

George B. Wright and Family Papers

Copyright Notice:

This material may be protected by copyright law (U.S. Code, Title 17). Researchers are liable for any infringement. For more information, visit www.mnhs.org/copyright.

Fergus Falls, Minnesota April 1, 1955

Gentlemen:

This first draft of a history of the Company is primarily for discussion purposes. It no doubt contains errors of both commission and omission. Will you please look it over and give me your comments. It is proposed to use them as a basis for changes, and to print the result for distribution to anyone interested.

Yours very truly,

Thomas C. Wright

OTTER TAIL POWER COMPANY FROM ITS ORIGIN THROUGH 1954

Thomas C. Wright

THE PREHISTORIC PERIOD - 1871 to 1907

The official history of Otter Tail Power Company begins with the incorporation of the Company on July 5, 1907. These notes are a reconstruction of some of the events that led up to its organization and which consequently may be termed the prehistory of the Company.

George Burdict Wright was one of the town site proprietors of Fergus
Falls, and one of its most active early promoters. One of his arguments was
the existence of water power for the operation of industries in the town. On
the evidence of old deeds and hearsay, I believe he built what is now known
as the Wright Dam in 1871. In any case, he sold it to two men named Goodsell
in 1873, and then repurchased it from one of them and the widow of the other
in 1878 and 1879; and it formed part of his estate when he died in 1882.
The first use of the power was to operate a sawmill and a "flouring" mill,
probably by direct shaft drive from a water turbine.

Old photographs in the collection of the Otter Tail County Historical Society show another type of direct drive. In the 1880's or 1890's there were a number of small industries located near Mr. Wright's dam. They received their power through a system of cables and pulleys connecting the turbine at the dam with the driven machinery.

Eventually, in dividing up the estate of George B. Wright, the dam and its associated equipment came into the possession of his son Vernon A. Wright. There is no record of how the water power and real estate in Fergus Falls were handled prior to 1900, other than brief mention in various letters

of an agent being in charge. In that year Vernon A. Wright, then a Boston architect, began to make numerous and extended trips to Fergus Falls in connection with the management of his properties; and the letters that he wrote to his wife in Massachusetts tell a good deal about his early work and thinking in the power supply field.

At this time, the dam was 29 years old, and badly in need of repairs. Mr. Wright started three important projects: the repair of the dam, the construction of a new two-story office building, and a third, which has no connection with Otter Tail Power Company. The building and the repairs went on during the summer, with frequent delays for want of competent men to do the work. The dam repairs were finished in September; and the office, then called the Telephone Building after its most important tenant, was first occupied in the spring of 1901. It is now one of the two buildings housing the main office of Otter Tail Power Company.

During the spring of 1901, Mr. Wright studied the possibilities of electric power. By May of that year he was actively investigating its application in Fergus Falls as a means of reducing the large power loss of direct shaft drive, and trying to get his customers to say they would change over. By June he was excavating for a new turbine, and talking to representatives of General Electric Company about equipment. In a letter dated June 17, he makes the first mention of the existence of a water power site some five miles below town; but states that it is worthless unless power can be transmitted to Fergus Falls electrically. In August he made a preliminary survey, and referred to the site as Dayton Hollow.

Mr. Wright's first electric generating station went into operation (though somewhat erratically) in March, 1902, with Andrew Nelson in charge. The first loads were power for the small industries previously served by direct shaft or cable drive; but by October there was also a load of "about 200 lamps." And late in November there is mention of digging test pits at Dayton Hollow, to see where a dam could be put.

The first year of the power business was not particularly lucrative.

A letter dated in May, 1903 reviews the results of the prior year. It reports that the electric power just about paid its own way, while direct drive power rentals from the mills were fairly profitable.

But then as now, because of its obvious advantages, and in spite of prices that today would be considered high, electric power was popular. On August 23, 1903, Mr. Wright was again surveying at Dayton Hollow; a week later he mentions the need for more power supply to keep up with the demands of his customers, and a rush for developable water power sites.

The years 1904 and 1905 were largely occupied with other projects, and there is little mention of power matters in any of the letters. In 1906 there are numerous brief references to additional generating capacity being installed at the dam, and of the hiring of an additional operator in December of that year. There are no letters from December 23, 1906 to October, 1909, by which time Otter Tail Power Company had already been launched.

Conversations with, and a short account by, Mrs. Vernon Wright would indicate that Mr. Wright gave up the practice of architecture in 1905 on the advice of his physician; and that thereafter he turned to the development of his father's real estate holdings in Fergus Falls. On the basis of the letters,

I do not see where he would have had time for both a business and a professional career. The final break may have come in 1905 (in which year he built or superintended the building, from his own designs, of the Wright Hospital, the old section of the Washington School, and the Public Library, all in Fergus Falls), but I think it probably had been brewing for a long time. The final break may have been little more than the acknowledgment of an accomplished change.

It appears to have taken some time to find additional backers for the promotion of the electric power business. Mr. C. R. Wright told me some years ago that Mr. Vernon Wright had approached his (C. R's.) father, Chas. J. Wright, with the suggestion that they start a power company. Charley J. turned him down on the ground that the power business was too new and too risky. There may have been other refusals - I do not know. But sometime in 1906 or 1907 he managed to interest Mr. F. G. Barrows. Mr. Barrows was a resident of Fergus Falls in the early part of the century, and is mentioned occasionally in the letters. From one or two brief references to his activities, and from what Mr. Vernon Wright told me, Mr. Barrows was more interested in promotion than in operation. These two men organized Otter Tail Power Company, which they incorporated on July 5, 1907. Fourteen years later, when the company was well on its way, Mr. Barrows lost interest and sold out - partly to Vernon A. Wright, partly to Elmer E. Adams, and a small amount to other members of the operating organization.

During this period, Fergus Falls was also developing its own municipallyowned electric power system, which was supplied by a dam and a hydro-electric plant a couple of miles above the city. The remains of this dam are still visible, a short distance above the "Broken Down Dam." So, by 1902 there were two electric power systems operating in Fergus Falls. Mr. Wright's system served a considerable power load and some lighting load within a short distance of his dam, and he seems gradually to have converted all of his direct drive customers to electric customers. The Municipal system served the rest of the town. The letters contain no specific rate schedules; but one letter states that Mr. Wright set his rates a little lower than the City's rates. In 1909, shortly after Otter Tail Power Company had started to operate, Mr. Wright's dam and power lines became part of the Company. This curious and uneconomic dual supply system was perpetuated in the subsequent contract for wholesale supply to the City's system - the Company served the power customers directly, and the City served everything else, even including lights on the power customer's premises. It was not changed until the sale of the City's lines to the Company in May, 1953.

GETTING STARTED - 1907 to 1920

The history of Otter Tail Power Company can be divided into five periods, each with its own dominant characteristics. Its corporate life starts with the filing of the Articles of Incorporation with the Minnesota Secretary of State on July 5, 1907. For the first 13 years of its existence, it was a small, slow-growing Company in western Minnesota and eastern Dakota; and derived the bulk of its power from hydro-electric plants on the Otter Tail River in the vicinity of Fergus Falls. During the 1920's it expanded rapidly, mostly westward and northward, reaching the Missouri River at Washburn, North Dakota, in 1926. The 1930's were years of drouth and of industrial depression, and the Company made no important additions to its territory during that decade. The 1940's constituted another period of rapid growth -- mainly by merger and the purchase of additional properties in the period from 1940 to 1944; and the "catching-up" with deferred demand after the close of hostilities in 1945. During the first half of the 1950's, there has been a marked increase in cooperation between all power suppliers; and present developments may lead to a formal power pool in the not too distant future.

Four men are listed as the incorporators of Otter Tail Power Company:

Vernon A. Wright, F. G. Barrows, E. W. Anderson, and Fred Leffler; and these
also constituted the first Board of Directors. Although organized in July,
the first meeting of the Board did not take place until December 23, when
the first officers were elected: Vernon A. Wright, President, and F. G.

Barrows, Secretary and Treasurer. At the same meeting, the Directors approved

contracts with S. Morgan Smith for a turbine and with General Electric

Company for a generator. About two weeks later, on January 8, 1908, the

Company put out its first bond issue of \$60,000. The bonds were delivered to

Mr. Barrows, who apparently sold them to investors. No record remains of the

purchasers, but it is a good guess that they went to local banks.

The Company started building the Dayton Hollow dam late in 1907 or early in 1908, and construction continued until the spring of 1909. Though not specifically mentioned, the transmission line from Dayton Hollow to Wahpeton must also have been built at this time, because when the plant started, about April 1, 1909, the Northern Light Electric Company of Wahpeton was the first customer.

During this same period, the city of Fergus Falls built and put into operation a new hydro-electric plant above the city to replace the older one, which was becoming inadequate. The foundations were poor, and Ben Snyder, the operator, once told me of a stream of water that developed under the power-house section. On the morning of September 24, the city dam washed out. The flood water took with it four other small dams through town, and dumped the contents of all five mill ponds into the pond above the Dayton Hollow dam.

Vernon Wright and his family were living in Fergus at the time. I can remember an early morning telephone call, and Mr. Wright pulling on his trousers and coat over his pajamas and running out of the house. He said later that he awakened Mr. Barrows by throwing pebbles at his window; and it is alleged that they drove to Dayton Hollow in under ten minutes.

Fortunately, Dayton Hollow dam has a very large pond back of it.

They opened up the flood gates through the dam, took out the control boards along the crest, and stationed men along the bridge with pike poles to steer debris over the dam. Nothing happened, but it was a bad scare for a few hours.

Shortly after the washout, Mr. Wright's family returned to Massachusetts, and the letters to his wife begin again. In one of the first ones he mentions the statement by irresponsible parties that "the power trust, controlled by General Electric Company" had caused the failure of the city's dam.

The thinking people in the town were not impressed, and negotiations began at once to supply power to the Fergus Falls municipal system at wholesale. There was the usual haggling over terms, which ended with a contract dated October 14, 1909, for the supply of power for a $7\frac{1}{2}$ -year period beginning November 15, 1909. The letters tell of the delays in getting delivery of materials for the line from Dayton Hollow; but they do not appear to have been too serious, because electric service from Dayton Hollow began on November 6, eight days ahead of the contract date. While this line was being built, the Company also ordered a second turbine and generator for Dayton Hollow.

Up to this time, Mr. Wright still owned personally the small dam and power-house located between Cascade and Mill Streets in Fergus Falls, and a few blocks of electric lines to distribute the power to his customers. The dam was a timber crib, rock and earth-filled structure, basically the original dam of 1871, but extensively rebuilt and repaired in 1900 and 1901. On October 26, the Directors authorized its purchase from Mr. Wright, payment to be in Otter Tail Power Company preferred stock. When the purchase was

completed, the Otter Tail Power system consisted of two dams, a transmission line from Fergus Falls to Wahpeton via Dayton Hollow, and a small power distribution system in Fergus Falls. The Company supplied power to Northern Light Electric Company, the Fergus Falls municipal system, and Mr. Wright's former power customers in the latter town. Northern Light had a 500 KW steam plant at Wahpeton, which Otter Tail used in times of low water.

On November 9, the Directors authorized the Company's first issue of preferred stock to be sold to the public to raise money for the construction of facilities. Thereby was initiated something that was to be repeated at frequent intervals for 45 years, and which will be repeated as long as the Company continues to operate. This initial offering was \$50,000 of 6% preferred stock; but sales did not go very well until the rate was raised to 7%. At the same meeting, Mr. Wright and Mr. Barrows presented bills for the substantial cash amounts which they had advanced since the Company was organized, plus a very modest amount for their services over the same period, and were issued common stock in payment. In those days, business was conducted with a degree of informality that would be unthinkable today. I surmise that, in most cases, the results were not very different from those attained under today's strict regulation.

Some two weeks later, the officers of the Company hired Mr. C. B. Kidder as General Manager. Mr. Kidder had been operating the Northern Light Electric Company; and for the next four years the two companies were operated as a unit, though maintained as separate corporate entities.

The first nine months of operation showed definite promise of success, and the year 1910 began much the same way. Mr. Kidder had his main office in

Wahpeton, but came to Fergus Falls frequently. The Company's finances were handled from Mr. Barrow's office, on the site of the Oyloe building. Very shortly, in the spring of 1910, the Company opened an appliance shop, with office space for Mr. Kidder in an ex-saloon, now occupied by the Bible Book & Gift Shop, just north of the Oyloe building. A few years later this became the Company's main office.

As 1910 proceeded, the rainfall dropped off, and the flow in the river decreased. At one point, Dayton Hollow could operate only four hours a day. Steam power became necessary in order to maintain service, and the Company added a 350 KW reciprocating engine unit to the Northern Light plant at Wahpeton. But in 1911 the rains were better, and most of the generation again came from water power.

As previously mentioned, business in those days was conducted on an informal basis. No operating reports were made (at least, none survive) prior to January, 1910; and the first balance sheet is dated June 30 the same year. There was no audit of the books until Mr. Wright made one himself in December, 1911. The first trial balance was about \$1,000 out; and when this had been worked down to \$28, the difference was written off.

