

●PSF

Tennessee Valley Authority

Subject File

Box 187

~~From 1933 - 1937~~
1937

Box 187

PSF: TVA

his personal

TENNESSEE VALLEY AUTHORITY
KNOXVILLE, TENNESSEE

August 8, 1935

Mrs. F. D. Roosevelt
The White House
Washington, D. C.

My dear Mrs. Roosevelt:

I understand that John expects to start north tomorrow, August 9, and therefore I am taking this opportunity of writing you about him.

As far as being able to avoid publicity I believe our efforts have been satisfactory. A certain, rather mild, amount of newspaper publicity came out but the fact that John has been largely away from Knoxville and that both he and the men working with him have done everything they could to keep out of the public eye has, I believe, worked out very well.

I am glad to say that the men for whom and with whom John has worked have been unanimous in saying nice things about his interest in the job and his quickness in catching on to what was needed. They have also been very much pleased with his friendly and democratic attitude so that he leaves Knoxville and the Forestry Division of the Tennessee Valley Authority with many friends, and I would say, a considerable degree of affectionate respect. Take it by and large, I believe his coming and working with us has been fine, not only for the boy himself, but for the various men who have lived and worked with him and for whom he has worked. The short time of his stay has, I trust, been really beneficial to him in many ways and has given him a good healthy period of work and play. He is, in the minds of those who have had the opportunity to deal with him, an extremely fine and attractive chap.

However, I am quite sure that you will not be satisfied with my merely saying complimentary things about John. Rather, I am confident, you really will be glad to hear anything which might well be changed or improved in him and any tendencies which have shown themselves during his stay, which might, perhaps, well be counteracted. Because I believe that you will understand, I am taking the liberty of speaking plainly about this side of John as I have observed him.

First of all, his physical side. Naturally being so tall and desiring to be inconspicuous, John has developed the habit of slouching in his chair when sitting and of stooping very severely when standing. Not only does this greatly take away from his otherwise excellent appearance but it has given the boy a very bad posture and has had the effect of giving his chest a positive concave appearance. When I first noticed

Mrs. Roosevelt
Mr. Richards
August 8, 1935

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him I was profoundly surprised that a boy who could row on one of the Harvard crews should have such a deplorably small chest development. Naturally this bad posture, coupled with his small lung development, holds in it, I need not add, very serious possibilities for further trouble in relation to any pulmonary diseases. I, therefore, feel it clearly necessary for me to urge that John be encouraged to straighten up, change his posture, and very definitely go in for chest development exercises.

In addition to the flat chested posture, a second point is of particular interest and this is John's terrific over-smoking. I was tremendously impressed when I first saw him with the grip which this habit had upon him. He scarcely even stops smoking long enough to eat his meals. Coupled with his bad posture and flat chest, this smoking, especially the intense inhaling which is his customary procedure, would have a tendency to weaken his condition in such a manner as to ultimately bring about a tubercular condition or some other pulmonary infection. This, to my mind, is no insignificant matter in his case but an extremely serious one that should be tackled at once. So much for the physical side, because with the exception of these two items, I believe John to be in splendid physical shape.

A more subtle and difficult aspect remains to be touched upon. This is unquestionably an unconscious product of his life so far. One way of putting it would be to say that John apparently has always had everything come easy to him and he has always been "riding on top of the waves" without any undue effort on his own part. The attitude of mind in the background of his mental complex appears to lack what might be called "sufficient iron in the soul." Apparently life has always been easy to him, he has never had to struggle grimly with terrible realities and, therefore, unconsciously he has the tendency toward becoming what might be called a dilettante. Naturally John is not to blame for this but rather our whole social and economic system tends to work out that way. It is a very familiar thing to me because of my own past experiences. The astonishing thing to me about it is the truly remarkable way in which John has failed to be spoiled by it. His friendliness, democratic spirit, and his entire refusal to be "high-hat" with those about him, is a splendid tribute to the basic good stuff that is in him. But nevertheless, it is quite evident that John has been heavily inculcated with the same kind of social atmosphere that is found at Grotton, Lawrenceville, and St. Paul's Schools and Princeton, Harvard and Yale. Baldly stated, it is the psychology of making one's way by influence and association rather than by any hard work and personal achievement. I am astonished at how little he has of it but nevertheless I see enough of it to believe I should speak of it to you. It works out in such directions as having John tend to look at everything in life with a somewhat sophisticated and disassociated point of view. Carried to the extreme, which one frequently finds in older club men in New York or

Mrs. Roosevelt
Mr. Richards
August 8, 1935

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Boston, it is apt to work out into the development of a perfect snob and parasite. It is, I feel one of the unfortunate parasitic growths which have fixed themselves to some of our best, oldest, and most distinguished institutions. As I say, I see some of this in John, although I am very happy to say, a very small amount of it. Still enough, however, to tend to make his life useless if not unhappy if allowed to develop.

