. Electricity is cheap. The more you use the cheaper it gets."

So I looked up the rate schedule of the utility and found to my utter amazement that the first step in the residential rate schedule was six cents per kilowatt hour and the final or lowest step was three cents per kilowatt hour. If you really go all electric, you get down to the low-cost power rate of three cents per kilowatt hour. This is what people in many areas are told is low cost power.

How can the public be protected against this technique of the BIG LIE? Our systems, by sheer hard work and the most economical management have earned the legitimate reputations which are suggested by such expressions as low cost power, cheap electricity and reasonable rates. Several years ago a former president of this association, Ford Northrop, stated our ideal to be the furnishing of "the best possible electric service at the lowest possible rates." Who would think that the advertising agencies of the private electric corporations would steal the idea of low cost power and apply it to the exorbitant rate schedules which they are imposing upon people in many areas. Yet it is a fact. The companies have stolen our labels. We do not have a monopoly on the expression, "low cost power." We do have the goods which should go under that label. I think the best answer to this problem is to find a better label. For this reason I suggest that we aim at and use a new slogan or motto: ONE CENT POWER.

By one cent power I mean the supply of electric service to all residents in the service area of a utility at an average rate of one cent per kilowatt hour. For the purpose of these remarks I am omitting rural rates, commercial rates, and industrial rates. The aim is one cent power in the home.

Anyone can steal the words "low cost power", but no one can steal "one cent power" unless and until he cuts

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### One Cent Power Is Now Technologically Possible

Practically every urban household in the Province of Ontario has available an abundant supply of electricity at an average rate of about one cent per kilowatt hour. In fact 42 Ontario cities have rates well under one cent per kilowatt hour. Outstanding is the city of Fort William with its 35,000 population. Power is sold at the spectacularly low figure of 0.669 cents per kilowatt hour or 2/3rds of a cent for residential use.

Within the United States there appear to be nine urban electric systems in the Pacific Northwest and nine more in the Tennessee Valley which qualify for what Gus Norwood calls the "One Cent Club". Thus on the North American Continent we have 60 utilities selling electricity for residential purposes at average rates under one cent a kilowatt hour.

The nine northwest utilities are Vera Irrigation District which in 1961 sold energy for home use at 0.81 cents, Monmouth at 0.82, Salem Electric 0.83, Canby 0.85, Forest 0.89, Tacoma 0.94, McMinnville 0.94, Milton-Freewater 0.95 and Grand Coulee 0.96 cents.

These 60 low cost power agencies have certain common characteristics: (1) source of power in all cases is chiefly hydro, (2) area served is urban, and (3) all systems are publicly-owned.

My purpose in citing these 60 systems is to suggest that their combined experience is conclusive evidence that the electric utility industry has reached the point in its technological development where we can safely expect one cent power for household use in favorably situated hydro areas where the utility is publicly-owned and serves an urban area.

The next step is to explore where it is reasonable to expect that steam generation areas will also be able to get down to one cent. I am convinced after seeing the excellent performance records of the new TVA steam plants that we have also reached the technological stage of development where we can expect one cent power in certain steam areas. Back in 1920 it used to take three pounds of coal to produce a kilowatt hour. TVA led the way at the Watts Bar steam plant by getting the rate down to 8/10 of one pound per kilowatt hour. The national average today because of the many high pressure and large size steam plants is about 1.1 pounds per kw. Furthermore TVA has been locating the steam plants so as to cut the cost of coal handling. Taking into account the advantages which TVA has utilized in its steam plant program, it is interesting to note that their cost of power at the bus bar ranges from 2.3 to 3.9 mills per kilowatt hour. Last year the average cost of power to TVA distributors was 4.27 mills.

You and I have often been told something like this: "Why of course you people in the Pacific Northwest can sell power at low cost. You have the tremendous advantage of all that cheap water power. There is no fuel cost." This expression will be changed as more and more people can study the economics of TVA steam generating. In the next five years as TVA demonstrates its ability to sell great quantities of steam generated power at average rates under five mills, an-



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other yardstick for low cost power will be established.