Sometime in 1910 or 1911, Mr. Wright became interested in the possibilities of cutting off a bend in the river in order to develop a high head with only a small dam -- what is now known as the Hoot Lake Project. He mentions it first in a letter dated April 30, 1911. After describing it, he says: "Nature has done all that an engineer could ask and the rest is a problem in financing mixed with conflicting interests." As the proposal, if carried out, would destroy the value of the city's dam site, it would become

a political issue as soon as it was announced.

At about the same time, negotiations were started with the Mayor and the Water and Light Committee of the Council, concerning a rate low enough to make electric cooking possible. In August, the matter was presented to the Council, together with a proposed contract extension; and two months later, the Company started a campaign in the newspapers. The group in favor of municipal ownership countered by holding mass meetings in favor of issuing bonds and rebuilding the city dam.

Early in October, Mr. Barrows and Mr. Wright decided to go ahead on the Hoot Lake Project, and began getting options on the land they would need for flowage. By the end of the month they had most of what they needed, and announced the plan to the public. Followed the same "power trust" charges, and a repetition of the charge that the "trust" had blown up the city dam; but this time it was to prepare the way for Hoot Lake. The Council and the Water and Light Commission took opposite sides, the Council favoring the project. An engineer whom they retained to study the project and offer turned in a favorable report. There followed several weeks of negotiation on contract terms; and when the matter was finally submitted to vote, it carried.

Active preliminary work on Hoot Lake, mostly surveying and drafting, started in the spring of 1912, with A. V. Taylor in charge. Mr. Taylor was an instructor at Wahpeton Science School and worked for the Company during the summer; the next year he started on a full-time basis.

A group of farmers tried to hold up the proceedings; but one by one settlements were made. Some of the cases went to court, under condemnation

proceedings. Two appeals were taken from awards of \$500 and \$600, and demands were made for \$3,000 and \$5,000. The jury awarded \$600 and \$425.

"On the whole, a complete victory - - -." There was some difficulty in getting some of the famers to accept the settlement, but in the end they were made, though at somewhat higher figures.

Along with construction work at Hoot Lake in 1913 went work on transmission lines and the acquisition of town distribution systems — one of the first being Morris, Minnesota. The minute book reports the "purchase" of Northern Light Electric Company on November 1, 1913. But judging by the description of the transaction, it now would be called a merger. A letter refers to it as a "mere formality, as the ownership of the two companies was practically the same." Obviously, the long period of growth had started by the time the Company had been operating for four years.

During 1913, Mr. E. E. Adams, recently elected President of the First National Bank of Fergus Falls, began to take a prominent part in Otter Tail financing. He bought the Company's bonds and found investors to take them; and late in the year purchased in the name of Samuel P. Adams the first substantial block of common stock to be owned by other than officers or employees of the Company. In his letter, Mr. Wright comments favorably on the financial help that he received.

Mr. Adams continued his financing activities until about 1920. At some time in 1914 (the exact date has not been preserved) Mr. J. L. Seybold of Wells - Dickey Company made a trip to Fergus Falls for a talk with Mr. Adams. He ended by buying from him \$1,000,000 of Otter Tail Power Company 6% First Mortgage Bonds for distribution in Minneapolis and St. Paul. So far

as I can find out, this is the first appearance of any Otter Tail securities in the Twin Cities investment market. It was the start of a long-continuing relationship.

Even before it was available, there was a demand for service. A letter dated April 16, 1913, says: "Most of the small towns are sending letters or delegations to see if we can supply them with electricity ---. It makes me feel 'biggity' to be so very much sought after ---." A week later he tells of surveying and locating routes for transmission lines; and of traveling around to attend council meetings during franchise negotiations. Except for the time element (most of the travel was by train), the situation described sounds a good deal like that which prevails today.

Hoot Lake construction continued during the summer; and to finance part of it, there was a campaign to sell 7% preferred stock. Mr. Barrows was nominally in charge of the latter activity, but was away on other business of his own a good part of the time.

In June, 1913, W. J. Sorenson, the former superintendent at Breckenridge, Minnesota, started work for the Company, and on the 7th, Mr. Wright went to Wendell to see him. Mr. Sorenson was put in charge of distribution systems, and Dan Oslund of Wahpeton took care of transmission lines. Mr. Sorenson remained with the Company until his retirement in 1936; his first job was to build the Wendell distribution system. Mr. Oslund became the first manager at Jamestown in 1924, but left in the fall of 1925.

The Hoot Lake Project included a 1400 foot-long tunnel. Work was started at the two ends, and on October 24 the two sections were "holed through". Mr. Wright says: "Mr. Lauritzen (the contractor) and I - - -

clasped hands through the small hole, and in dramatic tones congratulated each other."

Water was turned into the tunnel on November 18, and the level of Hoot Lake and the adjoining reservoir was raised slowly over a period of several months. There were extensive dredging operations in the channel below the power-house in the summer of 1914, and operation finally started on September 13.

Mr. Wright moved west permanently in the summer of 1913, but for various reasons decided to settle in Minneapolis (where he was born and where he grew up) rather than Fergus Falls. He was away from home much less than he had been during the previous six years, and his letters contain far less information from here on than the earlier ones.

Early in January, 1914, Mr. Wright proposed that Otter Tail Power Company take over the management of the Fergus Falls distribution system. The main terms were a reduction of the rates from a flat $7\frac{1}{2}$ cents per KWH to a sliding scale from $7\frac{1}{2}$ cents to $2\frac{1}{2}$ cents and a 10% discount for prompt payment. The profits from the operation were to be split between the city and the Power Company.

The offer was received coldly, because it was not understood, and an educational program followed. It consisted largely of the analysis of individual bills under the city's and the proposed rates. On the 21st, the council considered the proposal, with Leonard Eriksson leading the fight against it in a two-hour speech. Mr. Wright commented that, "It didn't seem worth answering, and I think had little effect." Four days later

Mr. Eriksson proposed that the City take over the Hoot Lake plant. Mr. Wright

was not at the meeting, but was told that Mr. Eriksson's speech was apparently intended as a burlesque of the Company's offer. On the 26th he wrote:

"People don't like to be stirred up - - Leonard Eriksson is rampant but we haven't yet thought it necessary to answer him or take notice of his existence."

The proposition was turned down; but its main objective - the lowering of rates to make electric cooking economical - followed shortly.

The rest of the period ending with 1920 cannot be accurately documented. The letters tell of Mr. Wright's travels around the country to meetings with village and city councils. The corporate minute books show evidence of financing from time to time, and the statistics show that new towns were being added to the system, mostly within 60 to 75 miles of Fergus Falls.

A second unit was added to Hoot Lake in 1916. Fred Leffler was made Assistant Secretary in 1915; Mr. Kidder became Vice President in 1919. When the U.S.A. entered the European War in 1917, prices rose and it became hard to obtain material. Dividends were unpaid for a year, but resumed in October, 1919. A new company, Otter Tail Electric Company, was organized in 1918 to build the Pisgah Dam, a mile west of Fergus Falls. It started to operate about December 1, 1918, and sold its entire output to Otter Tail Power Company. S. P. Adams started to work in the engineering department in 1915. On October 11, 1917, the Directors discussed the need for a 3,000 KW steam plant at Hoot Lake.

At some time in 1916 or 1917, Otter Tail began to sell a good part of its bonds to a syndicate composed of Wells - Dickey Company and the Minneapolis Trust Company, in addition to sales to Mr. Adams, generally in

lots of \$300,000 or \$400,000 at a time. Mr. Seybold has told me that he and Mr. Wright would sit down in the morning to arrange the terms of the offering, make up a simple one or two-page prospectus, and then offer the bonds for sale in the afternoon on a "When, As, and If Issued" basis. The whole thing depended on the integrity, experience, and reputation of the parties involved; and compared to the present practice was accomplished with a very small measure of formality.

In the negotiations, Mr. James E. Dorsey of the firm of Lancaster,
Simpson and Dorsey passed on the legal matters involved for the Minneapolis
Trust Company. At the end of the first meeting, Mr. Webb of the Trust Company
remarked "Well, I guess you've got a new client". Mr. Dorsey wanted to know
how. Mr. Webb explained, "Mr. Wright doesn't like to meet people, and he
has no attorney in Minneapolis. Now that he has met one, he'll probably come
back to you when he needs one". From then on, Mr. Dorsey's firm, under various
names as partners came and went, has played a large part in Otter Tail affairs,
principally in the fields of finance and corporate organization.

The year 1920 brought a marked transition in the internal affairs of the Company. Mr. Kidder suffered an electrical accident, and died on September 9. He was replaced as Vice President and General Manager a month later by Mr. C. S. Kennedy. During the same year, Geoffrey W. Welch replaced Mr. Taylor as Chief Engineer, and Mr. W. L. Hatch was hired with the title of Auditor. Much of the advance during the next phase of the Company depended on these men.

THE FIRST PERIOD of EXPANSION - 1920 to 1930

The 1920's in the electric power industry were characterized by mergers, rapid expansion of territory, holding companies, and wild speculation. The fever spread to Minnesota and Dakota and, to some extent, both affected and infected Otter Tail Power Company.

The year 1920 has been described, and the year 1921 started out tamely enough as a continuation thereof. In January, the Directors authorized the rebuilding of the Wright dam into the present structure. At the annual meeting in October, S. P. Adams was elected a director and the treasurer of the Company. The president reported continued progress in getting new towns onto the lines, the requirement that such towns subscribe to 7% bonds as a condition of service, and indifferent success in selling 8% bonds to consumers.

Up to this time, hydro plants near Fergus Falls furnished the bulk of the power supply, with help during emergencies coming from a number of very small steam plants. About 1920, the load began to surpass the ability of the several dams to supply it, and the Company turned to steam as a major source. The first unit was not of the 3000 KW size mentioned previously, but a 1500 KW unit with one boiler, installed adjacent to the Hoot Lake hydro plant. Construction started in 1920, and the new unit went on the line on August 26, 1921. A second boiler was added in 1922, a second turbine and generator in 1923, and a third boiler in 1924. The resulting plant proved to be thoroughly reliable and efficient by then current standards; though compared with present-day plants, it would be small and inefficient. Rudolph Stoffregen, its superintendent for many years, called it "The blant dot built Odder Tail Bower Company."

Mr. Wright's letters indicate that Mr. Barrows spent less and less time in Fergus Falls from about 1915 on. His main interests seem to have been in California. As Otter Tail Power Company no longer had sufficient speculative appeal for him, he lost interest in its progress; and late in 1921 he sold out. Mr. Wright and Mr. E. E. Adams bought most of his common stock and other members of the active operating organization bought the rest. This transaction gave Mr. Wright a majority of the common stock, and hence financial control of the Company - a situation that gave it a high degree of stability in the hectic expansion period that was shortly to follow.

The names of the towns and the years in which they were taken on show that a distinct expansive spurt started in 1920. Contrary to the present tendency, a large majority of the new towns were wholesale customers until about 1925. Thereafter, most of the new towns were served retail, and there was a marked tendency to shift the former wholesale towns to retail.

The year 1924 was an important period for the Company in many respects. Following his usual practice, Mr. Wright had built an office building for the use of the Company; and in April of that year the Directors authorized its purchase, payment to be in Class A (non-voting) common stock. There was an open house to show off the new building, and some 2,000 people came to see it.

During the spring, the Company took its first major westward steps. In April it purchased the power plant, distribution system and steam heat system in Jamestown, North Dakota; and a month later the electric properties of Midwest Power Company in and close to Oakes, North Dakota. There were a few other purchases of isolated distribution systems, but nothing to compare in size to the properties named.

The expanding physical system necessitated an expanding organization to operate it, and an expanding management to control its activities. A symbol of this may be found in the increase in the Board of Directors from four to seven members, and in the functions they performed within the organization. At the annual meeting in October, the stockholders elected the following directors:

Vernon A	• Wright	President.	His work was largely
			financing.

C. S.	Kennedy	Vice	President	and	and General Manager			Manager,	r,	
				in	char	rge	of	or	perations.	,

Samuel	P.	Adams	Treasurer.

W. L. Hatch	Secretary and	Auditor.

Geoffrey W. Welch	Chief Engineer, in charge of power p	lant
	maintenance and construc	tion.

The last two on the list were directors, but not corporate officers. At the meeting of the above Board immediately following their election, the Directors formally adopted a policy of expansion with a single dissenting vote.

The Company pursued this policy in 1925, the largest item being the purchase of the remaining properties of Midwest Power Company early in the year. It included a power plant in Devils Lake, a substantial amount of transmission line, distribution systems in Devils Lake and a number of other towns, and steam heat and telephone systems in Devils Lake. The Company then built additional transmission lines to connect up its recent purchases with its main system farther east. Late in the year, it put into operation

the hydro plant (started in 1924) at Taplin Gorge in Friberg Township, about 15 miles north of Fergus Falls - an automatic plant, controlled from Hoot Lake. The Taplin Gorge dam completed the development of the economic hydro plants on the Otter Tail River. Mr. Wright investigated one other site downstream from Dayton Hollow, where the Federal Government's flood control dam now stands, but gave it up as too expensive.

The Company financed the construction of lines and the purchase of properties from 1920 through 1924 mainly by the sale of 7% bonds and 7% preferred stock. The second Midwest purchase was mostly paid for by the exchange of securities, plus the issue and sale of unsecured 6% notes that probably would be called debentures today.