I do not like to go into this and stop here. Rather, with your permission, let me suggest a course of action which I believe might make all of the difference in the world in John's future. John is still little more than a boy. He has never undergone the continuous daily grind of hard, steady, grueling work for practical purposes in dealing with the usual run of common men and women. I believe that is exactly what he needs. If John could be persuaded not to go back to college this year but to take a real steady job for one or even two years, in much the same way as he has been working for the Forestry Division of the Tennessee Valley Authority, and then go back to college, I believe he would always be glad of it. In one or two years of good hard, practical work in the field, associating with the kind of men that he has been living with, who have had to hustle in getting their education and making a living, will give John a much better appreciation of what the common man is up against and what is involved in the building of a new and better America. At the end of two years, I believe he would know a great deal more about life and develop a much better idea of what he wanted to do with his own. He would then be ready to go back to college prepared to take serious advantage of the enormous opportunities offered him there and he would, therefore, correspondingly get very much more out of it. Being only nineteen years of age, this would involve little or no serious set-back and, I believe, would be of vast benefit to John in every way. I do not know how you will look at this suggestion but I would like to go on record as offering the warmest kind of a welcome to him if John should care to return to the Forestry Division of the Tennessee Valley Authority and throw himself in a really serious manner in the next couple of years into the big job down here. Not only would I be delighted to have him come but I know that many of the other men in the Forestry Division would be very happy indeed to have him join our ranks as a permanent member.

I trust that I have not abused my privilege in speaking frankly. I like John so well, however, that I cannot resist the temptation of writing this letter in the hope that something really permanently good for the boy may come of it.

Cordially yours,

Edward C. M. Richards

Edward C. M. Richards
Chief Forester

ECMR:KH

TENNESSEE VALLEY AUTHORITY
KNOXVILLE, TENNESSEE

May 4, 1936.

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PSF: TVA

Honorable George W. Norris
United States Senate
Washington, D. C.

Dear Senator Norris:

Until you spoke to me about it last Friday afternoon, I did not know that Chairman Morgan was actively opposing my re-appointment, and that he had told the President that if the President re-appointed me, he would resign. This situation presents such grave hazards to the project that naturally I am deeply concerned, and have since given the problem a great deal of thought. Hence this letter to you.

In the first place, it ought to be kept perfectly clear that this situation is not the result of personal incompatibility between members of the Board, nor is the problem merely one of composing personal differences. Insofar as I am concerned there is no personal friction existing between Dr. Morgan and myself which will prevent me in any way from continuing my work on the TVA Board. Nor need I say that never have I questioned, nor do I now question Dr. Morgan's sincerity, or the honesty of his motives. The responsibility which rests upon us as trustees of a great public issue makes personalities irrelevant.

The nub of the whole matter is that Dr. Morgan and I represent two different points of view upon a major problem of the Tennessee Valley Authority. That problem is: What shall be the relationship of the TVA to the private utilities? I am convinced that if the views of Dr. Morgan respecting TVA's policy and procedure on this crucial issue are adopted, there is grave danger that the objectives of the law and the policies of the President will be frustrated, although I am sure that that is furthest from the intentions of Dr. Morgan. My continued objection to Dr. Morgan's view, without question has been a source of irritation to him, and as a result I have earned his displeasure. As I view the matter, the life of the project in which I believe with all my heart is at stake. Hence I had no choice but to contend within the Board against the adoption of a course which I believe to be injurious.

The following are illustrative of the basic differences between Dr. Morgan's views and mine, as to which a choice of policy will be determinative of TVA's future course:

I. ATTITUDE IN DEALING WITH THE PRESENT LEADERSHIP
OF THE UTILITY INDUSTRY

The Tennessee Valley Authority came into being against the bitter hostility of the private utilities. That hostility, far from abating, has continued. It has been my view that in dealing with the private utilities we must recognize the existence of these facts. From the very first days of the Authority, Dr. A. E. Morgan and I have, however, had two different viewpoints on the relevance of this record of past experience. These two points of view were illustrated clearly in a concrete situation of great importance, namely, the terms of a proposed contract with the Commonwealth and Southern group of utilities in the Southeast. This contrast of views on policy in this matter has continued, and with the imminent expiration of that contract, the issue is again of utmost importance.