### Eliminating the Gap

On February 4, 1952 Congressman John Rankin inserted in the Congressional Record a table which showed what the average residential rates would be in each state if the Tacoma rate schedule were applied. Tacoma's residential average rate, of course has been under one cent for some years. Congressman Rankin found for 1950 a total electric revenue for residential use of \$1,931,695,800 or roughly two billion dollars. If this power had been sold at Tacomas' rates the saving would have been \$980,711,179 or a rate cut of 50.7%. The rates would be cut in half. This is one method of dramatizing at least statistically this gap between the present high electric rates around the country and what we mean by one cent power. Undoubtedly an even more dramatic demonstration could be made by taking an individual household and showing how the standard of living can be improved at no additional cost merely through making available one cent power in place of the all too frequent what-the-market-will-bear-rates.

Bear in mind the fact that the average American city household was paying 2.77 cents per kilowatt hour last year or 177% overcharge as compared with what now appears to be technologically possible.

Let me explain at this point that I am not including in this study any rural electric rates. Neither the Federal Power Commission nor the Rural Electrification Administration has done its duty in the field of rural electric rates. FPC publishes no rate statistics for cities of less than 2,500 population. This leaves us without reliable rate data on millions of customers in the villages and rural areas. Unfortunately REA statistics lump all consumers of rural electric co-operatives as one class. It would appear that in rural areas the national average selling price of electricity in 1949 was about six cents and had declined to four cents by 1950. The Bonneville Power Administration statistics for 1951 indicated an average residential rate of 1.87 cents for rural systems. A similar record is revealed in TVA and Ontario statistics. Until more and better statistics are available I would suggest as a conservative objective for systems serving only rural areas a one and a half cent average household rate as compared to a one cent urban household rate. Nevertheless I like the motto which appears every month on the cover of Rural Electrification magazine, "One Cent Electricity For Every Farm". This motto may sometime be achieved but probably it will require a number of years.

### The Ingredients of One Cent Power

I have now stated the problem of the private power companies' misleading claims about low cost power and I have advanced the one cent power slogan as a solution. I have shown the existence of a wide gap between the present national average home rates and the one cent goal which is technologically possible. My next task is to mention some of the elements or factors which help to make for lower cost electricity.

The first element is the cost of money. The best answer here is to pay off your debt and stop paying interest on it. The next best answer is to get your money at 2% or a similarly low rate. Obviously the private utility method of financing on a basis of a six percent rate of return after federal corporate income taxes cannot result in one cent power.

The cost of money has a great leverage in the power business, especially when hydro projects are involved.

Bonneville's costs today include about 35% for interest. In the near future 40% of every BPA expense dollar will go for interest. At this rate a jump in interest from 2½% to 3½% or a gain of one percent would result in a 16% rate increase.

It is interesting to note that when five private utility companies formed Electric Energy, Inc. to build a big steam plant to compete with TVA for an Atomic Energy Commission power contract, they were very soon able to sharpen their pencils and finance 95% of their capital requirements by issuing 3% bonds which were eagerly purchased by some insurance companies. The time may come when private utilities will sharply reduce and perhaps in time completely eliminate the use of common stocks as a source of capital. Obviously common stock does not serve any longer its traditional purpose of taking the risks, at least in the electric utility business. Today the holder of private electric common stocks is merely raking in the dividends. If and when the private companies may become a competitive factor in the electric utility business.

A second element in one cent power is taxation. Not only are private electric companies subjected to a great many taxes, but so also the public and co-operative systems. High taxes on profits of electric companies are justified. The federal corporate income tax is fair and we should always favor it as a check on private electric company profiteering. However, all other taxes on the electric business should be questioned. In Ontario there are no taxes on electricity. This is one of the basic elements in the achievement of a one cent power rate on a province-wide basis for urban areas. Some states do not tax rural co-operatives. Many public power systems, however, have permitted themselves to be heavily taxed. In some parts of the country municipal systems permit the diversion of electric system revenues into the general fund. When such diversions are made, it should be recognized that the impact ultimately results in higher electric rates to their own citizens.