Beginning slowly in the early 1920's and growing with increasing speed all through that decade, there was developed on a nation wide-scale a series of techniques for exercising wide corporate control through a very small financial investment. Prominent among these were the holding company and non-voting common stock, both separately and in innumerable combinations. Utility "Holding Company" systems - many of them sound, a few of them unsound - sprang up and grew like mushrooms, with a resultant scramble for territory. By the middle 1920's the effect was apparent in Minnesota and North Dakota.

For example, Mr. Wright told me that he considered the first Midwest purchase as somewhat underpriced. He thought that the owners of the property came to realize this also, and that they padded the price when they sold the second group of towns. But he also considered that the total price for the two groups was about right. A few years later, the property centering around Bismarck, North Dakota, came on the market. After investigation, Mr. Wright

offered \$5,000,000 for it, but was outbid by a holding company that paid \$7,000,000. Speculation had entered the picture.

Otter Tail was not wholly exempt from the fever of the times and occasionally paid more for property than the business involved would warrant; but by and large, it did not pay excessive prices. This came out rather strongly in a Federal Power Commission investigation many years later.

Up to 1925, Otter Tail still financed itself to some extent by the sale of bonds and preferred stock direct to investors living in the territory served or close to it. The rapid expansion which by now was in progress pretty much exhausted this source of funds, and the Company turned almost entirely to the larger investment market in Minneapolis and St. Paul. At about the same time, money for investment became more plentiful and the interest rates dropped to a point that made it possible to replace outstanding bonds and preferred stock with issues entailing lower charges.

The first evidence of this tendency came in 1924, when bonds issued carried $6\frac{1}{2}\%$ interest instead of the former 7%. The 8% bonds were called for redemption on January 1, 1925, and the holders were given the choice of cash, $6\frac{1}{2}\%$ bonds, 7% preferred stock, or Class A (non-voting) common stock. By early 1925, rates dropped still further, and the Company sold an issue of $5\frac{1}{2}\%$ bonds, in order to call the outstanding 7% issues. The same syndicate of Minneapolis dealers - Minneapolis Trust Company and Wells-Dickey Company, with Justus F. Lowe Company added to the group, bought the new bonds for sale to investors in that area.

Some preferred stock still was sold locally direct to investors; and in 1925 the dividend rate on new stock sold was reduced to 6%. In addition

to local sales, a small amount was sold to Kalman, Gates, White and Company of St. Paul.

Internally, the significant change in the Company was the organization of operating districts. There were five of them at first, with headquarters in Jamestown, Devils Lake, Oakes, Wahpeton and Morris. There are more of them today, and the district boundaries have changed slightly from time to time; but the Company still maintains district offices in these five towns.

As indicated in these notes, most of the financing from 1920 through 1925 was in the form of bonds and preferred stock - so-called "senior securities". By 1926, the capital structure had become out of balance; and in order to remedy this, Mr. Wright proposed to raise up to \$1,000,000 of the required 1926 construction funds from the sale of common stock. But in view of the current speculation in utilities and their securities, he wanted to do it in a way that would enable the management to keep control of the Company. There were also certain uncertainties in the applicable Minnesota law that had to be overcome. The way out was found in the use of established techniques (a holding company organized under Delaware law, and non-voting common stock) and a 2:1 split of the outstanding common stock.

Otter Tail Power Company of Delaware was organized early in 1926, and probably was the most unorthodox holding company ever to exist. It was designed for one purpose only: to insulate the stockholders from a possible double liability under Minnesota law. Other than that, it served no useful purpose, entailed some extra cost, and was at all times during the ten years of its life the tool of its subsidiary. Its Articles of Incorporation contained special provisions for its elimination in case of change in the Minnesota law.

Its sole property was a small office building in Fergus Falls (Mr. Wright's telephone building, now partly used for Otter Tail Power Company office purposes) and the common and preferred stock of Otter Tail Power Company (Minnesota). For each share of the Minnesota company's stock which it held, the Delaware Company had outstanding a precisely similar share of its own stock. As already mentioned, Mr. Wright held a majority of the voting common stock. In other words, the means that Prof. Ripley of Harvard said were being used to move control "from Main Street to Wall Street" were here used; but for the opposite purpose of retaining control in Main Street.

The old common stock of the Minnesota company was split 2:1 and renamed Founders Common Stock. The old Class A Common was also split and renamed Special Common. The original holders of all of the Minnesota company common and most of the preferred stock turned in their stock and received equivalent stock of the Delaware Company in exchange. Finally, 8,222 shares of the new split special (non-voting) common stock of the Delaware Company were sold to Wells-Dickey Co. of Minneapolis and Kalman & Company of St. Paul; and these in turn resold it to investors in their respective cities.

The precautions were well advised. In a statement submitted to the House of Representatives Committee on Interstate and Foreign Commerce in 1932, Mr. Wright wrote that in 1926 "--- It was a rare week that did not bring at least one inquiry as to the price for the property ----. The writer knows of no other means which could have prevented this stock from becoming a financial football with the ultimate result of removal of control from local hands into those of some larger group."

The proceeds of the sale shortly went into operating property, including a long transmission line from Carrington, North Dakota westward. This line

terminated at a new 3000 KW steam plant built on the east bank of the Missouri River at Washburn, North Dakota. In addition, the Company purchased a number of distribution systems in towns along its new line.

Western North Dakota holds vast beds of lignite, a low-grade coal.

The plants at Jamestown and Devils Lake burned it, and the plant at Washburn was designed specifically for its use. It took some years to find the best method of using lignite, but successive plants have shown progressive improvement; and today it is the most economical fuel over a wide area.

There was only one change in the Company's internal organization in 1926. At the annual meeting of the Directors in October, Mr. S. P. Adams was elected Vice President and Treasurer. As a part of his duties for the next several years, he acted as transfer agent for the Company's stock. A great deal of it was and still is held in small blocks by local residents; and Mr. Adams took to calling these holders "my constituents".

Interest rates continued the decline which started about 1924, and the Company took advantage of them. Almost the last act of 1926 was the sale of \$1,400,000 of 5% bonds - \$1,000,000 of which replaced the previous 6% bonds issued in 1913, and the balance provided funds for construction.

The Company expanded more in 1926 than in any previous year, and the same rate of growth continued in 1927. Transmission lines began reaching into the northeastern part of North Dakota in 1926, and went further in 1927. Farther west, the Company built a long line from Devils Lake through Rugby to Granville, and thence south to Washburn, thus closing a big loop. In the meantime, the load also was growing in the eastern part of the system, and more power was needed in the vicinity of Fergus Falls. The

logical solution, of course, would be to increase the size of the Hoot Lake steam plant, and the initial planning was on this basis.

Monkey-wrenches soon appeared. The so-called "Hoot Lake Contract", under which the Company sold power to the city of Fergus Falls, gave the city the right to buy the Hoot Lake plant at its original cost plus 10%, undepreciated. The bankers who would be selling the securities to finance construction thought that this clause was too dense a cloud on the title, and declined to consider the proposition unless it were removed. And immediately politics entered the picture.

As a means of clearing up the title, the Company made two proposals to the Fergus Falls City Council: to release the Company from its obligation to sell under the Hoot Lake contract, or to sell the municipal distribution system to the Company. The Council did not want to do either; and as the discussion continued, the Company at Mr. Kennedy's suggestion secured an option on a farm a mile north of Wahpeton and next to the river.

The Council met to take final action in, I believe, late February or early March. After some discussion, it voted against accepting any contract modification; and, as I remember it, never gave serious consideration to sale of the distribution system. The next day, the Company exercised its option on the farm, scrapped the preliminary work on a Hoot Lake addition, and began working on plans for a completely new plant, modeled very closely on its plant built the year before at Washburn, and using much of the equipment already ordered for Hoot Lake. Such quick action was unexpected and caused a certain amount of consternation; but the Company could not wait for the protracted negotiations that might have made it possible to build at Hoot Lake. The contractors broke ground in April, and the plant went into operation in October.

Otter Tail Power Company now had four steam plants, all in North
Dakota, which used lignite for fuel. A large part of this came from the
Washburn Lignite Coal Company, which operated an underground mine near
Wilton, North Dakota. The coal company developed financial trouble; and
although Otter Tail would have preferred to concentrate on the power business,
it also needed a reliable source of fuel. In a somewhat complicated deal,
Otter Tail advanced funds to the coal company, which in return was reorganized
as Washburn Lignite Company under conditions that gave Otter Tail financial
control. The new setup took effect on April 1, 1928.

In the meantime, territorial expansion continued at an almost explosive rate; and the continuing decline in interest rates eased the problem of financing it. The Company called the old 7% preferred stock and replaced it with 6% preferred stock in 1927; and a year later it began to sell 5½% preferred stock, and also sold a small issue of 4½% bonds. Organization-wise, it completed the replacement of 6% Minnesota Company preferred stock by an equivalent Delaware Company issue. From here on for the next few years, the Delaware Company held all of the stock of the Minnesota Company, and had outstanding in the hands of the public an exactly equal number of shares of the same classes that it held.

About this time, the character of the Company's expansion changed. Its lines were coming close to the lines of other companies in several places, and interconnections were built in a few of them. Most of the new lines tended to be inside the main transmission line loops, or to be extensions northward from the loops toward the Canadian border. It might be called consolidation of territory rather than expansion; but the net result of more towns and more load was the same.

On September 1, the Company made an important modification in its rate schedules, and introduced so-called promotional rates. These are designed in a general way to recover the inherently high fixed charges of power system operation after a fairly low consumption, and provide for large increases in use with a small increase in the aggregate bill. It was a definite effort to increase the usefulness of electric service, and to promote the sale of heavy-consumption appliances, particularly ranges.

Ominous economic storm signals, largely unrecognized, appeared in the summer of 1929, beginning with the failure of a large bank in Vienna, Austria. The New York stock market faltered, but seemed to recover. It coasted along for a few months, then declined suddenly and violently in late October, continuing in the same direction for the next three years.

Contrary to the effect on most electric companies with large industrial loads, Otter Tail's output continued to rise. Agriculture, the major industry of the area suffered relatively little for some time; and the Company's fortunes then as now were more closely tied to local agriculture than to general economic conditions. To meet its still growing load in the western part of its system, the Company added a 5,000 KW unit at Washburn.

The 1920's closed with a still-optimistic atmosphere. It was not until the early 1930's that western Minnesota and the Dakotas began to be adversely affected to a serious degree.

DEPRESSION - 1930 to 1940

Most business operations during the 1930's were conducted against a background of industrial stagnation, drouth, and anti-business politics. The basic conditions included widespread unemployment, greatly reduced purchasing power of virtually all individuals, and a series of laws that sought to correct the abuses of the 1920's.

For the country as a whole, economic conditions deteriorated rapidly through 1930, 1931 and 1932. A serious drouth developed at the same time that was to last for about twelve years; and the reduced farm income that resulted made it impossible for farmers to buy their usual quota of the nation's industrial output. So the troubles in the industrial and agricultural areas intensified each other, and everybody suffered. It is interesting, even if useless, to speculate whether or not industrial recovery would have been hastened if normal rainfall had continued, and so had kept the farmers as consumers of industrial output.

As a result of the elections in November, 1932, Franklin D. Roosevelt and the Democrats took over control of the nation from Herbert Hoover and the Republicans on March 4, 1933. Congress shortly enacted a group of temporary laws designed to "prime the pump" and get industrial production moving again, and a group of reform laws designed to regulate certain aspects of business procedure. The New York stock market responded by a sharp rise in prices; but the response was short-lived, and stock prices fell again almost to their 1932 lows before they started on their long slow climb to normal.

The total output of electric energy, being largely influenced by industrial activity, began to fall off in 1930. By contrast, Otter Tail's

output, which went mostly to residences and small commercial establishments, continued to increase until the middle of 1931; and the subsequent decline was brief and shallow compared with the national average.

Territorial expansion came to a virtual standstill. Very few towns were added to the system, and very little transmission line was built, during the entire ten years of the 1930's. But in spite of this, it was not a period of quiescence.

To start with, a fight developed as to who should supply electric service in Britton, South Dakota. A local group had organized the Commonwealth Company, obtained a franchise, and put in a competing system. Otter Tail's franchise expired in 1930, Commonwealth's in 1948; and Otter Tail was denied a renewal. In April, Otter Tail sold its distribution system to Commonwealth, taking the latter company's bonds in payment, and entered into a contract to sell power to Commonwealth at wholesale. This arrangement lasted a little over six years, coinciding with the worst of the drouth period. In 1936, Commonwealth defaulted on their bonds; and to protect its own interests, Otter Tail considered itself forced to foreclose and take over the Commonwealth property.

Otter Tail virtually operated the Washburn Lignite Company from April,
1928, to May, 1930, when the mine property was leased to Truax-Traer Coal
Company. Truax-Traer had recently opened a strip mine near Velva, North
Dakota, and subsequently converted the leased mine to a strip operation.
Otter Tail purchased a substantial amount of lignite from Truax-Traer, and in
return sold them power for the two mines. Otter Tail applied the rentals
received to a reduction of its loan to Washburn Lignite, gradually extinguishing

it. So while its adventure in coal mining was not highly profitable, in the long run the Company lost nothing.