It seemed to me in working out our relations with the private utilities at that time--and the necessity is equally urgent today--that it was a matter of the utmost practical importance whether we proceeded on the assumption that the utilities would cooperate wholeheartedly in giving the project a fair chance of success, or would continue their unrelenting effort to defeat the enterprise. My point of view in this respect, then and now, is summarized in the following paragraph of a letter to Chairman Morgan dated July 21, 1933:

"Candor compels me to say that I am most skeptical that we can hope for genuine 'cooperation' with the private utilities which would involve a voluntary relinquishment by them of part of territory they now serve exclusively. Nevertheless, as specific situations arise you may be sure that I will make every effort to reach conclusions with the private utilities which will be fair and reasonable, as I often have been able to do in the past. But to premise our power policy at this time on the willingness of the privately owned utilities to work with us, seems to me to be running counter to every reasonable expectation under the circumstances, and what is vastly more important, to expose the work of the Authority to the gravest hazards."

On this matter, Dr. Morgan has entertained and still holds a different point of view. His view is illustrated by the following paragraph, which Dr. Morgan proposed, at a Board meeting on July 12, 1933, to include in a letter to Mr. Wendell L. Willkie, President of the Commonwealth and Southern Corporation:

"When I talked with you recently, we each assured the other that we would try to reach a friendly agreement and endeavor to find some basis for relations other than an uneconomical contest for position. I assured you that the Tennessee Valley Authority agreed it would not adopt a policy with reference to distributing power without a sincere effort

to that end. We have therefore not taken any steps to secure customers for Muscle Shoals power. When inquiries were made, we have replied that we would look into the matter. We have not visited a single locality to discuss the sale of power, nor have we invited anyone to come to see us for that purpose."

Upon objection, this paragraph was not included in the letter. On August 14, 1933, Dr. Morgan, referring to our failure to adopt such an approach to the utilities, wrote the Board:

"Our present course leads to uncertainty, misgiving and perplexity on the part of the Commonwealth & Southern Co."

TVA now knows, from an actual experience under a contract with Commonwealth and Southern Corporation, dated January 4, 1934, how naive and unwise it is to risk our electricity program on the promises of the utilities, or to assume we have their good will. This is now a matter of public record, and later in this letter I will refer more in detail to consequences experienced by TVA in relying upon the willingness of the utilities to deal fairly with the project.

Despite this record, Dr. Morgan continues to express confidence in his position that we can secure the cooperation of the utilities in working out the TVA project under fair and reasonable conditions. With all respect, I do not believe the Board of TVA, however constituted, is at liberty to theorize about this situation. Experience shows that this is a fight for the very existence of the President's program, against a ruthless and well-financed antagonist.

II. AGREEING WITH THE UTILITIES TO BAR PUBLIC AGENCIES OUTSIDE A DEFINED RESTRICTED AREA FROM ACCESS TO TVA POWER

As the TVA law now stands, public non-profit agencies and domestic and agricultural users are given a preference with respect to TVA power. The only restrictions upon TVA in selling its power are those arising out of physical limitations and business facts.

As you recall so well, perhaps the bitterest fight over Muscle Shoals was the effort to restrict power sales to the powerhouse, by denying the Authority the right to construct transmission lines to serve municipalities. Having lost that fight, it is now the avowed purpose of the utilities to confine the area in which TVA's power can be transmitted, so that the Authority will be barred from serving outside such restricted area. In consideration of such a limitation, the proposition is that the utilities in that restricted area will contract to sell their facilities and market to the TVA and the municipalities. A decision upon such a proposal will be made within the next few months.

Dr. A. E. Morgan has always strongly favored this policy of area restriction, suggesting as an area substantially the watershed of the Tennessee River, the restriction to endure for a considerable period of years. This is his view today, as stated to the Board recently. I have always been opposed to this policy as you know. For example, in a lengthy memorandum to the Board, discussed by the directors on October 13, 1933, I opposed that policy and gave my reasons. I still oppose such a policy, for the following reasons, among others:

1. These dams are constructed with national funds because there is a national interest in the development of this river. Likewise, there is a national interest in having the electricity incidentally developed utilized in a manner that best serves the national interest, and not restricted to any particular area, excluding others which can be served with equal economy and whose needs are equally great.

2. The restricted area plan requires for minimum success, that the utilities sell their distribution properties. At the present time, their promise to do so is worth very little and should not be made the basis for a restriction on the United States government which will be operative through years of litigation, while TVA meanwhile is smothered.

