Recent developments regarding competition as opposed to the tendency toward centralization in the public utility field, with special reference to conditions in Iowa

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RECENT DEVELOPMENTS REGARDING COMPETITION AS OPPOSED TO THE TENDENCY TOWARD CENTRALIZATION IN THE PUBLIC UTILITY FIELD, WITH SPECIAL REFERENCE TO CONDITIONS IN IOWA

by

Earle Micajah Winslow

A Thesis Submitted to the Faculty of the Graduate College of the State University of Iowa in Partial Fulfillment of the Requirements for the Degree of Master of Arts in the Department of Economics, Sociology, and Commerce

October, 1921.
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FOREWORD

The widespread adoption of state Public Service Commissions since 1907 has been looked upon as the final step in the complete elimination of competition in the public utility field. Recent developments however somewhat belie the assumption that the Commissions will be permitted to carry out a strong centralized program of utility control. Local regulation, concomitant with municipal "home rule", is the block in the path of fully equipped and fully empowered state commissions. And municipal ownership stands squarely in the way of the program for extensive expansion and high centralization which the utility companies are working toward. Competition, while quite generally regarded as obnoxious in the public utility field, nevertheless shows a decided tendency to appear in new and insidious forms. The public generally is slow to discern the undesirability of competition whether in old forms or new.

Therefore it is the purpose of this thesis (1) to give a brief sketch of the history and purpose of utility regulation, bringing it up to date in order that the present situation may be fully understood; (2) to discuss the relation of
utility expansion to the different phases of regulation. This will deal especially with electric utility expansion, some of its history and problems, as related to municipal ownership and local regulation; (3) to review state laws, showing the desirability of state commissions, especially as a means of regulating competition; (4) to review the present situation in Iowa, its causes, and suggestions for a constructive utility program.

It was originally intended that this thesis should be a survey of conditions fostering duplications in five utilities: central electric stations, street railways, telephones, gas plants and water systems. However, since "duplication" implies a great many technical problems it was deemed advisable to deal more generally with the economic and political aspects of competition. It furthermore became evident that in a study of this kind it is not possible to give much individual attention to all the utilities mentioned above, nor necessary to do so. Still reference is constantly made to all of these utilities throughout the thesis, although the final outcome of the research prior to writing the dissertation was that the electric utilities received the bulk of attention. Most of the more specific work therefore has to do with central
electric stations. This particular utility has more vital issues at stake in regard to the matter of public policy than almost any other utility.

An interest in conditions relative to public utilities in Iowa was largely responsible for this study. Nowhere in all the states can be found a more flagrant disregard of the very economic and political principles which other states have already come to recognize. Iowa has no state utilities commission and the public has persistently voted against it. Local regulation seems to be firmly established and competition is still accepted as one of the essential regulators of rates and services. The utility laws now on the statute books are comparatively crude and out of date. They fail to incorporate any provisions which will adequately protect either the utilities or the public. Iowa still retains the mixture of legislative, court and local regulation, with the Railroad Commission invested with a few very limited powers.

1. Iowa Board of Railroad Commissioners, Schmidt Brothers and Company vs. Citizens of Clayton County, Docket no. E-169.
CHAPTER I.
A REVIEW OF UTILITY REGULATION

The underlying purpose of regulation in public utilities is to prevent the evil effects of competition. Early regulation did not fully recognize this, however. It aimed at some of the evils of competition—such as unfair discrimination, rebates and pooling—without getting at the real source. Competition was accepted by both the public and the utilities as the great economic regulating force and legislature saw to it that every opportunity was given for it to function. Utilities were at first considered as private industries and all agitation toward their control was branded as "socialistic".

Another popular fallacy, the opposite correlative of competition, was that monopoly was to be feared above all else. True, without governmental regulation, monopoly is to be feared even above competition. In the absence of control competition invariably drives the weaker utilities to a point where they are glad to cease trying to exist independently, or reduces all the competing companies to such financial straits that the only alternative is to combine in order to exist at all. An alternative which developed
later under such conditions was for the cities themselves to take over bankrupt utilities. But very often the mistake was made of introducing even more competition in the form of municipal ownership.

Thus the public has been burdened on every hand with the excessive duplication and waste due to competition, which invariably degenerated into uncontrolled monopoly. It had to be learned at great cost that the only sane way to handle services which have been invested with a public duty to perform, is through regulated monopoly—a lesson, however, which has not yet been thoroughly learned as evidenced by recent developments which are the basis of this thesis.

Speaking broadly, the state regulation of public utilities by commissions began as early as 1839 when Rhode Island created a Commission to act as a sort of intermediary between the railroads and the state. In the next twenty years most of the New England states had adopted similar commissions, and yet by 1870 there were only six of the 37 states which had commissions. The railroads were simply controlled directly by the legislatures in the absence of a commission. By 1886, however, there had been such urgent

agitation on the part of the public to restrict the evils of rebating, pooling and discrimination that 23 of the 38 states had commissions. These commissions were not all "strong" commissions such as most of the states have today. The eastern states were inclined to retain their original railroad laws, while the west, where most of the turmoil between the public and the railroad companies had taken place, established commissions with administrative and mandatory powers. At the present time there is only one state, Delaware, without some sort of a railroad or public service commission.

State regulation by commissions of utilities other than the railroads is of comparatively recent date. Not until 1907 were virile commissions created which would have power over all public service utilities. In this year New York and Wisconsin established such commissions and the laws in these states have been widely copied by other states. The inclusion of all utilities under centralized control has been merely an extension of the authority of railroad commissions. It must not be understood, however, that all

1. Massachusetts had a Public Service Commission with very limited powers as early as 1885, which was the first attempt at centralized control. King, C.E. "The Regulation of Municipal Utilities" Ch. 14.
states which have railroad commissions, have thus extended their jurisdiction to all utilities. Nor by no means do all the commissions have as complete authority in every respect as do a few of the stronger commissions such as those in New York or Wisconsin. Two distinct policies have been followed by the states in the creation of these commissions. One method is for the legislature to retain certain powers, delegating only limited and specific duties to the commission; the other is to grant complete authority to the commission. The latter kind of administrative body is the ideal one for a state commission. Its powers are mandatory and regulative. Advisory powers properly belong to a sub-commission, and if it be granted that municipal commissions are necessary at all, their powers should be of this nature, thus supplementing rather than opposing the state commission.

There are 37 of the 48 states which now have some sort of centralized regulation over the utilities. Only 27 states give their commissions power over competition and monopoly, to permit or deny it, and only 13 of these states extend this power so as to include municipally as well as privately owned utilities. The accompanying table will

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1. Based upon an examination of various state public service laws and an article by George L. Myers, "Competition in the Public Utility Industry", Journal of Electricity, Oct. 1, 1920, p. 310. There may be errors in this data, since the original laws were not available in every case; doubtful cases are left blank.
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*Regulation of Railroads and Utilities in Wisconsin.*

*Holmes, Fred L. Ch. 15.*
show the approximate status of each state on the matter of competition, where and where not permitted or controlled, with reference to cases which have come up to test the validity of the law. It should also be noted that wherever the name of the commission has been changed so as to indicate the inclusion of all public service utilities that the laws are more comprehensive than in the states with only railroad commissions. Two notable exceptions to this are California and Wisconsin, which have merely extended the powers of their railroad commissions without changing the titles. More definite facts as to the extent and desirability of laws which control competition and monopoly will be given in Chapter III.

While the railroads were subjected to gradually increased legislative and commission regulation almost from the beginning of their development, other public services as they appeared were strictly speaking not regulated at all. All difficulties arising out of the relations of the utilities with the public were settled by the courts. This meant that only individual difficulties were disposed of as they arose; no powers were vested in the courts to form a constructive program looking ahead
to the prevention of future offenses. Such procedure was expensive; it required too much time, inasmuch as the courts rarely had facts and technical knowledge at their disposal in dealing with such complicated problems as what constitutes the proper basis for fair rates or adequate service.

The other form of regulation to which utilities were subjected up to the establishment of commission regulation, and which is still practiced in states which have neither state or local commissions, is legislative control. This means that regulation of the utilities is exercised directly by the legislative body itself, no power whatever being delegated to either a state commission or to the municipalities themselves.

The absolute inadequacy of such pure legislative control is at once obvious. Such bodies meet only for a short time, in most cases only every two years. They lack both the information necessary to settle utility problems and the means of acquiring it. One power they do possess, however, and that is the right to delegate authority to special commissions, either state or local, to regulate utilities and adjudicate their
difficulties. But the legislature have been slow into yielding the prerogative of making laws to govern every private or public relation in the state, and in fact have not yielded until forced to do so.

The definite break away from state legislative control in favor of municipal legislative control began with the popular movement for municipal "home rule" which began in Missouri in 1875 as an outgrowth of the feeling that state legislatures were not in position to know and handle the various problems of the cities. The ultimate surrender of many legislative powers to the cities thus gave local control over all utilities operating within the cities. While this change was a decided improvement in many respects over state legislative control the fact remains that it was still legislative in character. And in final recognition of the weakness of such regulation the cities in time began to empower their councils to delegate the control of utilities to a special commission. The municipal commissions in Los Angeles, Kansas City and St. Louis are examples of the better of these administrative bodies.

In view of the action which many states have recently taken in order to re-centralize the control of utilities it would seem that had a similar plan of creating com-
missions been followed by the legislatures in the beginning as has been practiced by many city councils, the problem of state control would long ago have been settled. Now that the municipalities have become accustomed to controlling every phase of their utilities the problems of restricting this power has met with very great opposition.