The Company built very little transmission line in 1930, but did, wholly or partly, rebuild the distribution systems in about 36 towns.

Additions to power supply facilities were limited to three 1200 KW units powered by diesel engines - two at Appleton, Minnesota, and one at Langdon, North Dakota.

The year closed with a sour note. A severe sleet storm in November damaged or destroyed nearly 500 miles of transmission line, causing outages in many towns that ranged from a few hours to as much as two weeks.

Production continued to increase slowly up to the middle of 1931, then turned down; but the total output in 1931 slightly exceeded that for 1930. The Company began to pull in its horns. It built little new property of any kind, though it continued to rebuild distribution systems, and replaced a lot of the conductors on the transmission line between Washburn and Wahpeton (about 314 miles) with larger conductors in order to increase the line's capacity to carry current.

There was no increase in power plant capacity, but plans were made for a 7500 KW unit to be added at Wahpeton in 1932. The Wahpeton plant then had excess boiler capacity, so the initial plan did not include a new boiler.

The operating departments of the Company conducted a number of experiments to determine the best operating methods. In the power plants, they concentrated on firing methods, as this is the place that had the greatest potential for improvement in any given plant. The results were quite remarkable: an increase in steam output per ton of coal burned of about 20%.

The new heavy conductors between Washburn and Wahpeton became the basis of another series of experiments. It was found possible to obtain some additional saving in fuel cost merely by re-scheduling the division of load between the west and east ends of the system. Also, a temporary low price for fuel oil made it economical to give the diesel plant at Appleton about all the load it could carry for a large part of the day.

Business declined in 1932. The new 7500 KW turbine and generator were installed At Wahpeton, but that was the limit of new work. Even the rebuilding program was cut back, with only five towns receiving attention. By June, depressed conditions had become very obvious, and with them the need for drastic retrenchment. In July, the directors ordered a reduction in common dividends, a cut of 10% in all salaries and wages, and a reduction from 5 cents to $4\frac{1}{2}$ cents per mile in mileage allowance for those who drove their own cars on Company business. Even this was not enough, so a second cut in common dividends followed in the winter.

Up to this time, the Company had maintained its principal bank account at the First National Bank of Fergus Falls, of which Mr. E. E. Adams was president. Mr. Wright and Mr. Adams were close personal friends. But the Otter Tail balance at the bank had become a large part of the total deposits, and country bank failures were distressingly frequent. There was no question of the soundness of Mr. Adams' bank; nevertheless, as a precautionary measure, and in spite of personal friendship, Mr. Wright insisted that the Company open an account at the First National Bank of Minneapolis. The latter bank soon became the Company's main depository. It remains so to the present day.

Another serious sleet storm struck much of North Dakota in November.

It broke about 3,000 of the Company's poles, thus destroying or damaging

some 700 miles of transmission line and many distribution systems. In damage done, measured by units of property destroyed and service interrupted, it was probably the most serious storm in the Company's history.

Finally, the presidential election in November introduced a note of uncertainty as to what conditions would be for the next few years. So the year 1933 opened with declining business, the aftermath of a storm to clean up, and political apprehension. The only wise course seemed to be to "play the cards from close to the belt."

The security dealers in the Twin Cities were disappointed in Otter

Tail's action of reducing the common stock dividends in 1932. One of them
suggested that the Company should have reduced the annual appropriations for
depreciation and maintained the former dividend rate. Mr. Wright replied
that in his opinion depreciation went on whether or not it was formally
recognized, and that the conservative course was to take it fully into account
at all times. This was hard on the stockholders, the largest of whom was Mr.
Wright himself. The Company paid the reduced common stock dividend in March
of 1933. In June the dividend was omitted. They were not resumed until
December of 1938, over five years later. In the meantime the ultra-conservative
depreciation policy assured the Company of ready cash when needed, kept the
physical property in reasonably good shape at all times, and aided the refunding of the senior securities in the late 1930's and early 1940's.

Two major acts affecting business corporations became law in 1933.

The Minnesota legislature passed a revised "Business Corporation Act" which codified and brought up to date the previous law, and among other things relieved stockholders of any double liability. Secondly, Congress passed the

"Securities Act of 1933" which specified the conditions under which a company could offer its securities for sale. The first of these laws eliminated the need and usefulness of Otter Tail Power Company of Delaware; the second made it impossible for the Company to continue the sale of its securities locally with little or no formality.

This period also saw the start of the Federal Government's attempts to "prime the pump" of industrial activity. One phase of it affected the utility companies: the offer of funds to municipalities for the construction of improvements, including municipally owned power systems. At one time or another, in 1933 and subsequent years, a considerable number of towns in the Otter Tail system applied for funds with which to build power plants and distribution systems. It is a great tribute to Mr. Kennedy's ability and energy that only one of them - Henning, Minnesota - set up a municipal distribution system. Even here the loss was not complete, for Henning became a wholesale customer.

Mr. Vernon Wright turned 70 in April of 1933. In the early spring of that year he began to take me with him on visits to the bankers, security dealers and lawyers in Minneapolis with whom he had done business for many years, and to whom he went for advice and information. I remember particularly Mr. Seybold of Wells-Dickey Company, Mr. Edwin White of Kalman and Company, and Mr. Dorsey and his partner Mr. Joseph H. Colman. Mr. Wright's expressed purpose was to "teach me what he knew while he still could." And there was much to learn.

To begin with, my training had been technical, with some emphasis on the mathematics of transmission lines; and my hopes had been to work into that end of the operations. I had started work in the engineering department on February 1, 1927. The problems of financing and business policy were completely new and very different, as they lacked any semblance of the positive answers so frequently found to technical problems.

Mr. Wright must have been reasonably satisfied with the progress made, because on June 22, 1933, he resigned from the presidency, had me elected to replace him, and was himself elected to the newly created office of Chairman of the Board of Directors. Thereafter the training continued - an experience that prevents me from seeing anything objectionable in Secretary of Defense Wilson's recent wisecrack about training hunting dogs.

The depreciation policy which had been adopted resulted in an increase in the cash balance, while conditions prevalent at the time provided no place where it could be used advantageously for property increases. So the Company turned to the other side of the balance sheet and began to reduce the outstanding securities. The first move was the call for redemption on October 1, 1933 of \$100,000 of the $6\frac{1}{2}\%$ bonds.

Company officials studied the new Minnesota Business Corporation Act during the summer, and decided that it suited the Company's needs. On November 20, the Company accepted and came under the act, and on November 23 amended the Articles of Incorporation to conform to it. An unusual clause in the Articles set up conditions under which the Company would be able to repurchase its own preferred stock.

The preferred stock dividends were still being paid in full, but the price was depressed because of the prevailing low level of all security prices. So on December 5 the Company offered to purchase its \$6.00 dividend stock at \$74 a share and \$5.50 dividend stock at \$70 a share; and appropriated

\$100,000 for the purpose. There was a rush of offers; the appropriation was raised to \$235,000; but even so, it was possible to take only 1/3 of the shares offered.

The new Minnesota law and the revised Articles of Incorporation rendered useless the Otter Tail Power Company of Delaware, and so made its elimination desirable. Since the equity back of each share of the Delaware Company was a similar share of the Minnesota Company, the stockholders could neither gain nor lose by exchanging their Delaware Company shares for Minnesota Company shares. Mr. Adams, as treasurer, therefore applied to the Bureau of Internal Revenue for a ruling that the elimination of the Delaware Company would constitute a "tax-exempt reorganization". The Bureau, apparently thinking that it could collect some additional income tax, ruled otherwise, and held it to be a taxable transaction.

It was obvious to the Company that a large majority of the stockholders would have deductible losses instead of taxable gains because of the low market price at the time. It seemed best, therefore, to proceed slowly, so as to permit the stockholders to spread their loss over two or more years if they so desired.

For the preferred stockholders, the difference between cost and market price was not too great. On December 15, therefore, the Delaware Company preferred stock was called for redemption. Making use of the provisions of the Delaware Articles of Incorporation, the redemption price to be paid was an equal number of shares of Minnesota Company preferred stock with the same dividend rate, instead of cash. At the same time, the Delaware Company offered to buy shares of its outstanding special common stock for an equal

number of shares of similar Minnesota Company stock. The indicated exchange began before the end of 1933, and continued through 1934 and 1935.

Most bonds at this time contained the provision that principal and interest were "payable in gold coin of the present standard of weight and fineness." So there was great apprehension in corporate circles when President Roosevelt raised the price of gold by proclamation on January 31, 1934. This created the exact condition that the gold payment clause was designed to protect against, and which no issuer expected would ever happen. Enforcement would have meant very severe hardship to many companies, including Otter Tail.

Fortunately, Congress saw the trouble, and by a joint resolution on June 5 declared the gold payment clause no longer enforceable. The Supreme Court upheld this in a decision handed down on February 18, 1935. Without such action, Otter Tail's refunding operations in the next few years would have been virtually impossible.

The Company paid the full preferred stock dividend on January 1, 1934. Some weeks later, the audit of the year's results showed earnings of only 91% of the preferred dividend in 1933. Even so, the full rate was maintained for the April 1 dividend. But on July 1 and October 1 the preferred dividend was cut to 72% of the full rate, and dividend arrears began to accumulate.

In spite of this rather poor showing, Mr. Wright worked during the winter and early spring of 1933-34 on a rate reduction which was approved March 6, 1934. On the basis of earnings, there was no justification for such a move. Politically, it was probably good sense not to be too prosperous when all your neighbors are going broke. I do not know if it was in any way emphasized or publicized; but Mr. Wright considered the reduction to be the Company's contribution to the economy of the area served.

Whether or not influenced by this reduction, consumption of electric energy began to increase early in 1934, and thereafter maintained a level well above 1933. But 1934 was the driest year of the drouth era (the output of the hydro plants dropped to a shade over 800,000 KWH for the year - about 3% of normal) and the dominant supporting factor probably was the flow of relief payments from the Federal Government. Whatever the reason, recovery did start and continued, though slowly. As a result of the rate reduction and tax increases, net income declined. So beginning January 1, 1935 the preferred dividend payment was again reduced - this time to 48% of normal.

Still, there was no tampering with the depreciation reserve, and cash continued to accumulate. Again the question was raised as to the propriety of retiring securities (including preferred stock) at a time when there were arrears accumulating in preferred stock dividends. As a matter of fact the Company did call \$200,000 of $6\frac{1}{2}\%$ bonds during the year, and purchased about 1500 shares of preferred stock at prices of \$60 a share for the \$6.00 dividend issue and \$56 for the \$5.50 dividend issue. While there was a certain amount of criticism, a good many other stockholders thought they benefitted by the support the stock received in the market as a result of the purchase program. I am certain that the over-all effect - both financially and psychologically - was beneficial to the Company.

Up to this time the Board of Directors had all been members of the active operating organization. The first departure from this came at the annual meeting on October 8, 1936, when the stockholders elected Mr. George W. Robinson to the Board. Mr. Robinson had been President of the Tri-State Telephone Company, and had retired following its merger with Northwestern

Bell Telephone Company. He came to very few meetings of the Board, and dropped off after six years of membership.

The year 1935 brought two more of the major Federal regulatory laws.

The Public Utility Holding Company Act of 1935 put such companies under the supervision of the Securities and Exchange Commission. Among other things, the commission was charged with the duty of eliminating holding companies as rapidly as possible, and of combining the operating companies into integrated systems. Otter Tail Power Company of Delaware would have been subject to the Act as a holding company, even though its operating subsidiary was a single integrated unit.

Title II of the Public Utility Act of 1935 amended the Federal Power Act by adding Part II thereto. This Act gave the Federal Power Commission jurisdiction over the accounting practices of power companies, jurisdiction over the rates charged for power sold for resale in interstate commerce, and jurisdiction over the issue of securities of companies incorporated in states without regulatory bodies. As Minnesota is one of the few states without a public utility commission, Otter Tail Power Company was one of those subject to jurisdiction on all three counts.

The Securities Act of 1933 had little effect on Otter Tail Power

Company for some years, because the Company was reducing rather than increasing its capitalization. But the two 1935 acts required a considerable number of reports and much attention from the Company's management. The time and attention spent in assuring conformity with the law is so much time and attention taken away from operating problems. On balance, then, the regulatory laws have decreased the efficiency of the organization. The one advantage is

that the prescribed Uniform System of Accounts is excellent and makes it possible to compare the statements issued by different utility companies with a high degree of accuracy.

The Public Utility Holding Company Act of 1935 made it desirable to complete the liquidation of the Delaware Company as rapidly as possible. A large number of holders of special common stock of the Delaware Company had already exchanged their stock for equivalent stock of the Minnesota Company under the offer made in 1933 and repeated in 1934 and 1935. Over 90% of the Founders Common was similarly exchanged in 1935, and the final liquidation became effective on March 23, 1936 pursuant to stockholders action in February. Thereafter Otter Tail Power Company became legally what it had always been in fact: a single operating unit without any outside holding company affiliation.

Business conditions continued the improvement that had started in the second half of 1934. Energy sales were up, though revenue remained about the same because of the rate reduction the previous year.