3. Everyone, of course, wants to avoid impairment of actual investment in useful property of private utilities. But there are other and better ways to avoid this injury which do not at the same time limit the benefits of a natural resource to a fraction of the people to whom it can be made available. One such method is by the pooling of private and public power resources in the Southeast, and making that cheap pool of electricity available both to private utilities and public agencies, to be transmitted over a commonly used transmission network to the city gate of all communities at a pool rate.

4. TVA should, of course, enter into suitable contractual relations with the utilities, but not if the price of those contracts is that the hands of the federal government and the municipalities are tied. It is my view that proper contracts include the purchase of utility property at a fair price, contracts for sale and interchange of power, leasing and common use of lines, etc.

Out of deference to Chairman Morgan's strongly felt opinion respecting territorial restrictions and in the interests of internal harmony, in January, 1934, on behalf of the Board I negotiated a short-term restrictive territorial agreement with the Commonwealth and Southern Corporation. The agreement, as to restriction, represents a compromise between Chairman Morgan's views and mine. That contract as it affected the Alabama Power Company was a fair experiment in the principle. TVA agreed to stay out of the utility's "territory" except for a restricted area; the utility agreed to "use every reasonable effort" to sell its distribution facilities in that area to the municipalities.

The history of that contract you know. TVA observed the territorial restriction. How lightly the Company's duty to observe that contract weighed on the utility, and how it treated its obligations as a co-defendant is all a matter of record. In not a single municipality out of fourteen has the Company sold its facilities to the cities, nor did it ever make them more than a perfunctory offer to sell. In spite of a public statement from Mr. Willkie pledging the Commonwealth and Southern Corporation and its southern operating units "to the fullest cooperation" to make the provisions of the contract effective, it was revealed in July, 1935, that the Edison Electric Institute had paid \$50,000 to Mr. Forney Johnson of Birmingham, Alabama, as the first payment of a fee in litigation to upset that very contract. Mr. Willkie is himself a member of the board of trustees of the Edison Electric Institute with which two officers of the Alabama Power Company are also prominently associated, and it is to be assumed that the funds of the Edison Electric Institute are furnished by its members. The conclusion is inescapable that the Commonwealth and Southern Corporation and the Alabama Power Company contributed to destroy the solemn covenant that they had entered into with an agency of the Government of the United States.

In further violation of the obligation of the Company in this respect, you will recall that the Alabama Power Company filed a brief in the Supreme Court of the United States in the Ashwander case, as co-defendant with the Tennessee Valley Authority. In that brief the Company openly allied itself with the plaintiffs in an effort to have the contract to which it had been a party invalidated and the statute creating the Tennessee Valley Authority held unconstitutional.

That contract expires in November, and in the face of this experience with a restrictive contract, and with the existence of superior alternatives from the public standpoint, I am convinced that the proposition the utilities now make for another such contract on a broader scale should not be agreed to. Dr. Morgan, with equal sincerity, believes such an arrangement imperative. He said to the Board only the other day that the program respecting power as thus far developed lacks public support and will fail unless his view in the matter is acted upon.

These are the essential matters in this present difficulty. They are, at least so far as I am concerned, matters of principle and not of personality. I would not be loyal to the project and to the President if I did not continue to contend for a course which I believe essential to our ~~essential~~ objectives.

Faithfully,

Dwight D. Eisenhower

May 4, 1956

Honorable George W. Norris
United States Senate
Washington, D. C.

Dear Senator Norris:

Until you spoke to me about it last Friday afternoon I did not know that Chairman Morgan was actively opposing my re-appointment, and that he had told the President that if the President re-appointed me, he would resign. This situation presents such grave hazards to the project that naturally I am deeply concerned, and have since given the problem a great deal of thought. Hence this letter to you.

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That contract expires in November, and in the face of this experience with a restrictive contract, and with the existence of superior alternatives from the public standpoint, I am convinced that the proposal on the utilities now make for another such contract on a broader scale should not be agreed to. Dr. Horgan, with equal sincerity, believes such an arrangement imperative. He said to the Board only the other day that the program respecting power as thus far developed lacks public support and will fall unless his view in the matter is acted upon.

These are the essential matters in this present difficulty. They are, at least so far as I am concerned, matters of principle and not of personality. I would not be loyal to the project and to the President if I did not continue to contend for a course which I believe essential to our ~~economic~~ objectives.