While local regulation was an improvement over legislative control, yet it was by no means an unmitigated success. The whole movement for state regulation of utilities has thus grown out of the failure of local control to handle a situation where modern utility development has made it possible for gas, electric, telephone and street car utilities to expand and become inter-municipal or enter-community in their service. This natural expansion began much earlier than did efforts to control it through a centralized commission, and hence the recent legislation is a tardy recognition of the fact that independent or decentralized regulation is just as bad for all utilities as it would be for the railroads. In fact, the history of the railroads shows that local aid was so common and resulted in so many
vicious evils of competition between communities in the early stages of development that the federal government had to put a stop to it. Centralized control is also a tardy, though final recognition of the principle that utilities are natural monopolies and should receive protection from competition, though always subject to regulation in order to protect the rights of the public.

The fact should not be lost sight of that the outstanding evil which commission regulation proposed to eliminate was competition. In the first place it eliminated an excessive amount of local regulation; in the second place it made possible the control of proposed extensions or proposed plants and of fiscal combinations. Other prominent reasons why a state commission is superior to other forms of regulation are as follows: it can secure information and compile data on every utility in the state, thus applying scientific regulation; only one set of officials and machinery of administration are necessary; the utilities are inter-related and often controlled by foreign corporations, and only a state commission can handle a complicated situation such as this; it can require and secure uniformity in rates and services

for all cities or communities; it can prevent local regulation in one place from imposing rates or services on another place; it can protect the security holders from fraud or "blue sky" securities. There are many other very specific things which such a commission could do, for instance in a state like Iowa where no commission has ever existed. These points will receive further attention in the last chapter.

It is not meant to intimate in the least that municipal commissions for the larger cities are to be done away with. But it is necessary that the powers of these commissions be strictly enumerated, and that they shall be limited to an advisory capacity only, thus securing cooperation instead of rivalry with the central commission.

Thus we see that after the failure or inadequacy of court, legislative and local control -- which usually meant divided authority between all three -- that state commissions vested with full and mandatory powers were ideally fitted to handle the situation. They were due, however, to undergo a great amount of criticism and opposition, first from the utilities and later from the public itself.
The utilities had been following the practice to a great extent of charging what the traffic would bear, with the result that there was much irregularity in rates in different communities. For this policy the utilities should not be blamed too much, however, for in an industry where competition is mainly depended upon to regulate rates anything is fair which the market will stand. Therefore since the first act of most of the commissions was to advise or enforce a reduction in rates and bring about uniformity, the public was more than ready to acknowledge the unqualified success of the new form of utility regulation.

Naturally enough the utilities underwent an opposite reaction. They felt that the new legislation was wholly against them. The accusation was made that the commissions were created and appointed with the sole purpose of protecting the public against utility encroachments, with no regard for the protection of property rights which the utilities felt were guaranteed them.

1. Corrode, Ernest, "What the Street-Cary System Means to the Industrial Future".
It should be noted however that many of the utilities preferred the commission plan to any previous form of regulation because it gave promise of protection against unlimited competition. This meant that the old competitive "value of service" principle of rate making was to go. And when the established utilities saw that protection from competition meant protection of property rights the regulation of rates was accepted with less complaint.

On the whole the commissions proved to be wholly impartial, accepting the principle that the right to regulate also implies the duty to protect. And while their first acts seemed to be in the nature of regulation downwards, subsequent events proved their impartiality, for with the general rise in prices due to war conditions, legitimate rate increases were readily permitted. This was the final step in winning the approval of the utilities.

But whether against public disapproval or against the desires of the utilities, the commissions have proved

themselves elastic enough to respond to abnormal conditions. And their emphasis on preserving the efficiency and comprehensiveness of service has made the rate problem less and less troublesome.

The popular approval which was at first accorded the commissions by the public suffered somewhat of a relapse when rate increases were permitted after 1917. Some are inclined to place the blame for this rather general dissatisfaction more on the public officials than on the public itself. William J. Hagenah, an electric utility expert and official, says that the public was fair in its attitude toward rate increases, taking into consideration the general rise in prices, and did not register the extreme disapproval which was at first expected. Municipal officials, on the other hand, and strong proponents of municipal "home rule" used the rate increase policy of the commissions as a weapon against centralized control. An instance of this is witnessed by the fight which has been waged in Illinois for the past two years. Both the mayor of Chicago and the governor

2. Denman, B. J. Vice-President of the United Light & Railways Company, Debates before the Illinois Constitutional Convention, April 1, 1920.
of the state as well as other officials have popularized themselves and ridden to power largely on their promises to reduce utility rates. They have advocated the repeal of the laws creating central control through a state commission and have agitated for municipal ownership and local regulation for the whole state. The utilities have opposed both of these propositions,—the reduction of rates because the utilities were not earning adequate returns on the capital invested in good faith, and local regulation and municipal ownership because the latter particularly is out of harmony with utility expansion. As will be shown in Chapter II the utilities are in the right both from an economic and regulative standpoint.

From this and similar instances of agitation for local regulation and municipal ownership in Iowa and other states no doubt can exist that Commission regulation is undergoing a struggle for its existence, even in the face of its accomplishments for the mutual good of both public and utilities. It is branded as a political fad and an unmistakable failure, although even the severest critics of the commissions agree that lack of certain powers has caused this

failure. Such an attitude is of course constructive. It is only the desire to abolish commissions altogether which endangers a reversion to the old conditions of wasteful competition and duplication instead of utility centralization and expansion as a protected monopoly, toward which modern economic and regulative conditions have recently tended.

It is well to state here that the physical expansion of all utilities presents technical problems which are after all the controlling factor as to the economic policies of the utility companies. Obviously no company will deliberately indulge in unnecessary duplications or wastes of any kind unless driven to it by competition or by the law. Hence in the absence of special proof no blame will be laid to the lack of engineering knowledge or business judgment for any of the tendencies, past or present, which foster competition. The blame must invariably be laid to public prejudice or ignorance of economic principles.
CHAPTER II

PHYSICAL EXPANSION OF THE UTILITIES AS RELATED TO POLICIES OF REGULATION

Early Conditions Fostering Municipal Ownership

Up until the beginning of centralized state control the utilities were subject to the various governmental authorities mentioned in the preceding chapter, the main function of which seems to have been the enforcement rather than the limitation of competition. In the absence of direct state control the cities, through rights delegated by the legislatures, had the power to grant franchises and control their utilities. Franchises were granted on the theory that competition would regulate rates. Monopoly was regarded as obnoxious in the extreme, and no differentiation was made in the popular mind between "big business" interests and natural public monopolies.

Therefore, since the popular attitude demanded competition it was indulged in to the limit. If a monopoly managed to get control of the situation in a city it immediately invited rivalry; but always with one unfailing result—more monopoly, through a consolidation or agreement between the competing companies.

Many of our American cities furnish striking examples of such conditions. Denver may be taken as typical. In 1881 the city council resolved "that permission be granted to any company desiring to supply the city with electric light". And year after year different companies were given identical franchise rights and privileges. For example, the Edison Electric Company was franchised in 1883 and four years later the Denver Light, Heat and Power Company. These two companies eventually consolidated, as also did the gas interests. Then the city sought to relieve the situation by granting a franchise to still another company which had agreed to cut rates in half. It was soon discovered that the older concern could also cut rates if forced to do so by competition—which it did until the rival plant was driven into consolidation. Monopoly once more existed and rates were high. Such instances as these were duplicated in New York City where six different companies were granted the same rights in one year; or in Chicago where 47 electric franchises were granted. The public had yet to learn that governmental control and not competition is the only solution of such problems.

However, the cities were yet unconvinced that competition in some form or another was not to be desired, and in despair they turned to municipal ownership, as indicated in the preceding chapter. Many of the states provide for municipal ownership by granting the city the right to either construct a new plant or purchase the existing one. As in Iowa in case the private utility refuses to sell, or an agreement cannot be reached after the electors have decided on municipalization, the city may instigate condemnation proceedings to acquire it. Thus a municipal monopoly is created. Plain out and out competition has been tried by many cities, however, in order to bring the private companies to time,—the only method feasible in the absence of proper regulation.

Like many innovations municipal ownership was extremely popular to begin with, early in the 1900s, and was hailed as the solution of all utility problems. Volumes have been written in support of both sides of the question. The opponents of municipal ownership say that the utilities would only be thrown into petty politics, and from lack of the business incentive which private ownership gives would be grossly mismanaged.

1. See Sec. 3969, Compiled Code of Iowa, 1919.
The purpose herein pursued is not to revive the political and business-efficiency arguments for and against municipal ownership as much as to stress the fact that as a policy it stands in the way of the expansion and centralization of certain utilities.

This is especially true of the electric and gas companies and the street railways since they have become so inter-community in character. Municipal ownership of utilities which can easily be confined to a city, such as a water system or sewerage disposal, present a somewhat different face to the above arguments against municipal ownership. They are obviously not in the same class, and yet the proponents of municipalization often fail to differentiate. For example, a compilation of "One Hundred Reasons for Municipal Ownership" shows that 37 examples of successful municipalization refer to water works, 10 to gas or sewerage and only 21 to central electric plants and street railways.

The following data on municipalization of electric utilities will show to what extent the policy has been followed in this particular industry and will give some idea, from the size of the municipalities and the sections

of the country in which it is most prevalent, of what to expect in the future.

Of the 4714 stations in 1907, 1252 or 26.6% were owned by cities. By 1912 the ratio had increased to 30%; and in 1917 out of a total of 6,542 stations, 2,318 or 35.5% were municipally owned. Since 1917 other data must be referred to on this phase of municipal ownership. Figures for 1918 estimate that 35.5% of all lighting systems are municipally owned, which corresponds exactly with the census figures for 1917. The same source reports for 1919 that 32.8% were municipally owned; while data compiled by the Public Utility League in 1919 reports that 31.3% of the total central stations are so owned. It should be noted that the latter of these sources is strongly biased in favor of municipal ownership. If these figures from the two sources are consistent it would indicate that municipal ownership is decreasing somewhat.