These two cost elements of money and taxation are of a general nature which lie at the policy rather than the operating level. At the operating level are five main cost areas: (1) cost of wholesale power, (2) distribu-

tion expense, (3) customer collecting, billing and accounting expense, (4) general administration, and (5) sales promotion.

It is not my intention to discuss these five operating areas in detail. In regard to sales promotion I think our systems err more in the direction of not spending enough. Some of the most progressive utilities spend up to 3% of gross revenues for promotion of power use. Certainly a minimum program with a budget of 1% of gross revenues should be a standard for the industry. One justification of this expense is the necessity for building load and improving load factor so as to reduce the unit costs in the remaining four operating areas. This is readily measurable in regard to wholesale power rates, but actually the more important reductions in unit costs occur in distribution expense, customer service and general administration. A good working goal for our sales promotion departments might be to build up our average home load to 10,000 kilowatt hours of use per year, starting with an energetic promotion of the water heater load.

### The Engineer Vs. the Manipulators

The gap between electricity at 2.77 cents national residential average per kilowatt hour and one cent is entirely too gross to be ignored. Whenever there is a wide gap between what is technologically possible as against what we are accomplishing today, it is reasonable to expect that a pressure will eventually build up to improve our present mode of doing things and to advance toward the technologically possible. Of course, it should not be necessary for such public opinion or political pressures to develop. This great disparity

should be a challenge to all utility operators and engineers and they should feel a deep sense of moral obligation to effect the economies necessary to get the average residential power rates down to whatever is technologically possible in each case.

The problem in the private electric corporations is the conflict in the objectives of those who sincerely try to reduce cost and those who try to maintain a maximum of profit and provide the management and handle the financing. The manipulation at the top by management, by the financial interests or by those who might have control aside from management or finance is never motivated by the objective of low rates. The aim generally is a maximization of profit by means of common stock dividends or appreciation, by underwriting fees, by management or other service fees or by means of a cut on purchasing or contracting. There are many ways to milk an electric system. In the face of all these profiteering motivations and with a management staff loaded with men adverse to the basic objectives of low cost power, those who would lower rates and improve service have an almost hopeless task in a private utility.

What the electric utility industry needs is an emancipation of the engineer. If only we could take the wraps off and let him go to work on the problem of slashing unit costs. The engineer is basically sympathetic to the objective of one cent power.

I have said nothing about the performance of our state public utility regulatory bodies. Perhaps they should be abolished as the wisest method of terminating a situation

(Continued on Page 6)

# Room to swing a cat

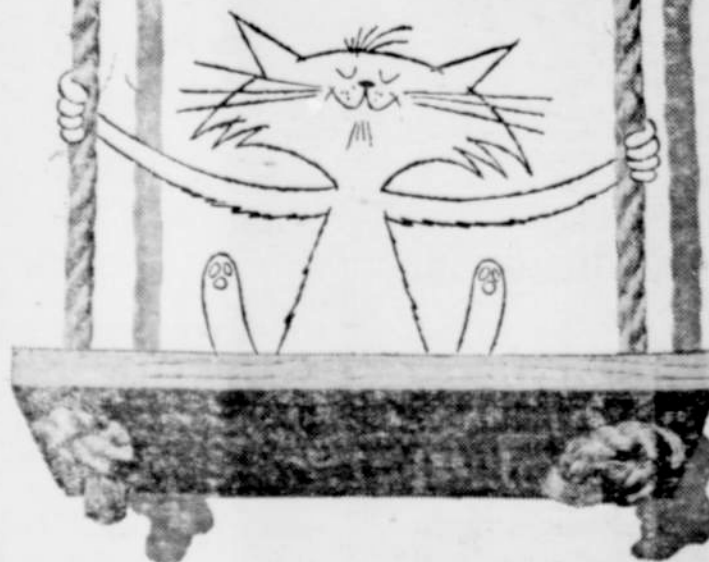
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