Faithfully,

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TENNESSEE VALLEY AUTHORITY

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BOARD OF DIRECTORS
ARTHUR E. MORGAN, CHAIRMAN
HARCOURT A. MORGAN
DAVID E. LILIENTHAL

May 7, 1936

Mr. ...
...

Honorable George W. Norris
Senate Office Building
Washington, D. C.

Dear Senator Norris:

Further supplementing my letters concern-
ing the contract between the Tennessee Valley Authority and
the Commonwealth & Southern Corporation, I should like to
have you read the attached letter from Mr. Willkie dated
April 11, and my reply of April 25, 1936.

Faithfully yours,

David E. Lilienthal

David E. Lilienthal
Director

Encl.

COPY

Knoxville, Tennessee

April 25, 1936

Mr. Wendell L. Willkie, President
The Commonwealth and Southern Corporation
Twenty Pine Street
New York, N. Y.

My dear Mr. Willkie:

Your letter of April 11, as I wrote you the other day, raises some really difficult problems. I have deferred writing you until I could talk the matter over with the members of the Board and give the subject some deliberation.

In your letter you write: "I intended to say to you, and I was not quite clear on reflection whether I did, that I would urge on the Alabama Power Company that the distribution lines located in the above territory be sold now either to TVA, if it has the right to acquire, or to the respective municipalities provided an additional mutually agreeable period of territorial integrity and protection be given to the balance of the territory in which the company operates. In other words, it is my belief concerning this particular area allocated to public operation, that as an inseparable part of it there should be protection to the utility company as to the balance of the territory." (Underlining mine.)

This position is difficult to understand in at least two respects:

1. You are adding new and additional terms and conditions to the contract of January 4, 1934.

In your April 11 letter you offer to do nothing which you are not now obligated to do under the contract of January 4, but as a condition of compliance there must be additional promises moving to you in the form of "additional mutually agreeable period of territorial integrity and protection to be given to the balance of the territory in which the company operates."

2. What you now say you will agree to do with respect to these municipal distribution systems you agreed to use every reasonable effort to do under the present contract.

It is fair to ask: What reason is there to believe that if the Alabama Power Company again agrees "That the distribution lines located in the above territory be sold now . . . to the respective municipalities" (to use your language), that such an agreement will be carried out, when the same promise to sell, likewise coupled with the territorial agreement, did not result in a single sale in any one of fourteen towns, under the

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Mr. Wendell L. Willkie - April 25, 1936 - Sheet #2.

present contract obligation of Section 5, an obligation which is still outstanding and undischarged? This question is all the more difficult to answer when it is recalled that, after having entered into a contract with the Tennessee Valley Authority on January 4, 1934, the Alabama Power Company nevertheless urged the Supreme Court of the United States to invalidate that contract in litigation in which the Alabama Power Company was a co-defendant with the TVA.

These doubts are pertinent. They are not expressed in a spirit of contention, but because these are questions which stand in the way of mutual understanding in the present and in the future.

Faithfully yours,

David E. Lillienthal
Director

DEL:JH
Copy to Dr. A. E. Morgan

COPY

COMMONWEALTH & SOUTHERN CORPORATION

20 Pine Street

New York

April 11, 1936.

Mr. David E. Lillenthal
Tennessee Valley Authority
Knoxville, Tennessee

My dear Mr. Lillenthal:

Apropos of our telephone conversation last night, there was one point on which, on reflection, I was afraid I did not make myself clear to you and I am writing you because I am quite anxious that you do understand my position on it.

If my recollection serves me correctly, the original agreement of January 4, 1934 provided that the Alabama Power Company should sell to the TVA the transmission lines in certain designated counties in northern Alabama and that for a period of three months after the execution of that agreement, the power company should negotiate with the municipalities located in such area concerning the sale of the respective distribution systems to such municipalities. The agreement with reference to the sale to the municipalities of the distribution lines came to naught because the negotiations resulted in no sales. Thereafter, on August 9, 1934, the TVA took an option on these distribution lines at certain specified prices. This option expired without exercises.

The question on which I want to be sure that you understand my position is as to the position of the power company with respect to these distribution systems entirely aside from whatever may be the respective legal rights under the various agreements. I intended to say to you, and I was not quite clear on reflection whether I did, that I would urge on the Alabama Power Company that the distribution lines located in the above territory be sold now either to TVA, if it has the right to acquire, or to the respective municipalities provided an additional mutually agreeable period of territorial integrity and protection be given to the balance of the territory in which the company operates. In other words, it is my belief concerning this particular area allocated to public operation, that as an inseparable part of it there should be protection to the utility company as to the balance of the territory.