Further data from the same census report referred to above show the relative importance of private and

2. McGraw, "Central Station Directory and Data Book for 1919".
municipal plants, which would seem to indicate further that small city owned plants will likely be absorbed by private interests which operate on a much larger and more economical scale. The figures for 1917 disclose however that although the private commercial stations comprise only 64.6% of the total, they serve 82.7% of all the municipalities furnished with electricity and 80.5% of the aggregate population using electric current. In part explanation of this it should be noted that very rarely do municipal plants serve more than one community while central private plants distribute much more widely, serving on an average three communities, with the average going as high as nine in California, five in Pennsylvania, and ten in New Jersey and Rhode Island.

It should also be noted that figures on municipal ownership show that only in 3% of the cities of over 5,000 population are plants municipally owned; while 25% of the instances of such ownership was in towns from 1,000 to 5,000 population.

1. U.S. Census, "Central Electric Light and Power Station," 1917, Ch. "II, table No. 8
3. Fowler, C.L. "Logic of Consolidations", Electrical World, Mar. 23, 1918
There are statistics on municipal ownership for Iowa which show tendencies similar to those given above for the whole country. Out of 214 stations operating in 1919, 159 were generating and 55 purchasing stations. Of the 159 generating stations, 92 were represented as municipally owned lighting systems, or 57.8% of the total. This is considerably above the average over the entire field as given above.

The reports of municipal accounts for Iowa show somewhat different figures on municipal ownership, as evidenced by the following data:

Number of street lighting plants municipally owned:

<table>
<thead>
<tr>
<th>Year</th>
<th>Cities Owned</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1910</td>
<td>21 out of 97 cities</td>
<td>21.6%</td>
</tr>
<tr>
<td>1915</td>
<td>27 out of 101 cities</td>
<td>26.7%</td>
</tr>
<tr>
<td>1919</td>
<td>23 out of 105 cities</td>
<td>21.9%</td>
</tr>
</tbody>
</table>

The discrepancy between the two sets of data is undoubtedly due to the fact that the municipal accounts just quoted refer only to incorporated cities in the state and not to towns, there being no data on municipal ownership in the latter, where there is, as a matter of fact, more municipal ownership of utilities than in the larger cities.

Municipal ownership is stronger in the midwestern states, as attested by statistics from five other of these states. The municipal plants in Kansas are 58.9% of the total in that state; while in Ohio the proportion is 43.2%, with Minnesota, Nebraska and Oklahoma each showing more than 50% of its plants to be under municipal ownership. It will be noted in the table on page 7 that all of these states have local regulation of utilities. It should also be noted that one of the main causes of the movement for municipal ownership has been that the utilities have been driven into poor service due to restrictive franchise policies and competitive practices, both favored by the municipalities in early utility development. But where centralized control has existed the longest the agitation for cities to take over the utilities has been less marked. King asserts that since commission regulation has been extended to utilities in Wisconsin and New York the movement shows a decided abatement.

There seems to be no doubt that on the whole there are two opposing tendencies as to municipal ownership.

This was well stated by Delos F. Wilcox three years ago who writes as follows:

"While it is assumed that public sentiment is crystallizing in favor of municipal ownership and operation and that we are drifting toward the realization of that system as an ultimate policy, certain important facts, upon careful examination, belie the assumption. At this moment, two powerful but conflicting tendencies in the public utility field have gained headway in the United States. One is the tendency on the part of great municipalities to recognize public utilities as municipal functions, and by means of new or resettlement franchises containing purchase clauses and amortization provisions, to prepare for the ultimate municipalization of the utilities, particularly street railways, now privately owned and operated. This tendency has dominated to a greater or less extent the street railway settlements adopted during the past ten years in Chicago, Philadelphia, Cleveland, New York, Kansas City, Des Moines, Dallas and Cincinnati, and is now dominating the negotiations pending in Toledo, Minneapolis, Oakland and St. Louis. San Francisco and Seattle have even gone to the

extent of establishing competing municipal car lines, and
Detroit has once voted 4 to 1, in favor of municipal
ownership, and is now going along under a day-to-day
agreement, refusing to grant a new street railway
franchise on any terms. The other tendency referred
to is the one typified by the Illinois decision in the
O'Connell case. It is based upon the theory that the
state as such has no interest in the change from private
to public ownership and operation but, taking utilities
as it finds them, should assume control of rates and
service to the exclusion of the local authorities. That
the legislature, in the absence of specific constitutional
guaranties of municipal home rule in respect to this
particular matter, has unrestricted authority to exercise
the police power, or to delegate its exercise to a state
commission, without regard to the public utility policies
which may have been formulated by local authorities and
sanctioned by local contracts, has now been established by
court decisions in many of the states, including Wisconsin,
Washington, New York, Oklahoma and Illinois. Already the
development of this legal theory and its actual application
by state public service commissions have begun to counteract
the other tendency to which we have just referred and to
paralyze the efforts of cities to grapple with their local utility problems and to formulate and adopt effective municipal policies looking toward the ultimate practical recognition of public utilities as public functions. The significance of this conflict can hardly be overestimated, for it is clear that with all the traditional assumptions of state sovereignty in its favor, the movement for exclusive state control is likely to prove too powerful for the cities acting individually, with the result that the public utility policy of this country will be crystallized by state action in favor of the permanence of private ownership and operation without regard to the desires of the cities for whose benefits the utilities have been established."
Objections To Local Regulation.

The natural concomitant of the movement for municipal ownership was an increased agitation for local regulation. As shown in Chapter I, it began with the movement for municipal "home rule". No attempt will be made to prove that municipal ownership has been a direct result of local regulation, although as a general proposition it has often been argued and no doubt proven that there is a connection. At any rate local regulation is contrary to the principle that anyone is capable of passing unbiased judgment upon his own affairs. It assumes that a city council, and not an impartial state commission, should decide what rates a community should pay a private business for its public services. What this has many times led to may be shown by an illustration of local control in the hands of a city council.

This council has the power to regulate the rates, say of a light plant, and by restricting the rates to a point at which the rate of return will cause the plant to depreciate and give poorer and poorer service, the council or public could then move for municipal ownership or municipal competition on the plea of inadequate service, or because it has felt that the advances in rates
asked for by the utility were unreasonable. This would be the exercise of arbitrary judgment, with the utility at the mercy of unscrupulous officials or a biased public. Centralized control would remove this political evil.

On the other hand, if local regulation is not to be the mere exercise of arbitrary opinion, each municipality would be forced to maintain at great expense, for the purpose of accurately determining the valuation on which the rates were to be based, a body of expert accountants, lawyers, investigators and engineers. This is an expense which municipalities have felt was so great as to prohibit them from appearing before state officials or courts in cases involving rates and valuation. Centralized control will obviate the necessity of this body of experts being duplicated in each municipality.

Another economic drawback to local regulation is seen in the attitude expressed by the Mayor of an Iowa city who said, "Personally I do not believe that central power stations for transmission of power to towns and cities is the proper procedure. I believe that public ownership

1. See debates before Illinois Constitutional Convention, April 1, 1920, Statement of Mr. Alshuler. Also N.I. Amster.
3. Fort Dodge, reply to questionnaire.
stops within the corporate limits of a city or town, and in no case should a municipality take on any outside service that would be a detriment to its own people".

If local regulation means this, then the great waste which is entailed by duplicated plants in each city, where a large central plant would serve it and many other communities is at once obvious.

Or if large central plants have once been established under centralized control and then local regulation is established to take its place, another problem presents itself. For example, in the spring of 1920 there was held in the state of Illinois a Constitutional Convention, bent upon revising the constitution. One of the burning issues up before this body of the people's representatives was the question of "home rule" for cities and towns. And one of the matters in connection with this municipal program was the proposition to extend the right of local regulation of utility rates and service to the cities, and to abolish the utilities commission. Naturally this was combatted by the utilities; and while this thesis does not attempt to uphold utility corporations in all their dealings with the public, it is maintained that the utilities were right from the most laudable economic
standpoints in fighting the incorporation of this provision in the "home rule" program.

The following hypothesis was made in the argument for the utilities' defense: A gas company serves communities in seven counties in Illinois, and gas is pumped over 80 miles from a central plant. This enables many communities to have service that would be deprived thereof if local plants were to be depended upon because the cost of a small plant is prohibitive. Then suppose under these conditions, one town on the system should pass an ordinance requiring 550 B.T.U.'s as its standard of service, while another town should require 650 B.T.U.'s. This would drive companies out of business or prevent their entrance into smaller communities.

While it may be true that this particular trouble would not prove insurmountable, yet it does serve to illustrate the principle that the regulation of such companies involves more than purely local consideration. Especially is this the case if it be true as stated by the defense in this case, that a great number if not a majority of the plants in Illinois serve areas outside the limits of municipalities.

1. Mr. Alshuler, Attorney, p. 49, record of April 1, 1920, Debates before the Constitutional Convention of Illinois.
Early conditions in the development of central power stations are of course responsible for many excess plants which are still being tolerated. Prior to about 1900, at which time central stations with a large range of radiation began to appear, the stations were all local affairs. Not only was it necessary to establish a great number of stations in the larger cities, but every small town or city which desired electric service had to have a separate plant. Now conditions have changed. Large central stations with great radiating capacity have made these small plants obsolete. The economies of large scale production are being applied to a fine point, resulting in great saving to the public. The problem of eliminating the excessive small plants is of course much simpler if they are privately owned, especially if the contiguous plants are owned by one system.