The remaining half-million of $6\frac{1}{2}\%$ bonds were called for redemption on October 1, and the holders were offered 4% bonds or cash. To avoid the expense of registration, the issue of the 4% bonds was confined to such exchanges. A little later, \$119,500 of $5\frac{1}{2}\%$ bonds were called for redemption on January 1, 1936, and a similar offer of 4% bonds was made to the holders. These offerings were not too successful; only \$167,500 of 4% bonds were issued as a result.

The effect of the reduction of debt and purchase of preferred stock now began to show up. In spite of slightly reduced gross revenue and increased expense, the net available for dividends increased significantly over 1934.

The year 1936 showed progressive improvement over 1935. The effects of the 1934 rate cut were fully absorbed, for both energy output and revenue began to increase in what might be called a normal manner. The important events of the year, however, were in the fields of finance and of internal organization.

Early in the spring, Mr. Seybold approached Mr. Vernon Wright and myself with a suggestion that all of the Company's high-rate bonds be called and replaced with an issue carrying a lower rate of interest. The prospect was attractive and discussions of ways and means started at once. The obvious course would be to issue them under the existing mortgage. Subsequent examination showed that the document was outmoded. In order to get the best price, a new indenture, embodying all the changes that had become common practice in the previous 20 years or so, would be needed. As the bonds would be offered to the public, it would also be necessary to file a registration statement with the Securities and Exchange Commission. In addition, it would be necessary to secure from the Federal Power Commission permission to issue the bonds. Obviously, the old, informal ways of doing business were a thing of the past. From here on, attorneys and accountants played a large and increasing part in all business operations.

Preparation of the new Trust Indenture and the registration statement went forward more or less simultaneously, with many yards of printer's proof to read, correct and amend. The Federal Power Commission had not put out any instructions, so Mr. Colman and I went to Washington to see what would be needed.

There are very few companies over which the Federal Power Commission has jurisdiction concerning the issue of securities. Otter Tail was one of

the first, if not the first, to make such an application. It seemed to us that the Commission staff did not even know of the Commission's authority over security issues, although the law had been on the books for some months. In the end, the Company filed copies of the Registration Statement and subsequently obtained permission to proceed.

On July 1, 1936, the Company issued \$3,600,000 of the 25-year, 4%

First Mortgage bonds - its first major sale in many years. Of these,

\$3,000,000 were sold to the public and \$600,000 were pledged to secure an equal issue of 5-year, 3% notes which were sold to a group of banks. The funds obtained, plus a small bank loan, were used to redeem all of the previously outstanding bonds.

In four years, the Company had reduced its capital by \$1,549,000, and had reduced its annual interest and preferred dividend requirements by \$142,827. No mean accomplishment. The stage was well set for the next step - cleaning up the accumulated arrears in preferred stock dividends. At the end of 1936, these arrears amounted to 94% of a year's dividend.

Two internal changes in the organization occurred in the latter half of 1936. On July 17, Mr. Cyrus G. Wright was made a director and a Vice President. He had started work in the general office on July 18, 1927, had been local superintendent at Bottineau, North Dakota, during the deepest part of the depression and drouth period, and had been assistant district manager at Morris, Minnesota, during a bitter municipal ownership fight.

A little later, Mr. W. J. Sorenson resigned his position as director and as general superintendent, effective November 1. His duties were assigned to Mr. Arnold Mau, who had been with the Company since January 19, 1922, and who at this time was the head of the meter department.

About the middle of December the Company made its first contract with an REA group - the Douglas County Cooperative Light and Power Association.

Under government stimulation, this type of wholesale customer came to be an important factor, and more will be said about them subsequently.

The year 1936 closed with a general expectation of improvement, and the first few months of 1937 bore this out. The first reduction in preferred dividend arrears was made with the January 1 dividend, and a second one with the April 1 payment. In December the directors ordered a final payment, that would eliminate the arrears, to be made on January 1, 1938, after which preferred dividends were returned to normal.

Rainfall increased, crops were larger, prices were better. And for Otter Tail, load again rose at a rate that indicated the need for increased plant capacity in the near future. Construction started on an additional boiler at Wahpeton. It was of a size to supply a 10,000 KW turbine, but for the time being merely supplied steam to the existing units, enabling them to run at full capacity. In effect, this added 3500 KW of useful capacity to the station.

In 1936 and again in 1937, additional towns were added to the system, so that territorial growth was added to growth in use per customer. Service to Baker Electric Cooperative began, which appears to have been the first REA customer in North Dakota. The active agitation for municipal plants subsided to a large extent.

Since 1918, Otter Tail Power Company had been buying the entire output of Pisgah dam, owned by Otter Tail Electric Company. This was not a subsidiary, but was owned in equal shares by Vernon A. Wright, E. E. Adams, and

F. G. Barrows. The original contract called for payments that were moderate at the time; but which, because of advances in the art of power generation, were excessive by 1937 standards. To complicate matters, Mr. Barrows had been partially paralyzed by a stroke some years earlier, and was represented by the Trust Department of the First National Bank of Minneapolis. In the performance of their duties, they wanted as much as they could get for their client. Negotiations were started in September of 1937, but were quickly reduced to a stalemate. They were finally settled by the purchase of the property for \$57,500 in December, 1938 - a figure somewhat less than the depreciated original cost.

As might be expected, maintenance had been neglected to some extent during the middle 1930's. There was therefore some catching-up to do, and maintenance in 1937 was heavy. The other expenses were pretty well in line, so that the final net income for the year showed an increase over 1936.

The Company's first labor negotiations started in October, 1937.

The meetings with Union representatives were quite protracted, but a contract was finally signed in February of 1938. Contract negotiations have since become an annual affair, and with few exceptions have been rapidly and amicably concluded.

The new boiler at Wahpeton went into service early in 1938. In December the Company signed a contract for a 10,000 KW turbine and auxiliary equipment, to be delivered and installed the next year. The result was a station with installed capacity of 20,500 KW, making it the largest and most efficient plant on the system. It is still the largest, though it has been surpassed in efficiency by the new plant at Ortonville, Minnesota.

Vernon A. Wright died on October 29, 1938, thus ending a career that included 56 years of participation in various phases of the power industry - as the owner and operator of a direct-drive system from the death of his father in 1882 to the conversion of his dam to an electric operation in 1902; as the operator of a small electric system from 1902 to 1909; as the principal founder of Otter Tail Power Company in 1907 and its president from 1907 to 1933; and as Chairman of Otter Tail's Board of Directors from 1933 to 1938.

The Company continued to purchase its preferred stock into the first part of 1938 but discontinued it as demands for funds for expansion grew. Up to November, 9,490 shares had been accumulated in all. On November 10, the directors voted to cancel the stock purchased, thereby reducing it from the status of issued and outstanding to authorized but unissued. The cancellation became final with the filing of the necessary documents with the Minnesota Secretary of State in January, 1939.

Lastly - the best news of all for the common stockholders - dividends were resumed on the common stock on December 22, after a lapse of five years and nine months. For the Company, the depression can be said to have ended on that date.

Loads were growing rapidly as 1938 turned into 1939. The renewed expansion made it necessary to increase the Company's capital, thus reversing the trend since 1933. On February 8, the directors authorized an issue of \$1,200,000 of 30-year $3\frac{1}{2}\%$ bonds - the longest term and lowest rate of any issue up to that time.

The action called for a registration statement, a supplement to the Trust Indenture describing the new bonds, and an application to the Federal

Power Commission. The first of these was a routine affair. But the second taught me that words do not always mean what they say. The original Trust Indenture contains the usual clause to the effect that all property acquired after the date thereof is automatically subject to the lien of the mortgage. It was a surprise to find that the clause was virtually meaningless, because all the recent acquisitions had to be listed as if there were no such clause in existence. It didn't make sense (it still doesn't) but I suppose the practice arose because some bondholder once got stung by relying on the original wording.

The Federal Power Commission held a two-day hearing on the application in Chicago, at which Mr. Seybold, Mr. Colman, Mr. Alfred Burke of Duff and Phelps, and I appeared. Apparently the Commission suspected some measure of control by the investment bankers, because of the long-standing relations between Wells-Dickey Company, Kalman and Company, and Otter Tail. Mr. Seybold, Mr. Burke and I were on the witness stand for most of the two days, but we seemed to convince the examiner that no such control did or ever had existed.

One question concerned my own very small holding of the 4% bonds issued in 1936. I was asked if I had received any concession from the underwriters at that time. I was much tempted to answer "Yes". (The concession consisted solely in getting bonds with the first few serial numbers.) But doubting their appreciation of such levity, I answered with a prosaic "No". Today I think I would follow my inclination, just to see what would happen.

Everything finally went through, the necessary approvals were obtained, and the bonds were sold in March. Half of the proceeds were used to retire the 3% notes issued in 1936, the balance to pay for the plant addition at

Wahpeton, then under construction. The new unit went into operation in November.

One more project was started in 1939, but not finished until the middle of 1940: the refunding of the outstanding preferred stock. On November 22, the Company called half of the \$6.00 dividend issue for redemption on January 2, 1940, and offered \$4.50 dividend stock plus \$3.00 a share in lieu of the cash redemption price. The results were satisfactory, so the remaining \$6.00 dividend stock was called for redemption on April 1, and all of of the \$5.50 dividend stock was called for redemption on July 1. The same exchange offer, but with the cash payment reduced to \$2.00 a share, was made. All in all, nearly 79% of the \$6.00 and \$5.50 dividend issues were converted to the new \$4.50 dividend issue. A very satisfactory result.

The 1930's closed and the 1940's opened with good prospects for continued progress. The one cloud on the horizon was Herr Hitler's march into Poland, and rising signs of general war in Europe and in Asia.

THE SECOND PERIOD of EXPANSION - 1940 to 1950

The 1940's opened with a general war in progress in both Europe and Asia. For a while the United States took no part in it, but became involved directly when the Japanese attacked Pearl Harbor on December 7, 1941. Thereafter such a large part of the nation's productive capacity was diverted to the war that operation of a civilian industry became difficult. Western Minnesota and the Dakotas are not manufacturing areas, so there was little or no business stemming from the armament program in Otter Tail's territory. It became difficult at times to get the necessary supplies and equipment; but on the other hand there was no violent let-down following the end of hostilities.

The political atmosphere in general was somewhat hostile to "Big
Business", and at times it appeared that there was a special animosity
towards the utilities. President Roosevelt started his third term of office,
strongly supported by a Democratic Congress. The labor unions achieved a
political eminence that they had never before enjoyed, and which at times
was used to the detriment of unorganized workers.

War conditions brought an increased demand for food, the long period of drouth came to an end, and the prosperity of the farming areas began to improve. The long-baked soil absorbed most of the rainfall, so that while the output of the hydro plants improved, it came to only about a quarter of the pre-drouth average.

During 1938 and 1939, the North Dakota Public Service Commission had made an investigation of Otter Tail's property accounts in order to establish the value to be used for rate-making purposes. On April 22, 1940 the Commission

handed down its findings, which fixed the base at \$15,085,186. As the investigation took into account the increased values resulting from changes in prices since the property was built, it exceeded the Company's book value by nearly 20%.

In December, the Company made the first move in what was to be a series of substantial acquisitions extending over the next four years. It signed a contract for the purchase of the outstanding securities of Central Light and Power Company in central North Dakota. This system comprised thirteen towns and associated transmission lines; one group in the neighborhood of Harvey and Fessenden, and another including Garrison and a few surrounding towns. Otter Tail had owned the Harvey-Fessenden property briefly around 1930, but had exchanged it for other units closer to its expanding main transmission lines.

The purchase was completed on May 12, 1941; on the 31st Central was liquidated and its properties thereby became a part of the Otter Tail system. A few short transmission line extensions served to integrate the two systems.

Late in the spring of 1941, Mr. Kennedy suggested that it might be possible to acquire the properties of Union Public Service Company through a merger of that company with Otter Tail and an exchange of securities. The Union Public system was adjacent to Otter Tail's on the south, the two could be easily integrated, and the owners of Union Public were not particularly interested in continuing the operation. The prospect was attractive.

Negotiations began promptly, and continued into July, when an agreement on terms was reached. Under it, Otter Tail was to assume the liability to pay the outstanding Union Public Service Company bonds; each share of Union Public's preferred stock became a share of Otter Tail's \$4.50 dividend

preferred stock; each share of Union Public's common stock became $3\frac{1}{2}$ shares of Otter Tail's common; and each share of Otter Tail's common stock, whether Founders Common or Special Common, became 5 shares of new Otter Tail common stock of a single class. The stockholders of the two companies both met on August 26 to consider the matter. The vote was favorable in both cases, and the merger became effective on September 30.

The decision to eliminate the difference between the two classes of Otter Tail's common stock was made only after long consideration. The Company was still small enough to make it theoretically possible for a larger group to buy control through open market stock purchases, if all of the common stock were given voting rights. On the other hand, the Public Utility Holding Company Act of 1935 made it very unlikely that any other utility company would make such an attempt. Neverthless, the directors were definitely concerned about the possible results of the step. Their fears turned out to be groundless, for absolutely nothing happened.