Also so that you may understand my position and so that any future course of action of ours may not be misunderstood, we expect to oppose completely and to the utmost of our ability, the granting of PWA loans to these or any other municipalities, as I believe that the allocation of a particular territory to public operation should include the purchase of the facilities of the utility in such area rather than duplication

- 2 -

of them through grants and loans by the Federal Government.

I was fearful that I did not make this clear, particularly this last point, and I did not want any possible misunderstanding to arise.

Yours very truly,

Wendell L. Willkie, (signed)
President

TENNESSEE VALLEY AUTHORITY
WASHINGTON

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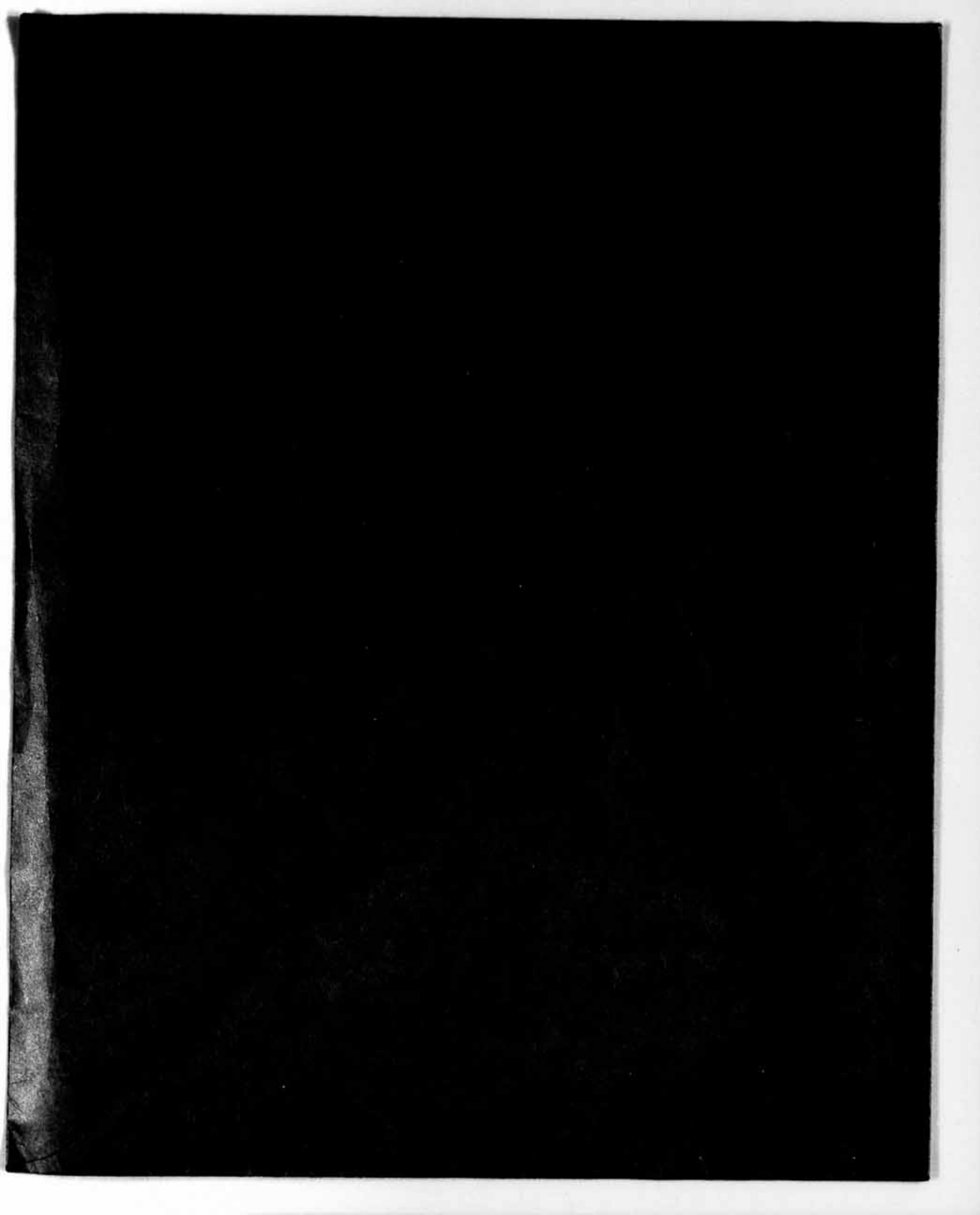
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*Box
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Senator George W. Norris
Senate Office Building,
~~██████████~~



PSF:TVA

Sen - Dinner - 36

May 15, 1936.