2. London has as many as 63 electric supply systems. Insull, Samuel, Op. Cit. p. 171
Utility Expansion as Related to Municipal Ownership and Local Regulation.

The main objection to both municipal ownership and local regulation is that they both stand in the way of the utility expansion and centralization which has been so noticeable especially in the electrical utilities. Obviously if in an area supplied with electric energy by one large system a few of the towns or communities have municipally owned plants, the system is handicapped in its centralization program. Unnecessary plant duplication is the result of this sort of competition. However, there has been a very strong tendency for these municipal plants to sell out to highly organized systems, just as privately owned independent plants have likewise been absorbed.

It has been argued that the form of regulation makes no difference in the program of utility expansion,—that big private utility companies go in and buy up independent or municipal plants just as easily under local as under state regulation. No doubt this has proved true under the kind of state regulation which has usually prevailed.

1. Prof. J.B. Hill, Dept of Electrical Engineering, University of Iowa, holds this view.
It is believed however that strong centralized control could do much in effecting the direction of this expansion. It will be shown below that many economies can be effected and that better service is possible where electric utilities, for example, follow a systematized policy of expansion around central points. The remainder of this chapter therefore will deal mainly with the aims and activities of electric corporations with special reference to conditions in Iowa.

The aims and success of holding companies or other forms of financial operation in effecting fiscal combinations will show that their tendency has often been just the opposite from that demanded by the spirit of the laws. The purpose of fiscal combinations is to secure monopoly, eliminate competition, and secure cheaper administration of the business. It is a step which precludes the physical combination of plants or the elimination of unnecessary ones. When contiguous plants are united physical reorganization takes place and the advantages of single equipment and management are realized. When non-contiguous systems are united it represents not a

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2. Fowler, C.L., Electrical World, Mar. 23, 1918, "Logic of Public Utility Consolidations".
physical but a fiscal combination. The advantages here are of course mainly financial in character. A large and well-known holding company such as the Stone and Webster Syndicate, or the United Light and Railway Company, finds it easier because of prestige and bargaining power to sell securities on the eastern market, whereas an unknown local corporation without this connection would not be able to reach this market. Such methods as these enables new and undeveloped sections of the country to draw upon the richer for aid. The effect of this is to reduce duplication in officials and increase the general efficiency, and to prevent further plant duplication.

The regulation of these mergers is very essential however, in order to protect the public from uncontrolled monopoly. Hence the clause in most commission governed states which requires all proposed consolidations, mergers, sales or leases to be sanctioned first by the authorities. This law is merely protective against abuses and is not prohibitive of combinations. One of its main provisions is to prevent stock watering by forbidding merging companies to issue securities in excess of the real physical value of the companies in the transaction. Chapter III will bring out more fully the operation of this law in the states which require it.
The following statistics will give some idea of the important part played by holding companies in the control of public utilities.

In 1915 it was estimated that 78.5% of the gas, electric and traction capital in this country was controlled by holding companies, while in 1918 the figure stood at 80%. These figures were taken from two different authorities and hence too much weight should not be given to the 1.5% difference as indicative of the actual rate of increase in the three year period. The significant thing is that the proportion is so high and that it reached this point in a comparatively short time. It is also significant that the proportion of plants not affiliated with syndicate decreases as the community grows—only 10% of the independent plants being in cities of over 5,000 population, while in towns of 1,000 to 5,000 population 55% of the plants are independently owned.

Syndicate control, besides being strongest in the larger cities is likewise stronger in the eastern states—due no doubt to the preponderance of large cities. The sections of the country next in order of importance in

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3. Ibid.
this respect are New England, the Western States, the Middle States and the South.

The figures given above included gas plants, only 66% of which are controlled by syndicates. Excluding gas, the proportion of electric light and power companies operating as subsidiaries of holding companies is 83%.

Inasmuch as this sort of fiscal combination means the elimination of competition between contiguous plants it also fosters centralization and makes the continued duplication of small plants altogether improbable. The whole syndicate movement is only a recognition of the fact that public utilities are naturally monopolistic in character, and is therefore inevitable in spite of laws against it or the lack of laws meant to encourage such conditions.

By bringing the discussion to bear directly on the electrical utilities in Iowa, with additional examples from Illinois, a better idea may be had of the relations existing between the utilities and public regarding the latter's policies of municipal ownership and local regulation. Strictly no brief is made sanctioning all the methods or financial maneuvers of utility companies in

1. Gas plants are often operated in connection with electric plants, hence the 66% may possibly refer to those operated separately, though this is only a supposition.

2.
their dealings with the public. On the other hand the public is neither held blameless for some of the things the utilities have been forced to do. It is merely intended to show what is the best policy for all parties concerned.

If a map were constructed showing every central electric generating station in Iowa and all the transmission lines radiating from these stations it would present a complete network touching practically every village and municipality in the state. Most of these plants originated as independent local corporations and as a result of the lack of any systematized coordination between these local companies small plants for serving small communities were built instead of large plants for serving large areas.

The promoters of these isolated plants soon discovered that it was impossible to market enough securities locally to build adequate plants and maintain them and so the holding company as a means of financing all such undertakings came into use. This combination of financial interests on a large scale has made it possible to eliminate many small plants, as well as present further multiplication, and to have fewer but larger generating units with all the attendant economies which this

1. Not controlled by a holding company.
<table>
<thead>
<tr>
<th>Name of Company</th>
<th>Date &amp; Place of Incorporation</th>
<th>Nature of Corporate Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iowa Ry. 7 Light Co.</td>
<td>1912 Iowa</td>
<td>Merger of Independent Companies</td>
</tr>
<tr>
<td>Iowa River L.&amp;PP.CO.</td>
<td>1912 Iowa</td>
<td>Merger; stock ownership</td>
</tr>
<tr>
<td>Iowa L.H. &amp; P. Co.</td>
<td></td>
<td>Stock owned by Federal Power &amp; Light Co. of Maine</td>
</tr>
<tr>
<td>Iowa Gas &amp; Electric Co.</td>
<td>1905 Iowa</td>
<td>Local Corporation; merger 1916</td>
</tr>
<tr>
<td>Iowa Southern Uts. Co.</td>
<td>1902 Maine</td>
<td>Merger, 1916, of several plants</td>
</tr>
<tr>
<td>Iowa Falls Electric Co.</td>
<td>1915 Iowa</td>
<td>Merger</td>
</tr>
<tr>
<td>Iowa Public Service Co.</td>
<td>1911 Iowa</td>
<td>Merger</td>
</tr>
<tr>
<td>Iowa Electric Co.</td>
<td>1914 Iowa</td>
<td>Merger of several plants</td>
</tr>
<tr>
<td>Continental Gas &amp; Electric Corporation</td>
<td>1912 Del.</td>
<td>Holding Company; several subsidiary Co. in Iowa.</td>
</tr>
<tr>
<td>United L. &amp; Rys. Co.</td>
<td>1910 Maine</td>
<td>Financing &amp; Operating; controls 7 Iowa Corporations</td>
</tr>
<tr>
<td>American Gas Co.</td>
<td>1902 Del.</td>
<td>Holding &amp; Operating</td>
</tr>
<tr>
<td>Central Miss. Valley Electric Properties</td>
<td>1913 Ill.</td>
<td>Managed by Stone &amp; Webster Syndicate</td>
</tr>
<tr>
<td>Southern Iowa Elec. Co.</td>
<td>1916 Del.</td>
<td>Controlled by Union Power &amp; Light Co. of Nebraska</td>
</tr>
<tr>
<td>Des Moines &amp; Central Iowa Electric Co.</td>
<td>1909 Maine</td>
<td>Controlled by Illinois Traction Company</td>
</tr>
</tbody>
</table>

1. Compiled from Moody's Manual, Utilities Securities, 1920. This list does not include all the utility companies in the State, only some of the larger corporations & holding cos.
produces. This sort of concentration also results in fewer distributing stations, and inasmuch as five to six times as much is spent on distributing systems as on generating plants, some idea is conceived of the saving due to monopoly.

There are a great many electric corporations operating in Iowa, some of the larger of which are listed in the accompanying table. The important point in this connection is that practically all of these companies represent mergers of several independent plants into one system for the purpose of improving operation and facilitating financial control. These merged companies, forming a new corporation, in turn are usually affiliated with large holding companies or financing and operating companies. The United Light and Railways Company for instance is a financing and operating company incorporated in Maine and owns all or a large proportion of the capital stock, except directors' shares, in the following Iowa Companies: Cedar Rapids and Marion City Railway, Cedar Rapids Gas Company, Fort Dodge Gas and Electric

1. Insull, Samuel, Speech before the Peoria Illinois Chamber of Commerce, March 11, 1921.
4. The Iowa Railway and Light Co. is a good example of this.
Company, Mason City and Clear Lake R.R., Ottumwa Gas Company, Peoples Gas and Electric Company, and the Tri-City Railway and Light Company. The last named company in turn owns all the stock, except directors' shares, in the Clinton, Davenport and Muscatine Railway Company, Iowa City Light and Power Company, Muscatine Lighting Company, Tri-City Railway Company of Iowa, Peoples Light Company of Davenport. Other holding companies operating in Iowa are the Stone and Webster Syndicate, The American Gas Company and the Union Power and Light Company.

The example given above illustrates merely the corporate relations of these companies. The accompanying map will illustrate another feature of these consolidations and mergers, namely, the physical advantages derived therefrom.