During the negotiations with Union Public, Otter Tail also opened discussions with Minnesota Utilities Company concerning the purchase of their Wheaton and Twin Valley districts. Minnesota Utilitites, as I remember it, was being liquidated under the Holding Company Act. All of the towns in the Wheaton district were already wholesale customers; the Twin Valley district lay immediately north of Otter Tail's Minnesota territory, and could be easily integrated therewith. The purchase was completed on October 31, but physical integration had to be postponed for a few years on account of the war.

These three acquisitions, all completed within the year 1941, increased the size of the Company by nearly 25%. Therefore they involved some major

financing. In addition, interest rates were now low, suggesting the possibility of replacing the outstanding 4% and $3\frac{1}{2}\%$ issues with bonds carrying a lower rate. The trend had started in 1940, when it had been suggested that the Company replace its 4% issue with a $3\frac{1}{2}\%$ issue; but the spread was too small to warrant the cost, and nothing was done.

The firm of Duff and Phelps, security analysts, in Chicago had been of great service to the Company at the hearing in 1939. The Company therefore approached them in 1941 for suggestions with respect to its current financial needs. Out of these meetings came a plan to refund all of the outstanding bonds including assumed Union Public bonds, and the sale of enough additional bonds to carry out the Minnesota Utilities purchase. The plan was basically worked out by Mr. P. P. Stathas, and Duff made the contact with possible buyers. The plan provided for the private sale direct to a group of eight life insurance companies of \$5,600,000 of bonds, in three lots, at times to coincide with the need for money.

I can only describe Mr. Duff as a fabulous character. To meet him and talk to him was not an experience that inspired me with any great confidence. But because of his reputation and ability and knowledge of the needs and likes of his clients, he was able to place the entire bond issue over the telephone in the course of an afternoon, without exceeding the limits placed on such deals by the S. E. C. I believe that the deal probably cost the Company a little more in interest than an underwritten sale, but it saved the heavy cost of a registration statement. In a sense, the cost saved was divided between the insurance company buyers and the Company.

The rest of the 1941 financing is anticlimax compared to the major bond sale. The Company borrowed \$700,000 from banks to pay for the other

purchases, and to provide for certain improvements at the newly-acquired steam plant in Canby, Minnesota.

The war made itself felt very strongly in 1942. Before its merger with Otter Tail, Union Public Service Company had placed orders for a 5,000 KW steam turbine and associated equipment for installation at Canby. Otter Tail was able to complete the installation, and also purchased a second-hand 4,000 KW unit which was installed at Harvey, North Dakota. But wartime restrictions made further additions impossible. Even normal maintenance lagged, both from the lack of material and from the effects of the draft on the size of the crews.

Operations of the combined property resulting from the merger and the purchases made in 1941 showed very satisfactory savings over the various operations of the components as separate units. The refinancing of the bonds reduced the fixed charges. But a large increase in the Federal Income Tax rate wiped them all out and left a smaller net income than in the previous year.

The Agreement of Merger with Union Public Service Company, which became the Articles of Incorporation of the resulting company, provided for a Board of Directors of from seven to nine members, serving for staggered terms of three years. Most of Union Public's stockholders lived in St. Paul; hence the merger increased the concentration of Otter Tail's stockholders in the Twin Cities. Mr. Edwin White, of Kalman and Company, requested that these stockholders be represented on the Board. After a week or so of consideration of men who might be willing to serve, he and I called on Mr. C. F. Codere, then President of St. Paul Fire and Marine Insurance Company. I am happy

to say that Mr. Codere agreed, and that he was duly elected a director at the annual meeting in March. He has been a valuable member of the Board ever since.

One other major development got under way during 1942. In March, the Company put into effect a comprehensive group insurance plan, which provided benefits in case of death or illness. It has been revised at intervals since then as the cost of hospitalization rose. There is no attempt to cover the full cost of everything that might happen; it does successfully, I believe, reduce the financial shock of serious illness.

At this time, Interstate Power Company of Dubuque, Iowa, was operating a small system reaching from Bemidji, Minnesota west to Crookston and thence north to the Canadian border. Most of this was in Minnesota; but a small part of it, organized as a separate corporation, served an area in the extreme northeast corner of North Dakota. The SEC urged Interstate, which was under its jurisdiction as part of a holding company system, to sell this isolated system because it could not be integrated with its main system in Iowa and Southern Minnesota. Otter Tail officials conducted negotiations with Mr. Pickard, President of Interstate, for the possible purchase of all of this property, starting in the winter of 1942. They did not reach an agreement on the entire system, but Otter Tail did agree to purchase all of the securities of Interstate Power Company of North Dakota. Otter Tail's directors approved the purchase in May, completed it during the summer, and immediately liquidated Interstate of North Dakota into Otter Tail.

A little later Otter Tail also purchased all of the North Dakota properties of Central Electric and Telephone Company. These included three

small, widely scattered groups of towns, and the gas plant and gas distribution system in Jamestown. North Dakota.

Otter Tail financed the greater part of the purchases made in 1942 and 1943 through bank loans. There began to develop a financing plan that has been used repeatedly since with highly satisfactory results for all concerned. During the 1920's, the Company was able to sell bonds in lots of \$400,000 or even less at a time. The Securities and Exchange Act of 1933 made this practice prohibitively expensive by the requirement of registration. In general, the life insurance companies were not interested in such small purchases. But the banks were. It was found to be very convenient to borrow money from banks until the loans had built up to a point that made permanant financing economical - either by private placement of a large bond issue or the sale of stock or other securities pursuant to a registration statement. The banks like loans that they can see will be paid off within a reasonable period, and the Company is able to do its interim financing on almost the same informal basis as in the 1920's.

Late in the year, Washburn Lignite Company paid up the last of the loan that it had received from Otter Tail in 1928. Truax-Traer was still operating the mine, and subsequent rentals became the basis of dividends on Washburn Lignite's stock. They continued for a few years more, until the economically recoverable coal was exhausted.

Fred Leffler died on September 20, 1943 at the age of 73. With his going, there ended the last association between the original incorporators and the Company.

Basic economic conditions improved rapidly in 1943 and again in 1944.

With rainfall back to normal, stream flow improved and the output of the

hydro plants (all in the vicinity of Fergus Falls) rose to around 28,000,000 KWH in each year, or 35 times the output in the worst of the drouth years. North Dakota reported substantial increases in both sales tax and income tax collections. On the other hand, the draft and the high wages in war industries pulled many out of the area; and wartime restrictions on purchases involving the use of strategic materials or equipment made certain operations and some items of maintenance difficult to carry out. To some extent, the physical condition of the property declined. Load continued to grow. As it was not possible to build new plants, a number of the older and less efficient units, normally held for emergency use, were put back into regular service.

Otherwise, the year 1944 was pretty much a continuation of 1943, with only three items worthy of special consideration. Up to this time Mr. Hatch had held the title of Auditor, though his duties were those ordinarily associated with the title of Comptroller. At the annual meeting in March, Mr. Hatch's title was changed to Comptroller and the President was given authority to hire an Auditor. After consultation with Duff and Phelps, Mr. Weldon Smith was engaged. It was not a successful venture, either for Mr. Smith or the Company. Mr. Kennedy had a low regard for the functions of an accounting department beyond those of a cash register, and following his lead, the operating departments did not cooperate. Mr. Smith came from a large town, and neither he nor his family were happy in Fergus Falls. The combination was too much, and he left in about a year. I do not blame him.

Negotiations with Mr. Pickard on the purchase of the Interstate Power Company properties in Northern Minnesota were resumed in the spring of 1944.

On June 22, the directors approved the purchase for a base price of \$3,000,000 to be financed by the private sale to insurance companies of \$1,500,000 of 3% bonds and 12,900 shares of \$4.25 dividend preferred stock. For balance sheet aesthetics, to avoid showing only a single share as "Authorized but Unissued," I bought the one remaining authorized share of preferred stock.

It took some months to work out all the details and get the required permission to proceed from the two Boards of Directors and the State and Federal regulatory commissions. The final closing took place on November 15. In four years from 1941 to 1944, Otter Tail had made six major purchases at a cost in cash and its own securities of nearly \$6,834,000, which was equivalent to about 53% of its net property account at the end of 1940. It gave the Company an aggregate service area of about 70,000 square miles, less a large island in the middle comprising Fargo, Grand Forks and surrounding territory which was served by Northern States Power Company. When the connecting lines were built after the war, the Company's properties became a single integrated system, of the type sought after by the SEC, even though the Company was never under their jurisdiction.

The other item of interest in 1944 is a completely internal matter.

On July 27, the Directors set up a Pension Plan designed to supplement the Federal Social Security system. After a qualifying waiting period, and the attainment of age 30, pensions payable at 65 of 1% of salary for each year. worked, began to accumulate. Payments above \$500 a month were not considered, so the maximum possible pension was only \$210 a month. It was definitely a minimal plan, and did not include some of the other objectives now included in such plans. Funding was through a Group Annuity Contract with John Hancock Mutual Life Insurance Company.

So far as operations were concerned, 1945 was not a very eventful year. In other ways it can be considered as a turning point. Early in February, Mr. Kennedy gave me a letter of resignation. For some days it was a matter of serious discussion between Mr. C. G. Wright, Mr. Adams and myself. We had to decide whether to bring in an outsider as a replacement, or whether to make use of existing talent within the Company. In either case we then had to find the individual to do the job. In the end, as one of us (I forget which) expressed it, we decided that we might as well "Make our own mistakes, instead of hiring someone else to make them for us." The Board of Directors accepted Mr. Kennedy's resignation at a special meeting on February 26, to become effective on April 1; most of his duties were assigned to Mr. C. G. Wright, and the rest were spread among other members of the organization. Immediately thereafter the Company made a general announcement of the changes.

Mr. Kennedy's resignation also created a vacancy on the Board of Directors. At the Annual Meeting, held now in April, Mr. Joseph H. Colman was elected to take his place. Mr. Colman is a Minneapolis attorney, who for many years had advised the Company on the legal matters involved in financing and corporate organization.

The really important event of 1945 occurred far from Otter Tail's service area, and at first glance might not be expected to have very much effect. The war ended in the late summer. But with it came a group of problems associated with war scarcities over a period of years plus reasonably well-filled pocketbooks. The 1945 Annual Report calls them a "scarcity of materials and manpower with which to make repairs and build extensions, in the face of an insistent demand for service."

Shortly after Mr. Roosevelt's first inaugural in 1933, the Federal Government had adopted a number of policies that were to have a lasting and frequently adverse effect on the utility industry. Federal Power Commission regulation has already been mentioned. In addition, the Tennessee Valley Authority was set up to provide, among other things, an alleged yardstick to measure the fairness of utility rates; the Rural Electrification Administration was set up to lend money to farmer-owned cooperatives to provide electric service to farms; the Corps of Army Engineers began the construction of a dam across the Missouri River at Fort Peck, Montana; a few years later the Flood Control Act of 1944 provided for the construction of a series of dams on the Missouri in North and South Dakota. The cumulative effect of these measures began to be felt fairly definitely in Minnesota and the Dakotas by 1945, though they were probably not taken as seriously as they should have been.

Along with this legislative program went a propaganda campaign to the effect that electric rates were too high, and that it was supremely important that they be reduced. The political appeal of such a statement is obvious, for practically every voter pays an electric bill every month. The propagandists quietly ignored the course of electric rates over the previous 40 years and the small part that power cost plays in either the average manufacturing or the average domestic budget.

Because of subsidies that it receives from the Federal and local treasuries (no interest on the money invested and a very small tax burden)

TVA uses a very low rate schedule. It is therefore apt to be used as a standard of comparison. The REA began to pump money into many cooperatives.

They succeeded in getting a large percentage of coverage, though in Otter
Tail's territory the REA rates were not markedly different from the Company's
for similar service. No one seems to have thought of subsidizing the electric companies, which might have produced a worthwhile cost reduction
through elimination of duplication of facilities. The Missouri River dams
created a feeling of uncertainty as to the future, which has only recently
begun to be dissipated.

As 1946 opened, then, Otter Tail Power Company faced a group of internal organizational problems growing out of Mr. Kennedy's resignation, a group of operating problems growing out of the cessation of hostilities, and a group of political problems of long standing which were now becoming insistent. The history of events for the next few years is therefore a tangle of these three threads.

Of the three, the operating problems were theoretically the easiest to deal with. At the end of 1945 there was still some excess plant capacity available, so that operation was still possible, even if expensive, because of the low efficiency of the units involved. So orders were placed for plant additions of 17,500 KW aggregate capacity - 5,000 KW each in new plants at Crookston and Devils Lake, and a 7,500 KW addition to the plant at Hoot Lake near Fergus Falls.

The Company needed money to finance these additions, the bank loan previously mentioned was due shortly, and preferred stocks were currently popular. The time seemed ripe to sell additional preferred and common stock, pay off the bank loan, and refinance the outstanding \$4.50 and \$4.25 dividend issues. On June 21 plans were presented to the Directors to sell 60,000

shares of \$3.60 preferred stock, call the outstanding 50,000 shares of higher rate preferred, and offer the common stockholders the right to buy two additional shares for each five shares which they held. In addition, the holders of the old preferred stock were offered the right to exchange their stock for the new issue.