Dear Arthur:-

Monday, May eighteenth — is the date of the expiration of Mr. Lilienthal's term. I do not wish a vacancy to exist and it is, therefore, necessary for me to decide matters one way or the other today. All things considered, I deem it in the national interest to send his name to the Senate; in fact, I see no alternative.

From the practical point of view, failure to reappoint him would immediately be regarded by every individual agency and corporation in the United States opposed to the basic principles of my Administration and all of the principles involved in the Tennessee Valley projects of every kind, as the first victory against your fundamental beliefs and mine.

In regard to the two principle matters which you and I discussed, I am wholly willing, and I am sure you and Mr. Lilienthal would agree, that some other government agency, such as the Federal Power Commission, should examine into the rates for electric power in the Tennessee Valley and the methods of arriving at rate bases. Furthermore, in regard to general administration, I am entirely willing to discuss immediately the advisability of a General Manager who would coordinate the many kinds of work now under the separate jurisdiction of three Commissioners.

I ask you, my dear Arthur, to consider not only the big fundamentals involved, but also two other considerations: First, that the TVA is the first of, I hope, many similar organizations and that we are all in the formative period of developing administrative methods for a new type of government agency; second, my own personal problems. In regard to the latter, I have told you of the somewhat heavy load which is on my shoulders at the present time. I ask your sympathetic consideration.

If you are to be here next week, come and lunch with me.

Always sincerely,

Dr. Arthur E. Morgan, Chairman,
Tennessee Valley Authority,
Washington, D. C.

... I am not a ...

CROSS-REFERENCE (Name, number, or subject under which this form is filed)	➔	PSF: Tennessee Valley Authority
IDENTIFICATION OF RECORD	DATE	May 18, 1936
	TO	Franklin D. Roosevelt
	FROM	Arthur E. Morgan
	BRIEF SUMMARY OF CONTENTS	Reply to FDR's letter of May 15
FILED (Name, number, or subject under which the document itself is filed)		O.F. 42

PSF
TVA

Memorandum on Power Pooling, by Arthur E. Morgan, dated September 28, 1936, copy of which was transmitted to you.

"The Power Issue and the TVA", by A. E. Morgan

Published in New York Times, January 17, 1937.

"Multiple Purpose River Control", by A. E. Morgan

Address before the 32nd Annual Convention of the National Rivers and Harbors Congress, Mayflower Hotel, Monday, April 26, 1937, Washington, D. C.

"Power and Democracy", by A. E. Morgan

A lecture given before the Department of Contemporary Thought, Northwestern University, Evanston, Illinois, July 1, 1937.

"Yardstick--And What Else?", by A. E. Morgan

Saturday Evening Post, August 7, 1937.

PSF:TVA

~~Confidential~~

MEMORANDUM

ON A

PROPOSED TVA AND COMMONWEALTH AND SOUTHERN CORPORATION

POWER TRANSMISSION POOL

by

Arthur E. Morgan

September 28, 1936

MEMORANDUM ON A PROPOSED TVA AND COMMONWEALTH AND SOUTHERN CORPORATION

POWER TRANSMISSION POOL

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September 28, 1936

MEMORANDUM ON A PROPOSED TVA AND COMMONWEALTH AND SOUTHERN CORPORATION
POWER TRANSMISSION POOL

by

Arthur E. Morgan

PART I -- GENERAL CONSIDERATIONS

I should like to present some personal views concerning the proposed organization of a power transmission pool, initially to include the transmission lines of the Tennessee Valley Authority and the southeastern lines of the Commonwealth and Southern Corporation.

1. For negotiations concerning a power transmission pool to be fully successful, there should be agreement on the ends sought and on points of view which are to control.

Reasonable Demands of the Public

2. I believe that the government would be reasonable in expecting the following points of view to be accepted:

a. The generation, transmission, and distribution of electric power through the medium of public utilities, which exercise the right of eminent domain and have some degree of recognized monopoly, is affected with a public interest, and is a public and not merely a private matter. Whereas in private competitive business there may be no implied contractual responsibility to render maximum service, and in fact service may be offered only to the degree necessary to insure maximum profit, in public business

like electricity, on the contrary, the widest and best possible service is the primary consideration, and profit can be demanded only to the degree reasonably necessary to insure adequate capital, competent management and progressive development of such service.