It will be noted that the companies operating in the central and southern part of the state tend to extend east and west while those in the north half of the state run more vertically. Most of these companies represent mergers where the smaller concerns have been absorbed. For example, the Iowa Railway and Light Company has absorbed properties at Marshalltown, Boone, Marion, Perry

3. Iowa Electric Company and the Iowa Falls Electric Co.
and Tama and has franchises in 57 cities and towns, besides supplying electricity to 33 additional towns by selling it wholesale to two other companies which operate in the communities where these towns are located. These three companies represent in this way one system, which has taken the place of several small independent systems.

The territory served by the Iowa Electric Company indicates a rather large multiplication of power plants. These plants were perhaps for the most part at least originally mill sites that have been taken over and converted into electric generating stations. And as far as generating power on a river the size of the Maquoketa is concerned, the flow of water is insufficient to furnish any considerable amount of power at any one point and a series of dams is the only way of getting additional power from this source.

It will be noticed on the map that there are at least light hydro-electric plants in the small area of approximately two counties. These plants obviously cannot be depended upon the year round, and for this reason, in order to insure continuous service, are supplemented by

1. From a letter from G.O. Morse, City Manager of Maquoketa.
2. From a letter from G.O. Morse, City Manager of Maquoketa.
power from the central station of the Iowa Railway and Light Company at Cedar Rapids.

There are two reasons why these power plants are maintained. First, strong community interests demand them in order to insure continuous service in case of accident to the high-lines connecting with Cedar Rapids. In the second place they are an asset to the whole system of which the Iowa Railway and Light Company is the head. During off-peak hours when the energy is not being all used by the local communities the surplus energy may be absorbed and distributed by the large system.

The examples just given illustrate how every available source of energy may be utilized through the systematic tying together of plants and stations through fiscal and physical combinations. The following discussion shows how unnecessary plants may be eliminated, also by this sort of centralization. This means that fewer and larger units are more efficient than a greater number of small plants, which used to be necessary for each community. A good example of where plants are being eliminated through systematic centralization is illustrated in the following statement concerning the properties of the Iowa Light,

1. From consultation, J.B. Hill and Arthur H. Ford, Professors of Electrical Engineering, University of Iowa.
Heat and Power Company, also indicated on the map: "Company supplies electricity without competition to 41 communities in the State of Iowa. These communities are so situated as to permit of their being divided into two groups, one of which is now being supplied by a single central station. The other group will require two sources of supply, which when the territory is connected will eliminate the necessity of operating four of the seven stations now in use."  

There are five subsidiary corporations operating under the Continental Gas and Electric Corporation Properties in South Western Iowa which have in use eight generating stations as shown on the map. No doubt further centralization will see some of these plants eliminated.

The electric utilities of Illinois have done much in the way of concentration of service. The plan is systematically followed of placing the generating plants in the centers where the most energy is consumed, or near coal mines or water power where energy can be produced most

cheaply. In this way 33 out of 63 stations have been eliminated in one system with plans of reducing the number to seven or eight.

The Public Service Company of Northern Illinois serves 187 communities in the part of the state indicated; the Northern Illinois Company serves 60 communities in another part of the state; and the Central Illinois Public Service Company serves 181 communities. In the aggregate there are 662 communities served by 13 companies, which gives an average of 50 communities for each company. In one part of this state 64 different communities were served from one central gas plant.

The purpose of these statements made by utility officials and attorneys before the Illinois Constitutional Convention was to show the evils of "home rule" over all utility problems, which was being agitated, where each city would have conflicting opinions as to rates, service,

3. Debates before the Constitutional Convention of Illinois, April 1, 1920, testimony of Mr. B.J. Denman, Pres. of Illinois State Electric Ass'n.
4. Ibid, testimony of Mr. Alschuler, an attorney.
etc. The utilities maintained that local regulation would have made such wide distribution very difficult, if not impossible, and that its adoption would seriously aggravate the situation.

As further evidence of the desirability of large scale distribution, the Illinois State Public Utilities Commission said in a gas case: "The advantages of consolidation in certain lines of business, with consequent large production, are too well known to require discussion, and there can be no doubt that communities are in position to receive a superior service at considerably less cost than if each were served by its own separate plant."

Iowa, with the local regulation and past and present tendencies to duplications due to the legal sanctioning of competition, does not compare so favorably with Illinois in these respects as could be desired. True, the policy of large scale distribution is being increasingly followed in Iowa. The quotation given above to show how the Iowa Light, Heat and Power Company is eliminating unnecessary central stations also shows that 41 communities are served in the state. The Iowa Railway and Light Company serves through high-tension lines some 90 towns and cities in

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1. P.U.R. D 1918, p. 260
Likewise the Iowa Southern Utilities Company, the Des Moines and Central Iowa Electric Company, the Mississippi Valley Electric Company, and the Continental Gas & Electric Corporation all serve communities covering a fairly wide area. It is believed, however, that better utility laws would greatly facilitate this tendency and prevent much wasteful duplication.

It has been kept in mind that with the necessarily limited fund of information which anything short of detailed first-hand study could give there is no basis for passing judgment upon matters of a highly technical nature. And yet there are certain fundamental phases of the engineering side of the problem which are readily grasped and which should be touched upon here.

There is one feature of a technical nature, which should be specially noted in the program of centralization. Towns which are on the end of a transmission line are subject to poorer service than those nearer the source of power and in case of accident to the line which may shut off the power they are temporarily at least without service. The only way such difficulties can be eliminated is by having as few ends as possible. It will be noted on

the map that there are a great number of towns thus located due largely to the way the systems spread out in straight lines over rather narrow territory instead of describing a circular formation around the source of power. There is always a tendency to connect these ends and form a circuit, however, as between Dinsdale and Traer in Tama County, or between Boone and Nevada, and any number of similar instances. Making these connections of course depends largely upon the points which are connected being controlled by the same system, and it is therefore to the interests of both the utilities and the public that ownership of properties be well centralized.

In looking at the map one is struck by such instances of scattered ownership in properties as represented by the Iowa Light, Heat and Power Company's territory around Grinnell, separated by about four counties from its related properties and in close contact with the Iowa Railway and Light Company's system. It would appear that great advantages could be gained if this isolated district were combined both financially and physically with the system which half surrounds it and that the extreme west end of the Iowa Railway and Light Company's property were similarly combined with the adjacent Iowa Light, Heat and
Power Company. The matter of creating these combinations is of course solely a matter of business between the two companies, made difficult through such problems as arriving at an agreement over valuation, desirability, etc. There are many such examples of this kind of illogical arrangement in the state, and inasmuch as they exist competition and duplication exist instead of centralization. It may not always represent deliberate competition, and yet be a case of two or more plants operating in adjacent communities where only one is really necessary.

Instances of deliberate competition between plants in the same community are less numerous than in the past, yet they do exist. The town of Maquoketa, Iowa, although served by a private company has recently authorized the building of a municipal plant, an action which was prompted by the success of a long established municipal water system. It also appears that the private company had never been a success owing to the lack of experience and mismanagement and had finally become "trading stock", ultimately falling into the hands of the Iowa Electric Company in a way as to not meet the approval of the citizens of Maquoketa. Hence the authorization of a municipal plant, intended to eventually serve the entire city. This serves to illus-

1. Letter of G.O. Morse, City Manager for Maquoketa, Iowa.
trate what has so often happened to small local private utilities of this kind and leads to the belief that proper centralization of this community with other communities could have been successful and satisfactory from every point of service.

Aside from the general scheme of regulation which applies to all utilities some further suggestions will be made for the control of central electric plant development. Centralized control is the only means of promoting a systematic large scale concentration of this industry. And yet if this development is left entirely to the corporation and holding companies a certain amount of competition will exist, each company naturally seeking to operate only in those sections which promise the most revenue with the least expenditure. This kind of competition will eventually lead to conditions similar to those regarding the "strong" and "weak" roads in the railway industry which recent legislation has sought to correct. Therefore some plan giving the utility commission power to regulate and direct, or even to enforce, consolidations of the electric system should be worked out. This would mean that such illogical division of territory as noted above would not exist but that each company would

1. The Cummins Bill as it originally was developed in the Senate in 1920.
be limited to operate in a given territory and given absolute protection from any other competition. Inasmuch as each company has already covered an area and is capable of giving the best possible service there would be but little arbitrary re-arrangement necessary. The division which might be created in Iowa for instance would be determined largely by the natural tendencies of plants to be built in large centers of population or near sources of cheap power, and not because of any purely artificial boundaries. But if the utilities go ahead in a hodge-podge sort of development the time will come when the matter will present a much more difficult problem than at present.

A great deal of attention was formerly given to state lines, just as in the beginning the electric industry was limited to municipal boundaries. But in the present stage of development, with further centralization accompanied by wider distribution, state boundaries are ignored. There are an increasing number of instances of this as evidenced for example by the great hydro-development at Keokuk. Therefore as this industry becomes more and more

1. Insull, Samuel, Speech before the Peoria, Illinois, Chamber of Commerce, March 11, 1921.
interstate in character it will have to be dealt with by such commissions such as the Interstate Commerce Commission. Men most interested in this development see in the near future great "trunk lines" of electric transmission running across the continent much the same as our railway system. And in order to properly regulate this great and rapid growth the necessary legal machinery should be created without delay.
CHAPTER III.

STATE LAWS RELATING TO COMPETITION AND CONSOLIDATIONS.

The physical development of central electric stations, with a general view of the public attitude, has been reviewed in the preceding chapter in order to indicate some of the economic and political clauses of competition in utilities. Progress and invention, however, has brought about almost revolutionary changes in utility development; and better economic and political principles have been recognized as essential in dealing with new conditions. Yet these newer principles have not been as widely accepted as conditions warrant, with the result that the utilities in many states are yet laboring under difficulties and restrictive laws which were imposed upon them fifty years ago and which even then were largely misapplied.