Two groups of underwriters were invited to submit bids. A group headed by Glore, Forgan and Company of Chicago and Kalman and Company of St. Paul was the low bidder. The syndicate was the widest spread of any in the Company's history, and served as its introduction into many new areas. It was therefore a very interesting operation to watch.

Internally, the first steps were taken to reorganize the Company in accordance with the views of the new management. In 1945 a formal Personnel Department had been set up. At the annual meeting in the spring of 1946 Mr. Mau was made a director. Mr. Hatch was rapidly approaching retirement age under the pension system, and the Company brought in Mr. Albert V. Hartl as his assistant and eventual successor. Mr. Hartl was a native of North Dakota, had served brilliantly in the war, and had had long experience on the staff of the North Dakota Public Service Commission. To increase the communication between the main office and the far-flung operating districts, the Company started a series of district meetings, with a business meeting in the afternoon and a banquet and social gathering in the evening. They have been an annual affair ever since, and have proved their value in improved morale and better understanding of mutual problems.

Federally stimulated REA cooperatives had appeared in Minnesota and the Dakotas in 1937 as already mentioned. By the early 1940's they were growing rapidly. Initially their policy was to buy power wherever possible,

and Otter Tail's participation came to over 14.5 millions of KWH in 1945. This was nearly 8.6% of the Company's sales in that year, though it produced less than 3% of the revenue. Incidentally, farm electrification was nothing new to Otter Tail, which had begun building lines to serve farmers before 1920; and which in 1945 had over 2,400 direct farm customers to whom it supplied over 3,415,000 KWH. This business has continued to grow at about the same rate as business in the towns in spite of the existence of the REA cooperatives.

Representatives of the Federal Power Commission made an examination of the Company's books in late Summer and Fall of 1945, particularly the property accounts. Their object was to assure that the accounts reflected the original cost when first dedicated to public service. There is no quarrel with the general objective; Otter Tail's property was on its books at the cost either to build or purchase the items involved. But the Commission went further than that. They wanted to know the original cost to previous owners in a number of cases, and also expressed a great interest in any write-ups that the Company had made.

For the background of the situation, it is necessary to refer briefly to the 1920's, when some of the prices paid exceeded the values of property acquired. In the late 1920's and early 1930's, the Company sought to correct this by arbitrarily writing down certain book values to figures commensurate with the earning power of the property involved. Even some of the hydro powers were involved, as the Company's engineers and operators came to realize that they could not be relied upon as sources of firm power. These write-downs were reversed in 1938, when the Federal Power Commission ordered that books be kept on an original cost basis.

So, when the accountant who was to make the examination inquired rather truculently if there had ever been any write-ups in the book values of the Company's property, I had to say yes, to the extent of a little over \$1,500,000. The explanation that the entries were merely the reversal of previous write-downs did not seem to impress him then, though his subsequent examination confirmed it. As his examination progressed, he became more and more friendly; and towards the end of his stay he remarked that it was about the cleanest property record he had seen. It is therefore perhaps not entirely fortuitous that a prominent Twin Cities professional man of the same name shortly acquired a considerable block of Otter Tail securities.

The outcome of the examination was rather curious. The Commission ordered a write-down almost exactly equal to the Company's own write-downs a dozen or so years earlier; but markedly different in distribution. As the depreciation reserve was on the high side, most of the write-down was charged to depreciation, and no "Acquisition Adjustment" account was set up. The presence of Mr. Stathas at the final conference between the Company officials and the representatives of the Commission helped greatly in obtaining this result.

By whatever statistics are used - KWH generated, annual sales, or peak load - Otter Tail Power Company doubled in size between the end of hostilities in 1945 and the end of 1950, when growth returned to a more normal rate. Of all forms of load, the REA cooperatives grew the fastest - from 8.6% of KWH sales in 1945 to 26% in 1950.

The program of plant expansion, started in 1946, soon proved to be grossly inadequate, and was expanded almost before it got under way. Over

the five-year period the Company added:

In	1947	Devils Lake, N.D.	5,000	KW
	1948	Crookston, Minn.	5,000	
		Hoot Lake (Fergus Falls)	7,500	
		Jamestown, N.D.	7,500	
	1949	Devils Lake, N.D.	7,500	
		Crookston, Minn.	5,000	
	1950	Ortonville, Minn.	15,000	
			52,500	

It took a while to build the new facilities, which accounts for the gap in time between the initiation of the program and the dates (here listed) when they went into operation. To fill in the gaps that developed here and there, the Company purchased and installed about 15,000 KW of diesel and other internal combustion engine units. They were quicker to get; and in the over-all power supply situation, they have a distinct place for peak load and emergency service.

Very distinctly, there was a race to keep the generating facilities ahead of the demand which the customers put upon them. At times there was a resemblance to the Red Queen, who had to run attop speed in order to stay in the same place. Only once, during the peak load period in the winter of 1947-48, was the Company unable to meet all demands. For a period of about four months, customers were asked to curtail their use of lights and motors and ranges between the hours of 5 and 7 in the evening. Surprisingly few complained. One group - the operators of feed mills - even welcomed the chance to close up shop and get home for dinner at the usual hour. By the end of 1948, enough new generating units were on the line to forestall any repetition of the "Brown-out."

This period also saw the start of the retirement of some of the older and less efficient units. As rapidly as they could be spared, the

Company took out of service and scrapped the old reciprocating steam engines at Devils Lake and Jamestown, the two original steam turbines at Hoot Lake, and some of the small units acquired between 1940 and 1945. By 1950, the generating units in operation were about as large and efficient as the requirements of service continuity on a widely spread system would permit. Admittedly this is a compromise - efficient operation requires large stations, widely spaced; continuity requires stations as near the load centers as possible. The balance between these conflicting interests is a matter of judgment, and the point of balance changes from time to time.

Along with the building of physical plant to serve a rapidly growing load, there went the building of an organization to operate it and take care of the customers' needs and wishes. Mr. Hatch retired following the Annual Meeting in April, 1948, and Mr. Hartl was elected to replace him as Secretary and Comptroller. At the same meeting, Mr. Mau was elected a Vice-President. In a general way, the operations of the Company were now divided about as follows: Mr. C. G. Wright had charge of the day-to-day business dealings between the Company and the public; Mr. Mau the technical phases, including power plants, transmission lines and distribution systems; and Mr. Hartl the accounting. These three made a very efficient team that clicked from the start. But efforts to build certain other sections of the organization were not initially so fortunate.

In the belief that the technical departments could be strengthened by adding outside talent, the Company brought in a succession of transmission and power production engineers. But either they did not like Otter Tail or Otter Tail did not like them. In any case most of them remained only for a year or two before departing for other jobs. By about 1949 Company morale had reached a low point. Most of those brought in from the outside were gone by 1950, and their duties had been taken over by men of long standing in the Company. Morale began to improve, and the organization took on the form that it has today. There was found to be ample talent available, with virtually all of it coming from the territory served. Improvement in all phases of operation has been steady ever since.

In addition to these generalities, a few specific changes should be noted. The thirteen districts into which Otter Tail was divided for operating and administrative purposes were re-grouped into five divisions of two or three districts each. The District Managers at Devils Lake and Jamestown, North Dakota, and at Bemidji, Fergus Falls and Morris, Minnesota, became Division Managers. Each had a staff that facilitated solution of a wide variety of problems locally in place of referring them to the General Office.

In the fall of 1949, Mr. Samuel P. Adams resigned from his position as Vice President and Treasurer, but remained on the Board of Directors.

The Board then elected Mr. Hartl to take his place, with the title of Treasurer and Secretary. Mr. Harry C. Johnson, formerly Comptroller of St. Paul Foundry and Manufacturing Company, took over Mr. Hartl's duties in the Accounting Department as Comptroller.

Political activity in the field of power supply, as evidenced by the very rapid spread of REA cooperatives, has already been discussed.

Another phase of this activity began when the Congress passed the "Flood Control Act of 1944." Among other things, this act provided for the construction of a series of large dams on the Missouri River in North and South

Dakota, in order to promote navigation; provide water for municipal water supply and irrigation; control floods; and incidental to these main functions, to produce electric power. Cooperatives, municipal power systems, irrigation districts and the like were given the first chance to buy any of the power produced. The act named the Army Corps of Engineers as the builders of the dams, and the Bureau of Reclamation as the marketing agency to distribute the power. One of the dams was to be near the town of Garrison, North Dakota, within a few miles of Otter Tail Power Company transmission lines; the others were a little farther away, in South Dakota.

The sheer physical size of the undertaking, involving three huge and two smaller dams and nearly 1,500,000 KW of generating capacity in the semi-arid areas of the Dakotas, should have staggered the imagination. Instead, it captured it. And in the popular mind, the "incidental" power came to be considered as a matter of prime importance. The question arose in many minds as to the future of the utility industry in the area in the face of this large block of hydro power, and the expectation that it would be sold at a low price compared with power generated in local steam plants.

Costs at this time were rising more rapidly than revenue, so that it became necessary to consider more or less general rate increases if the Company were to finance the facilities needed to take care of load growth. Such action would be a reversal of the long term trend in electric rates, and would come at a time when people were looking forward to lowered costs of power from the Missouri River dams. Nevertheless, the Company filed an application for a retail rate increase with the North Dakota Public Service Commission. The Commission held four hearings at scattered points in North

Dakota at which virtually no opposition appeared, and on September 25, 1948 entered an order approving the new rates. They were put into effect in North Dakota at once, and were introduced into Minnesota and South Dakota (which have no regulatory commission with authority over electric rates) as fast as possible.

A little later, in December, 1948, the Company filed an application with the Federal Power Commission for an increase in wholesale rates, which was designed to produce a somewhat smaller rate of return on property assignable to wholesale business than the retail rates brought on property assignable to retail business. The FPC held extensive hearings on the application in Fergus Falls during May, 1949, at which various members of the Company's staff, particularly Mr. Hartl, presented evidence in support of the application. Members of the FPC staff presented the case for the Municipal and REA cooperative customers, claiming that the increase was too great. However, the Examiner's report upheld the Company; and the wholesale rates were approved in effect by an order dated November 22, 1949 allowing them to go into effect.

There were many cross currents influencing the financing during the second half of the 1940's. The general exuberance that followed the end of the war, and the Company's record up to that time, made it possible to sell securities on an attractive basis in 1946 and 1947. The Company in 1946 sold preferred stock that differed only slightly from bonds in yield to the purchaser, and sold common stock at a price that approached within 10% the top market price in 1929. The next year, it sold bonds with the lowest interest rate of any issue before or since - 2-3/4%.

The strain imposed by the rapid post-war expansion, both as regards to physical plant and the building of an organization to run it, the uncertainty for the future introduced by the Missouri River development, the rapid increase in expenses and the lag in getting rate increases to meet them, all became evident in 1947 and 1948, and acute in 1949. For a few months in the spring of 1949, I had grave doubts as to the ability of the Company to survive. The doubt and uncertainty are reflected in the financing in these years. Interest rates on long term bonds sold in 1948 and 1949 went up to 3-1/8%, and the price at which the Company sold common stock in 1948 dropped to \$18.75 a share - a reduction that exceeded the decline in the general stock market.

At its meeting on May 31, 1949, the Board of Directors gave a great deal of attention to ways and means of meeting the situation. Up to then, it had been the policy to accept all of the REA load that was offered. This was proper as long as the REA's represented a small part of the total. But the time had come when the Company saw that it would now have to build power plants and transmission lines to supply them, and that even the recently increased rates for REA customers would not produce a rate of return sufficient to make financing possible. Reluctantly, therefore, the Directors voted not to increase the number of REA connections or agree to supply additional load through existing connections. And since the REA's would be preferred customers of the Missouri River development, and hence would change over to the new source of supply within a few years, they were encouraged to look elsewhere for power.

In the meantime, Mr. Mau had been carrying on negotiations with the Bureau of Reclamation since the middle of 1948. Otter Tail's relations with

the Bureau and with a group of North Dakota Cooperatives crystallized in a pair of contracts signed in the early part of 1950. In a very real sense, they bring about a relationship between three groups in the field of power supply that is cooperative in the true meaning of that abused word. As described in the 1949 Annual Report, "they provide for the construction of an REA steam plant of about 30,000 KW capacity near Voltaire, North Dakota, by a generating cooperative; the construction by the Bureau of a high-voltage network, including about 600 miles to be finished in 1951; the grant of licenses to the Bureau and the generating cooperative for the use of Otter Tail's transmission lines; the grant of a license to Otter Tail for the use of the Bureau's lines; and the purchase by Otter Tail from the Bureau of up to 51,000 KW of secondary Power - - - -."

Long before 1920, Otter Tail adopted approximately 40,000 volts for its main transmission lines. Up through the 1940's, this had proved to be adequate for its needs. But with the rapid post-war load growth of the later part of that decade, the 40,000 volt system became overloaded. Engineering studies indicated that larger, more efficient plants could be built, and their output more economically distributed to load centers, if part of the transmission lines were operated at higher voltage. The construction budget for 1950 therefore contained the first two sections of what is now developing into a 120,000-volt backbone transmission line: from Hoot Lake to Wahpeton and from Ortonville to Morris.