Therefore it is the purpose of this chapter to examine various state utility laws which relate directly to the matter of competition and consolidation. Some of the states, those which have more recent utility laws and public service commissions have quite clearly defined provisions which give centralized control over such matters as monopoly and competition, rates and services, and the
intercorporate relations between the utilities. Other states have only partial state control through their utility commissions, there being perhaps not more than twelve states which extend complete regulation of competition to municipally owned as well as to privately owned utilities. No state fails to make some sort of an attempt at utility regulation, even though it be only to provide that the municipalities shall have full jurisdiction over their utilities. Under the more lax control are found all the evils which foster the waste of unnecessary duplications.

Certificates of Public Convenience and Necessity

The usual method of controlling competition is by means of a law which requires that before any utility can operate it must present to the proper authorities, usually the state public service commission, statements which indicate that public convenience and necessity requires certain services, extensions or combinations. This demand may arise from various causes: the lack of any utility whatever, inability of the existing utility to furnish adequate service, or merely because either the community

2. Iowa is in this class; see table, p
believes competition will regulate rates or another company feels that it can enter the field and succeed in competition with the established rival.

The specific purpose of the law is to prevent duplications and as such it recognizes the abandonment of free competition. In effect it grants a franchise right to the established concern but gives no perpetual rights. Therefore in deciding upon the application of a utility to operate, the commission grants it a certificate solely on the basis of necessity. If the existing company is giving adequate service at reasonable rates, or can be made to do so, it will be protected. Public demand does not always mean public necessity. A condition may exist where prejudices against a utility, agitated by local politicians who desire to first discredit the utility and then secure municipal ownership, is the controlling factor. Hence in order to insure a fair deal to the utilities it is essential that these decisions be made by an impartial body such as a state commission.

The primary reason for the establishment of centralized regulation of utilities through state commissions is to control competition. It has other purposes which will

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1. Holmes, Fred L. "Regulation of Railroads and Utilities in Wisconsin", Ch.15.
receive attention later but the necessity of limiting competition was one of the most urgent causes of commission control. The table on page shows that there are 37 states which have some kind of centralized regulation of utilities. Of these only 23 definitely regulate competition. The law requiring a certificate of convenience and necessity is practically the same in all the states where competition is regulated. The Illinois law, which may be taken as typical, reads as follows: "No public utility shall begin the construction of any new plant, equipment, property or facility which is not in substitution of any existing plant, equipment, property or facilities or in extension thereof or in addition thereto, unless and until it shall have obtained from the commission a certificate that public convenience and necessity require such construction".

This law typifies the general spirit of the more recent utility regulation. It is definite and is meant to handle an existing situation. This is a decided advantage over the old method of depending upon the courts to decide upon cases which come up because of the lack of clearly defined laws in the statute books. Commission regulation means that the courts no longer have direct
jurisdiction over utility difficulties. In fact, appeals to the courts are very rarely made because of the tendency to accept the commission's decision as final. Out of 2,511 orders of the Wisconsin Commission only fifty appeals were received by the courts, and twenty of these were at once abandoned.

Exactly how effective such legislation has been is shown by an examination of some of the cases which have been up before various commissions. Invariably the utilities which are giving good service are protected. Those giving poor service, or those unable to meet the needs of the community which they serve, have the constant threat of competition held out against them. It would be unwise to absolutely forbid all competition. This would only make possible the establishment of uncontrolled monopoly.

The law in Wisconsin provides three methods which a municipality may pursue in dealing with its public utility corporations: (1) election to purchase; (2) application for a certificate of convenience and necessity; and (3) application for an order presenting reasonable rates. The

2. Public Utility Reports, A 1915, p. 312. (The abbreviation P.U.R. will be hereinafter used.)
last two come wholly under the jurisdiction of the commission for settling.

As regards telephone service it has been the policy in Wisconsin since 1913 to restrict local telephone service to one company as long as that service remains reasonably adequate. The Commission also found that jitney service seriously interfered with the revenues of a street railway and directed a re-routing of jitney service so as not to compete. In the case of an electric company's refusal to supply a distributing company until competition threatened, the commission refused protection.

The public utility laws of California provide that investors shall be protected against competition while furnishing adequate service. And on this proposition the Commission has refused to grant certificates of public convenience and necessity for additional auto-busses between Los Angeles and San Diego, and the consolidation of two competing telephone systems was held to be in the public interest as a means of eliminating waste, inefficiency, and the undue cost of maintaining separate systems.

The Colorado, Idaho, Arizona, and Nevada laws are much the same as those in California. The Colorado Commission has refused to allow a utility to receive protection even though it may now be giving good service, if previously had disregarded the public demands for better service. Idaho follows the California rule, in that the Commission will grant a certificate to compete if it can be shown that the existing Company is not performing its duty to the public. Even good service, however, does not entitle a utility to protection if the rates are found unreasonable or if the company is not occupying all the territory which its charter allows, as was decided in an Idaho case.

The Commission ruled in an Arizona case that a public service corporation is entitled to protection against the occupancy of an exclusive field when a disposition is shown to hold itself in readiness to make reasonable extensions to serve new districts.

Priority of occupancy in a field, all other things being equal, would no doubt be given preference in all states

as was decided in a Nevada case.

New York, Maryland and Indiana cases show that the utilities which are giving good service are protected. The New York Commission has ruled that established utilities are even entitled to protection from the competition of a private owner of a plant who desires to furnish light to his own tenants.

The Indiana Commission has stated that the granting of protection by refusing franchises or permits to operate where a utility is already installed does not give the first company absolute monopoly if public convenience and necessity demands competition.

The Pennsylvania Commission has made allowances for abnormal conditions and prices, as for instance during the war a public utility which had obtained a certificate of convenience and necessity, resisted the entrance of a competitor although no efforts had been made to comply with its obligations due to high prices.

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1. P.U.R. B 1920, p. 338
2. P.U.R. A 1919, p. 113 (N.Y.); C 1920, p. 972 (Md.)
3. P.U.R. E 1918, p. 172
4. P.U.R. B 1920, p. 797
The Illinois Commission has repeatedly refused to permit jitney competition with street railways when the service was already adequate. Electric Companies have been ordered to stand the expense of connecting its own lines with those of another company because its own capacity was insufficient to meet the demand.

These cases are typical of the decisions which are generally rendered by the commissions in commission regulated states. No attempt has been made to give instances of such decisions from all the states which control competition, nor to present an exhaustive study of any particular state, but only to emphasize the desirability of such regulation as contrasted with the lack of centralized control in the majority of the states.

In the states which do not regulate competition between utilities, even though there is to some extent centralized control, and in the states where centralized control is absolutely lacking, the conditions as to competition are practically the same. Ohio, for example, has commission control, but not to the extent of regulating competition, as stated by the same

by the commission in 1915, that "in the absence of statutory authority it could not prevent an electric light and power company from competing, merely on the ground that the field was already occupied by a company furnishing adequate service, and that therefore no public necessity existed for another utility to furnish a like service."  

The absence of centralized control in Iowa and the presence of free and unrestricted competition has permitted an enormous amount of waste and litigation without any heed to public convenience or necessity. Sioux City, Clinton, Dubuque, Iowa City, Webster City, Centerville, Clarinda, and many other towns have all been subjected to telephone competition. Des Moines and Sioux City have tolerated competing electric service, and Burlington has had to support two gas companies.

Both Sioux City and Des Moines have had experience with auto busses operating in competition with their street railways. This permission was denied the auto busses in Sioux City, however, but it has caused no end of difficulty in Des Moines. The state laws do not forbid or restrict it and the municipal officials and the courts have so far

3. Article in Des Moines Register.
upheld it. Conditions finally culminated in a total cessation of street car service on August 3, 1921, in accordance with orders issued by Federal Judge Wade, and at the present writing there is no indications of an immediate settlement of the difficulty.

Here is a case where a few form of service has been permitted to compete to the extent of completely eliminating the older form. But whatever may be said for the superiority of new methods of transportation, it still remains that public policy is at fault in refusing to protect property which has been guaranteed as well as regulated. If street cars are to go they should be gradually superseded by other means of transportation, and until the transformation is complete autobusses should supplement, not eliminate, our existing common carriers.

1. Des Moines Register, July 15, 1921
The Commission stated in introducing the case in question that "a franchise for an electric transmission line outside of cities, including the right of eminent domain, may be granted under the Iowa laws, although the line may be unnecessary and competitive, it not being the policy to prefer a regulated monopoly to competition."

Further details of the case show that "Schmidt Bros. and Company made application for a franchise for a transmission line from Elkader to Garnerville and from thence to Guttenberg, a total distance of about 22 miles". The Home Electric Company, of Guttenberg objected to the granting of such a franchise for several reasons:

1. That the application is not bona fide.

2. There is no persistent demand for the building of such a line, except on the part of the applicant.

3. The building of the line to Guttenberg is unnecessary. The Home Electric Company is supplying, and able to supply, the citizens of Guttenberg with electricity at the same rate the applicant is charging at Elkader.

4. The building of a new line to Guttenberg means ruinous competition, and is against public policy; that it would be a bad precedent to allow capital which is invested in a public utility to be subjected to competition which

1. Since monopoly is not regulated in Iowa.
might mean the eventual financial wreck of one or the other of the concerns, and leave Guttenberg at the mercy of a monopoly.

The commission refused to consider the first two, on the ground that the application conformed to the requirements of the statute. The last two were considered together under the proposition that "where adequate service at a reasonable rate is being rendered by a public utility, the introduction of a competitor is unnecessary, may result in ruinous competition; that a duplication of plants is not in the public interest and may deter the investment of capital in public utilities, and is contrary to public policy."

The protestant had argued that although Iowa has no Public Service Commission dealing with electric companies upon as broad lines as in the regularly governed commission states, that nevertheless the Railroad Commission should not grant applications for the right to occupy the highways of the state by transmission lines until the town affected should determine that there should be competition in this utility.

1. Since monopoly is not regulated in Iowa.
The Commission granted that while in New York, Wisconsin and other commission governed states the established utilities were protected from competition until public convenience and necessity voted otherwise, that such was not the policy in Iowa. "The general policy of this state has been to foster competition and to prevent exclusive rights and monopoly", and "the contention of the protestant, if granted, would result in an exclusive right to the Home Electric Company, and would, under our present law, present, so far as this Commission is concerned, an unregulated monopoly. This state has not yet adopted the policy that a regulated monopoly is better than free competition between as many persons and corporations as may be inclined to get in and try their luck".

Regulation of Consolidations, Mergers, Leases and Sales.

States which go to the extent of regulating competition usually also make provisions whereby the relations between the utility companies themselves may be controlled, for this too is subject to public convenience and necessity. The regulation of competition is for the purpose of protecting both the established utility and the public from the wastes of duplications. The control over consolidations,
mergers, leases and sales, as carried on between utilities, it meant to protect the public from unrestricted monopoly. Its specific aim is to control fiscal combinations, to prevent the utilities from operating to the detriment of the public, as for instance could be done were not security issues regulated. When a fiscal reorganization takes place the laws usually require that the new securities shall not exceed in amount the value of the combined concerns as determined upon by the commission. It is in no wise intended to limit consolidations where economies are to be effected through the elimination of duplications, but only to prevent the speculation, which is so easy without such regulation.

A few examples of where consolidations, mergers, leases or sales are granted will illustrate the value of this law in its bearing upon the elimination of duplications and the reductions of rates.

In an Ohio case "the sale of the property of one electric light company to another was approved, it appearing that adequate service for a reasonable rate would be furnished and that the service would be improved without an increase in rates". This recognizes the desirability of monopoly so long as it is regulated.

2. Ibid.
It is the policy of the California Commission to authorize consolidation where duplications exist and a consolidation will reduce rates and improve service.

The Massachusetts Commission permitted two electric companies to consolidate, as it appeared that the consolidation would make possible more economical financing and simplify relations with the public. The Commission stated the case for consolidation in another decision when it said, "Public welfare was the first consideration; if it is better to order consolidation, for better service, it should be done regardless of the embarrassing situation it may put a company in--if it is unable to fulfil its obligations alone".

Five Idaho electric companies merged and were not held in violation of the Idaho Anti-Trust law, because the Commission has power to regulate rates and this merger would bring about economies and give better service.

It was stated in a decision given by the Delaware Commission that "in taking over utility properties, either by purchase or lease, the values thereof, and the terms upon which the transfer is made, should not be such as to result in an unreasonable increase in rates!"

A company which is charging very high rates may be granted authority to purchase another company which is charging lower, but reasonable rates. But the authority to purchase does not permit a right to raise these rates to a level of its own.

Another case having to do with rates says that "a consolidation of electric companies is for the public good, even if the people in one place have to pay higher rates; because rates might be higher without consolidation".

Other conditions or qualifications which are variously made are as follows: the benefits arising from consolidation are not to be capitalized; the purchase price approved by the Commission is not to be construed as a "fair value" for rates or capitalization, or for the issuance of securities.

The Arizona Commission has permitted telephone systems to consolidate without its consent, where no withdrawal of service was contemplated and only the elimination of competition and duplication resulted. Usually, however, consolidations must be enacted strictly in accordance with law and only after the commission has passed upon the case.

The New Jersey Commission forbade a consolidation which was not proposed in accordance with the law, and, in another instance, refused, in the absence of statutory power, to authorize the consolidation of corporations organized outside the state.

Sometimes the public demands consolidation. A Maine case shows that the local companies and the public in several small places asked a big electric utility to buy up all these small companies so as to give better service. This was permitted by the Commission. More instances of this kind would indicate greater interest on the part of the public and would help the utilities in effecting the economies which such combinations naturally bring.

South Dakota furnishes an example of where physical connection between two competing telephone systems was ordered on the principle that it was in the public interest to do so, although the commission had no authority under the existing statute to require these companies to consolidate their properties under one ownership. The commission expressed the opinion, however, that it was reasonable and desirable from every viewpoint for the properties to be consolidated.

An almost identical situation existed in Nebraska in 1919. The commission in commenting upon a case said, "It is obvious that duplication of telephone utilities in a limited field, such as we here find, is not desirable from any standpoint". The commission expressed its regret in not being able to order a physical consolidation of the competing properties, though as in the South Dakota case cited above, physical connection was ordered.

Indiana, also, as late as 1918, had no power to order a merger, despite the wisdom of the idea; Ohio had no jurisdiction to approve an agreement to consolidate; and in West Virginia it has been necessary that the municipality must first give its consent before consolidation can take place, and the controlling company must first get control of the franchises and properties of the other companies.

Thus we see from these examples that this particular law can be very effective in bringing about better service and lower rates because it removes the utilities from the class of speculative industries and encourages monopoly rather than uncontrolled competition and duplications in

equipment and services. Obviously no local regulatory body could handle a situation of this kind. Only a state commission can secure the benefits recited above.
CHAPTER IV.

CONCLUSION: THE PRESENT SITUATION IN IOWA, WITH SOME SUGGESTIONS FOR A CONSTRUCTIVE UTILITY PROGRAM.

In the introductory statements the charge was made that Iowa has always persistently violated the very principles regarding regulation which other states have accepted as the only means of securing a constructive utility program. The first chapter reviewed the principles of regulation which have prevailed at different times. The second chapter gave in detail the fallacies of municipal ownership and local regulation, especially as related to the development of electric utilities. The third chapter treated the matter of competition and consolidation, mainly in other states besides Iowa, showing what these states have accepted in their utility program, thus forming a background for a discussion of the present situation in Iowa.

The Present Situation in Iowa

The most striking feature in this state is its lack of a public service commission. The Board of Railway Commissioners has a few very limited rights of jurisdiction, but no control over rates, valuation of property, service, etc. All utilities, whether owned by the municipalities
or by private corporations are alike subject to municipal regulation. This regulation in itself has been as fair and efficient as could be expected anywhere, except in a few notable cases, and the utility managers themselves have testified to good treatment and ready response to legitimate rate increases. An official counsel of the United Light and Railways Company said in respect to this state: "It is a remarkable and gratifying fact that in the greater portion of our Iowa cities and towns the city officials have responded to the needs of the companies with a promptness and fairness unexcelled by any public utility commission."

While this is very commendable it only emphasizes the fact that fair treatment is accorded the utilities in most instances, and does not take into consideration that a state commission could be just as fair, or as is generally the case, even more unbiased in its dealings with the utilities. The important point is that a state commission would be more efficient and capable in every way than would a city council, however fair minded were its members. And furthermore such utility warfare

as has existed in Des Moines would not be tolerated in a state which had proper control over competition. Even the exceptional cases of difficulties due to local regulation would then be eliminated.

No doubt the main reason why Iowa has remained dependent on local regulation and against a state commission is to be found in the well organized leadership of the League of Iowa Municipalities. This league was organized October 14, 1898, and is officially provided for in the state laws, and in 1919 comprised a membership of 422 cities and towns in the State.

The league's official organ, American Municipalities, has a standing resolution against commission government or administration in general, and explicitly against a public utility commission for Iowa. The resolution in part reads: "Be it resolved, That the League of Iowa Municipalities exert all legitimate efforts to prevent the creation of any public utility commission in the state of Iowa, and that this Organization hereby expresses its unalterable opposition to the establishment of any commission authorized to control or regulate any local utility".

1. Code Supplement, 1913, Sec. 694-a-b-c. See also: Reports of Iowa Municipal Accounts, 1919.
2. Published at Marshalltown, Iowa
There is no surprise then when it is found that public officials, editors and the public generally are against state regulation of utilities for Iowa. Questionnaires asking whether state or local regulation was preferred were sent to the following sixteen Iowa cities:

Hampton
Fort Dodge
Sioux City
Waterloo
Marshalltown
Mason City
Storm Lake
Shenandoah
Emmettsburg
Cherokee
Ottumwa
Oskaloosa
Red Oak
Oelwein
Centerville
Davenport

The mayor answered for fourteen of the cities while the editor of a local paper answered for Davenport and a Congressman for Centerville. Only one reply, that from Oelwein, indicated a preference for a state utilities commission.

Some of the reasons given are no doubt typical of the general attitude. One answer was inclined to the belief that control should be close at home rather than removed.

1. Cram, R.W. "The Davenport Democrat".
2. Porter, Claude R.
3. Ibid.
for the reason that control is unresponsive to the wishes of the people when too far removed and it is too difficult to reach them, and that it is impossible for a commission located at a distance to have the thorough knowledge of conditions that one closer at hand possesses. He opposed public ownership, however, because of his belief that the public was insufficiently interested in it.

Another statement was to the effect that local commissions would be in better touch with the home situation, but should be safeguarded by appointment to them of high-grade citizens; another that "cities should be given power to regulate rates, and to own and operate their own public utilities".

It is not meant to minimize in any respect the betterments in civic organization and improvement for which the League of Iowa Municipalities stands or has accomplished. But it is strongly urged that such a program as indicated in its insistence on local regulation is not in the best interests of the citizens of the state, either economically or politically, in any long-run scheme of development.

2. Mayor Short of Sioux City.
Bills for the purpose of creating a public service commission for Iowa have all failed. Similar bills were presented to both the Thirty-Third and Thirty-Fourth General Assemblies, the first in 1909, the latter in 1911. Both provided for state control, through a public service commission of five members, of all utilities both municipal and private. This commission was to have power to fix rates and order improvements; to regulate bond issues; and to require a certificate of convenience and necessity for all proposed utility construction, thus regulating competition.