By the early part of 1950, the Company's fortunes were definitely on the upgrade. About the best evidence of this is the sale price of common stock in the spring (\$20.25 a share) and the bond interest rate of 2.85% on an issue of \$5,000,000 par value sold in the fall. The Company

also sold a small issue of preferred stock in the spring; but by this time preferred stocks were out of style. An issue with an annual dividend rate of \$4.40 sold to the public at \$101 a share.

INTERCONNECTION and POOLING - 1950 to 1954

The first half of the 1950's can perhaps be best characterized as a period of increasing stability and improving prospects. There was a very definite tendency towards joint use of facilities by the several suppliers of electric service in the area, commonly called "pooling;" though there is as yet no formal power pool. The political aspects of the power industry, as exemplified by REA and the Missouri River development, came to be seen in a better perspective as time passed. Construction of new facilities continued at a reduced pace, centering on extensions of the 120,000-volt transmission line rather than on generation. Internally, there were a few important changes in organization; a surprising improvement in morale, particularly since 1952; and a reduction of the strain evident in the preceding period. After the completion of the \$5,000,000 bond issue already mentioned, financing was rather a minor problem compared with prior years.

The three-way agreement with the Bureau of Reclamation and Central Power Electric Cooperative, already mentioned as signed in the spring of 1950, provided for the orderly shift of the REA load in North Dakota to another source of supply. In Minnesota, another arrangement was worked out, and again Mr. Mau was responsible for the satisfactory results obtained. During the summer a group of 16 REA Cooperatives asked for assurance that they could get adequate power from the companies operating in western and southern Minnesota. On September 25, the Board of Directors authorized the signing, together with Northern States Power Company and Interstate Power Company, of a Letter of Intent agreeing to provide such an adequate supply.

In Otter Tail's case, this letter was followed in 1951 by a contract and interconnection with Northern States under which the latter took over Otter Tail's REA customers and wheeled power to them over Otter Tail's transmission lines. Secondly, Otter Tail arranged to buy a certain amount of power from Northern States; and there were the usual agreements to help each other out in case of emergency. Lastly, Otter Tail agreed to let Northern States tap its 120,000-volt system and wheel power over it to supply Fargo and Grand Forks; a provision that is not yet in use.

At about the same time, Minnkota Power Cooperative of Grand Forks asked for an interconnection near Bemidji, Minnesota. It took some time to work out details, but turned out to be only the first of several interconnections between the two systems.

The spring of 1950 brought a series of sleet storms and a serious flood on the Red Lake and Red Rivers. There was considerable damage from both of these, perhaps the most important being the undermining of one of the dams near Crookston, Minnesota on the Red Lake River. The dam itself held until the water level went down, so that no downstream loss could be attributed to its destruction. But it had to be removed, and the estimated cost of replacement greatly exceeded its value as a source of power.

Otherwise, 1950 was a pretty normal year; and 1951 continued on more or less the same basis. Central Power Electric Cooperative began the construction of a large steam plant near Voltaire, North Dakota; and the Bureau of Reclamation started building its network of high voltage transmission lines in North Dakota, in order to be ready to handle Central's output when their plant started to operate. The Company completed and put

into operation the first two links of its 120,000-volt line: one from the Hoot Lake plant to Wahpeton and the other from Ortonville to Morris.

Lacking the necessary transformers, the lines were operated initially at the Company's standard of roughly 40,000 volts.

The really important event of the year occurred west of the Company's operating area. Amerada Petroleum Company found an oil field in the vicinity of Tioga, North Dakota. Otter Tail does not benefit directly from the discovery; but investment money poured in for the drilling of more wells, and before long oil began to flow to market. In the long run, the effect is bound to spread through the entire state, and the Company can be expected to share in the resultant increased prosperity. Recently, oil has been found in commercial quantities in Bottineau County; and there is now good reason to expect that the Company's business in that area will increase as a result.

In view of the expectation of power from the Missouri River dams in the not too distant future, and the announcement that the price would be low, agitation in favor of municipal power systems increased in the late 1940's and early 1950's. This agitation became strong in about a half dozen of the towns served by Otter Tail, including one (Barnesville, Minn.) that already had a municipal distribution system but purchased its power wholesale from the Company.

Because of the expectation that wholesale customers would soon transfer to the Bureau, and the low rate at which wholesale service was supplied, the Company made no great effort to retain Barnesville as a customer. But various people spent a lot of time over a long period to try to retain the retail towns. It was slow, patient work; but in the end, a number of franchises

were secured and relations with the rest of the towns are slowly improving.

Studies initiated in 1951 probably are responsible for changing a number of ideas with respect to the potential effect of the Missouri River dams on the utility companies of the area. On June 21, the Missouri Basin Inter-Agency Committee appointed a sub-committee to make a study of the power demand and supply in the Missouri Basin, including forecasts up to 1970. The investor-owned utility companies, municipalities, REA's and the Nebraska Public Power System were all asked to contribute and to sit in in an advisory capacity. Pursuant to this invitation, representatives of 14 utility companies operating in the Missouri Basin met in Des Moines, Iowa to discuss the matter and organize themselves. Mr. C. P. Conrad of Davenport, Iowa was elected Chairman. The decision to work with the Power Survey Sub-Committee was unanimous and I believe enthusiastic; and as a guide to their own thinking, the utility group engaged the firm of Mead and Hunt, well known consulting hydraulic engineers of Madison, Wisconsin to make an independent study of the potentialities of the Missouri River. One prime object was to estimate the firm power, or power available atall times, from the dams being built on the main stem of the river.

The sub-committee spent nearly two years in collecting and analyzing data and writing the report, and the Army Corps of Engineers made the necessary engineering studies. The Mead and Hunt report was never released, though many knew of its existence. From various remarks picked up here and there, I am inclined to believe that the mere fact of its existence served to smoke out a very detailed estimate of the output of the main stem dams. The firm power shown on this study is surprisingly small, and serves once more to point up the unreliability of water power in the Missouri Basin.

Almost the last act of the Utility Companies Advisory Group was the writing of a statement of policy to be included in the MBIAC Report. In a way it is a sweeping statement. It denies that there has been or that there is likely to be any serious power shortage in the Basin; assumes full liability for the provision of adequate electric service in the area regardless of any other available source of supply; and asks for the integration of the facilities of all of the power suppliers in the area. In short, it reaffirms that they are utility companies with definite responsibilities as such.

The unexpectedly small amount of firm power, the large block that
the so-called preference customers can absorb even now, and a continuation
of the rate of growth in demand for electric service have all tended to
reduce interest in municipally-owned electric systems; and as a consequence
have tended to restore confidence in the utility companies and their securities.

Nobody in any way connected with the utility industry doubts the ability of the "Investor Owned Companies", as they now came to be called, to meet all load requirements with adequate reserves for emergencies. But in spite of this, a group interested in fostering Government ownership of all power facilities used the claim of an existing and rapidly growing power shortage, and the alleged inability of the utility companies to meet it, as an argument in favor of the construction of the Missouri River and other dams. The Bureau of Reclamation made its own power study which it released in November, 1951. The newspaper release that accompanied the report turned a slightly subnormal reserve capacity into an existing power shortage that would grow to unprecedented size in twenty years unless Government stepped in to prevent it.

Power shortage talk pretty much died down following the completion and release of the MBIAC study. Curiously enough, the Bureau put out another document shortly afterwards. There was still talk of an impending power shortage; but the timing was pushed back to 1975, five years after the end of the period covered by the MBIAC study. And as water power had been shown to be erratic and unreliable, they now recommended the construction of steam plants.

To get back to Otter Tail Power Company, there were some important internal changes in the spring of 1952. For some time titles of the officers had not been properly descriptive of their duties; and also it was felt that the Board of Directors could be strengthened by adding someone from the western part of the operating territory. At the annual meeting on April 14, the stockholders elected Mr. Clyde Duffy, an attorney from Devils Lake, North Dakota, to the Board. The Board in turn elected the following major executive officers:

Thomas C. Wright Chairman of the Board of Directors

Cyrus G. Wright President

Arnold W. Mau Vice President

Albert V. Hartl Vice President and Treasurer

Harry C. Johnson Secretary

There has been no change in this group since then.

Federal income tax rates were raised in 1952. In order to keep itself in a position to raise additional capital when necessary, the Company felt that it should ask for a small rate increase. The proposal apparently caused little excitement. The hearings before the North Dakota Public Service Commission turned out to be somewhat perfunctory, with very little opposition

from those who would be affected. In due course the application was approved and the new rates, which applied to retail customers only, went into effect in July, 1952. The experience of the Company in the 1948 and 1952 rate cases would seem to indicate that most people are reasonable; and that a low price for a KWH is of somewhat less than the supreme importance that some politicians attribute to it.

Interconnection of facilities proceeded rapidly in 1952 and 1953. The Bureau of Reclamation completed a large part of its transmission line grid, including nine connections with the Otter Tail system. Central Power Electric Cooperative's new steam plant at Voltaire, North Dakota, began operations. Theoretically, this relieved Otter Tail of a large block of REA load in North Dakota; but practically it was operated as an integral part of the Otter Tail system with its output treated as if it went to serve the generating cooperative's member distributing cooperatives. At the other end of its territory, Otter Tail completed an extension of its 120,000 volt line south from Ortonville to Canby and thence east to Granite Falls. where it connected with the lines of Northern States Power Company. Otter Tail's REA customers in Minnesota then became customers of Northern States, in the same way that the North Dakota REA's had become customers of Central. A little later, the East River Cooperative took over the supply of Otter Tail's REA customers in South Dakota. The remaining retail load was well within the ability of the Company's plants to supply it, and definitely postponed the need to build additional generating plants for several years.

The Presidential election in November, 1952, greatly improved the political climate for the utility companies. There was far less stress on

governmental ownership of utilities on purely theoretical grounds; and there was an announcement that the Federal Government did not intend to assume the responsibilities of public utilities in the supply of electric service. Preferred customers of the Bureau of Reclamation, therefore, were encouraged to make contracts with the utility companies for emergency service and for normal supply over and above that available from the Missouri River dams.

All of these factors probably had their influence in the negotiations with the City of Fergus Falls in late 1952 and early 1953. The City was, of course, a potential preferred customer of the Bureau of Reclamation, and the contract for service between the City and the Company was about to expire.

On the other side, the Company by this time badly needed more office space. There had been discussion of the needs from time to time since 1950. Fergus Falls is some distance from the center of gravity of the system, and without some form of compensation for this, there was doubt as to the advisibility of building more office space in Fergus Falls. Other things being equal, the consensus of opinion was that any new office building should be in a retail town.

So, late in 1952 the Company offered \$500,000 for the City's distribution system, asked for a 20-year franchise, and agreed to build a new office building and maintain its headquarters in Fergus Falls.if its proposition were accepted. At stake also was an annual payroll of over \$750,000 if the Company should move its headquarters elsewhere.

Fergus Falls could be described as a municipal-ownership-minded town.

It took some time to persuade the Council to submit the question to a vote,

and then there was a vigorous campaign as to the advantages and disadvantages

of the Company's proposition. Mr. Hartl conducted the Company's campaign; and to his efforts and leadership must be credited a vote of two to one in the Company's favor. Pursuant to the vote, the City's distribution system was sold to the Company in May, 1953, and the City granted the necessary franchise to operate. It took some time to find a suitable building site; in the end the Company obtained about three quarters of a city block from the Trustees of the Lake Region Hospital Association. This tract had belonged to the Wright Hospital, which had been discontinued following its merger with another institution. Excavation began in the summer of 1954, and construction of the new building is now in progress.

The year 1954 can be described as one of the more normal years in the Company's history. The Missouri River dams have started to deliver power, but this has not caused the disruption that at one time was feared. Otter Tail has transferred virtually all of its REA load to other suppliers, and this load has already been largely replaced by normal growth in retail load. The interconnections have proved their value. The Company has been able to purchase a considerable block of power, and to discontinue the operation of some of its old and inefficient plants. It sees no need for plant construction for the next couple of years; but shortly thereafter it appears that it will be possible and econominical to build a 50,000 KW plant and dispense with purchases to a large extent. Staggering of such construction, therefore, has been advantageous to both buyer and seller.

The Company got its first direct benefit from the North Dakota oil discoveries in 1954. Standard Oil Company of Indiana built a refinery near Mandan, North Dakota, to process 30,000 barrels a day of petroleum. Standard already had a pipe line from the south, which ended at Moorhead, Minnesota

and built a connecting pipe line from Moorhead to Mandan. From a little west of Jamestown to Moorhead, and thence southeast to Alexandria, the lines run through Otter Tail territory, and the Company has contracted to supply power for a substantial pumping load.

By the end of 1953, the Company had built up a substantial bank
loan; and it seemed proper to convert this into some form of permanent financing. Proper corporate structure indicated that it should be common stock;
though the time did not seem ripe for such an issue. After discussion with
financial advisors and dealers, it was decided to offer \$2,500,000 of convertible debentures to the holders of the Company's common stock. Half of
them were to be convertible during 1955, and the balance after January 1,
1956. At the time of the sale in February, 1954, the market price of the
stock was about \$25 a share, so the conversion price was set at \$22.50. The
issue was well received.

The debentures began to be turned in for conversion before the close of 1954, and reached the half way mark in the first quarter of 1955. The year 1955, therefore, has started out propitiously.

F 198 64

361 161