There were many important omissions, however, which have been enumerated by Downey as follows: (1) explicit definition of unlawful discrimination, (2) valuation of utility properties by the commission, (3) audit of utility accounts, (4) definition by the commission of standards of product and service, (5) inspection of service and equipment by the commission's staff, (6) control of mergers, (7) approval of franchises by the commission, (8) an indeterminate permit clause, (9) restrictions upon judicial review of the commission's decisions.

1. Sammis bill.
2. Sammis bill.
If these bills were weak because of omissions, the Springer bill which appeared before the last General Assembly, 1921, was so much weaker as to almost fail comparison. No state commission was even proposed, as were none of the essentials mentioned above as having been heretofore omitted, nor was there a convenience and necessity clause. The second of the former bills, that of 1911, granted more powers to municipalities than did the first, while the Springer bill was as complete a surrender to local regulation as could be imagined. Its main provision was that intended to establish a court of appeal, known as a Court of Public Service, to which utility problems might be submitted for settlement.

Although the bill passed both House and Senate, members of the House regretted their action after its passage and attempted to persuade the Senate to return the bill, but instead it was passed. By the time it reached the governor's hands so much pressure had been brought to defeat the bill that he returned it without his signature.

2. Excerpt (8).
One of his reasons for vetoing the bill was exactly why most students of the problem would have favored it,—namely, because it provided that all franchises should be indeterminate. Said the Governor upon returning the bill, "Section 9 of the bill violates fundamental principles of our law and is a complete reversal of the policy of the state in dealing with public utilities. It deprives the people and city councils of all power to protect the interest of the community because it grants an indeterminate franchise, which is in effect a perpetual right to enjoy the benefits and privileges of the franchise grant".

No doubt the Governor was misinformed as to the generally accepted meaning of "indeterminate franchise". It does not give any perpetual rights, and "differs from the perpetual franchise in that it may be revoked at any time that the regulating body decides that the corporation is not properly serving the public's interest". The tendency of the indeterminate franchise is to give greater stability to the utilities and eliminate competition, but this is contrary to the laws of Iowa. This is

exactly what is now most commonly accepted as the correct principle of franchise granting, providing always that the right to control the franchise be left to an able and unbiased central state commission, and not to local authorities. Hence had the Governor had in mind the purpose of giving the City Councils and Boards of Supervisors more power instead of taking away imagined privileges from the utilities he could have done no better than to sanction the indeterminate franchise.

He also found himself out of accord with the establishment of the Court of Appeals, again without giving the reasons for his position which utility experts would have given. The Court was to consist of three district judges appointed by the chief justice of the supreme court, and this, the veto message asserted, was in direct contravention of Section 5 of Article 5 of the State Constitution, which states that judges shall be ineligible to any other office than the one to which elected.

Utility experts would no doubt have agreed that the Court was already overburdened and would not have the time nor the expert training in utility problems to give the

cases thorough review. "Court rule", or settlement of utility problems by law suit has proved wholly inadequate in the past. It does not "regulate", but merely passes upon cases already out of date. It is too slow, too expensive, and is not expert.

Furthermore the bill's provision to leave control in the hands of city councils or boards of supervisors is equally weak. Besides being subject to the same weaknesses which court rule displays, it would not foster the exercise of unbiased judgment.

Therefore the Iowa utility laws as they still stand are very meagre. The only approach to centralization of any kind is found in the provisions which require all cities or towns owning any public utilities to make an annual report as to the financial condition of the utility, which data is each year collected and published by the auditor of the state. The municipalities have full

2. Ibid.
3. Downey, E.H., p. 205
5. Downey, E.H. Op.Cit. says these reports are very incomplete and unreliable.
power in dealing with the utilities, although the law provides against monopoly by denying the right to a municipality of granting franchises for more than 25 years or to grant an exclusive franchise. This insures competition but does not regulate it. Cities governed by Commissions or by the council and manager plan specifically provide that no franchises can be granted without the consent of a majority of the electors.

All cities are granted the right to municipal ownership either by purchase or construction. If a city votes for municipal ownership and the utility refuses to sell or terms of transfer cannot be reached, the city may bring condemnation proceedings, through a Court of Condemnation, to acquire it.

The rates of all utilities are locally regulated, although the law makes no provision as to the regulation of service. The local regulating body has the "power

1. Compiled Code of Iowa, 1919, Section 3966.
2. " " " " " Sections 4230, 4295.
3. " " " " " Sections 3968, 3969.
4. " " " " " Section 3973.
to require every individual or private corporation operating such works or plant, subject to reasonable rules and regulations, to furnish any person applying therefor, along the line of its pipes, main, wires or other conduits, with gas, heat, water, light or power." The only power ever directly exercised over rates by the Iowa legislature has been for railroads and street railways.

It is still controversial as to whether rates stipulated in franchises are contractual or legislative in character. If the latter, the city has power to change them without court procedure, Judge Wade of the Federal Court takes the stand that rates are contractual, while Judge Applegate and the Iowa Supreme Court hold that they are legislative, as do also the utilities.

A constructive utility program for Iowa should first of all demand a public service commission, to be appointed for indefinite terms, and with full power over all utilities, including the power over railroads now vested in the Railroad Commission. The Commission should be

1. Ibid.
empowered with control over valuation, rate-making, auditing of utility accounts, standards of product and service, and inspection of utility properties. Competition should be regulated through a "convenience and necessity" clause. Power to pass on franchise granting should be vested in the Commission. The limited franchise should be replaced by the indefinite grant, with proper provisions against making it perpetual. As far as possible all decisions of the Commission should be final, with as little tendency as possible toward "court rule". The authority of the Commission should apply equally to all utilities, whether municipally or privately owned, thus eliminating the evils of local regulation.

The Commission should have control over consolidations, mergers, leases and sales, with power to regulate security issues. This control would mean, as in most states which have such control, that the consent of the commission must be had before fiscal or physical consolidations could be made. It would seem advisable, also, to give the Commission advisory power over such consolidations even before they are proposed by the utility companies. In this way a systematic utility program could be worked
out, especially in electric utilities such as indicated on the map on page 42. By following such a program, even enforcing consolidations if the utilities failed to combine where public interest demanded it, the electric utilities of Iowa could be reduced in number, each company operating with all the economies of large sale production in a definite portion of the state.

Laws should also be enacted looking to the solution of the problem of municipal ownership. While there is much to be said against the municipalization of utilities, especially such as cannot be easily or economically confined to municipal boundaries, yet the public often insists on undertaking it. Hence proper provision should be made to protect the utilities pending municipalization, so as to give security to public utility investments and maintain a fair return. If it is found to be necessary to compromise between state and local regulation the spheres of authority should be carefully defined, so as to effect

cooperation rather than hostility between the two.

The principle of service at cost has been increasingly emphasized wherever regulation has been recognized and adopted. This is naturally the principle which is followed under municipal ownership. And inasmuch as it guarantees a fair return on capital it is the only sane rate policy for private as well as municipal utilities, and when applied to private utilities eliminates one of the most prominent arguments for municipal ownership. A state Commission should follow a definite policy in regulating rates on this basis.

Another matter of immediate concern to the public and which should come more fully under state control is that of conserving and using our water power resources. This problem is not so outstandingly evident in Iowa as in California, for example, where a great deal of attention has been given it. During the past two years a plan has been agitated in California called the Marshall Plan, which includes in its program that the state water and power resources be unified under state control, looking to a complete utilization of all reservoir sites.

1. Insull, Samuel, "Central Station Electric Service".
A similar recommendation, embracing a great many kindred suggestions, was made for the state of Iowa in 1910 in the Report of the Iowa State Drainage and Waterways and Conservation Commission. An examination of this report reveals a great amount of enthusiasm concerning the possibilities of developing water power in this state.

It was found that there were 101 water power plants in operation, 28 of which were producing all or part electric power, while the rest were used for milling. Regret was expressed that during the two years prior to the report that the power of these combined plants had decreased from 17,304 H.P. to 11,877 H.P.—largely because dams were destroyed by floods and were not rebuilt. The report showed however that at least an additional maximum horse power of 247,500 could easily be developed. Many surveys were made which showed a great number of good power sites.

The Commission recommended that inasmuch as the coal supply was limited that the state should own and develop these water resources in order to insure adequate and cheap power in the future. State regulation of these
utilities was deemed absolutely essential, as well as a systematized consolidation of the plants, in order to insure the proper development.

It is certain that these undertakings should be controlled by the state in case they are developed; but the probability of their development, immediately at least, is doubted by a great many. Professor J.B. Hill of the College of Engineering of the State University of Iowa is of the opinion that the elaborate suggestions of the Commission are not warranted from an economic standpoint. Most of the projects would require large and expensive reservoirs and a great deal of expensive dam construction and maintenance, and owing to weather conditions steam plants would have to also be maintained.

The desire to secure cheap power no doubt plays a most important part in the minds of most people in wishing to develop water power. In respect to such power Samuel Insull says: \[1\] "Glowing pictures are drawn of the amount of power that can be produced from waterways within this state (Illinois), and because water runs down hill it is asserted that the power can all be sold for nothing or at a very low price. Of course, that is simply a dream........ The only way that you can get cheap production and dis-

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1. From an interview.
tribution of energy is by concentration, by monopoly".

The essential point is, however, that the better of these resources will be developed some time, either by the state or by private interests, and in any event should be strictly regulated by the state. But before this can be done the utility program of the state will have to be greatly altered so as to empower a public service commission with all the powers suggested above.
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