- b. It is the right and the duty of government to find ways to give all reasonable encouragement to greater and more diversified use of electric power by promoting conditions which will make it universally available at the lowest possible cost that will attract adequate capital and service, and that will be consistent with other public considerations, such as fair wages and working conditions, fair dealing with necessary investments, and regard for natural resources.
- c. Participation in the generation, transmission, and distribution of power, within constitutional and statutory limits, is a proper and normal function of government. Whether distribution of power can be most satisfactorily administered by public or by private agencies is not for private agencies arbitrarily to determine. Choice between public and private ownership of power distribution facilities may reasonably be left to the free play of trial and competition, with such regulation as the public

interest may dictate. The people of any properly delimited power distribution area should have a right to determine in appropriate manner whether they shall serve themselves with electric power or be served by private industry. Such determination may rest on other considerations than rates, and may take account of such incentives as desire to furnish service to marginal areas, or to make the administration of electric power distribution a home industry and thereby reduce the export of money.

- d. A private utility in the proposed pool should continue to be reasonably aggressive in extending and promoting the use of electric power. In case a private utility should lose interest and activity in this respect, as determined by impartial inquiry, provision should be made for the pool or other agency to make up the deficiency.
- e. Litigation can be and sometimes is a form of obstruction, delay, and coercion. Even after an agreement is apparently reached, it can be largely nullified by indirect legal attack. There should be no restriction of opportunity for bona fide legal determination of constitutionality, of statutory authority, or of merits, but, wherever peace has been declared and a working agreement

reached, litigation as a form of obstruction and coercion should not be resorted to or condoned. Though there can be no explicit determination as to when this principle is fully observed, sincere intent or lack of intent to observe it can generally be recognized, and mutual good intent can usually find ways to avoid or remove such obstruction.

Reasonable Demands of Private Investors

3. I believe that the trustees for private investors would be reasonable in expecting the following points of view to be accepted:

- a. The electric power industry is a legitimate industry, vital to the country. Prudent investment in that industry has been a public service, deserving all the consideration which is due to actual necessary investment in any field. Private industry and private capital in the electric power industry have a right, in the absence of major obsolescence, such as depopulation of a community or very great changes in the art, to ask for reasonable returns on the fair value of used and useful property devoted to the public service. They should not be compelled to surrender legitimate, prudent, and economically

valuable private investment without fair compensation. While the private utility should receive fair values for used and useful property devoted to the public service, it is even more important that public bodies operating distribution systems shall account for property and services at their full fair value. They are entitled also to fair compensation for services and management, including services in initiating and insuring useful developments. Everyone knows that men of capacity cannot and will not under take the effort, financial expenditure, and risk required in effort to create a great productive organization, unless success in such undertaking may be in some way compensated. To deny such compensation is to compel subterfuge. Open recognition and measurement of such services is in accord with public morals and public policy. Industry and capital have a right to these protections and compensations, but not to any income on inflated capital, arbitrary control, or privileged position.

- b. Determination of rates, values, representation on governing boards, delimitation of distribution areas or other matters which affect vital interests concerned with a power pool should, except as otherwise provided by statute, be made by persons or boards satisfactory both to the government and to the private utility involved. A very desirable course would be for each

side to select one person who is approved by the other, and for these two to select a third. Failing in this degree of cooperation, standard arbitration methods could be used. While the government in its sovereign capacity should determine public policy, yet, where the government is in some degree in the position of an interested proprietor, it would not conduce to mutual confidence, nor would it be ~~best~~, for the government to insist that any public officials or agencies which have been aggressive in favor of any point of view or policy on the power issue be the sole determiners of such matters as values, representation, or delimitation of areas where private utility interests are involved in the organization and administration of a pool.

- c. Whether electrical distribution systems are publicly or privately owned and operated, the actual working personnel which is responsible for such operation constitutes an organized industrial corps, with skill, morale, and life interest in their work which should be recognized and respected. A private utility in transferring properties to the public would be justified in asking that its responsibilities to its personnel be assumed by the new management, subject to evidence of the competence of such personnel and its loyalty to the public project.
- d. The private utilities would be taking part in negotiations

as trustees for the investors of several hundred millions of dollars in a highly-developed industry serving an area larger than England. They are responsible for the protection of those investments and are justified in asking such protection insofar as it is in accordance with sound public policy. They may be asked to give up considerable fiscal and administrative control. They would be remiss in not asking for a high degree both of competence and impartiality in appraisals or in administrative organization in creating a power pool. They would be remiss, too, if they did not demand protection against arbitrarily being put in a defenseless position. Any program for a power pool must have in mind the protections and conditions which fair-minded trustees must of necessity ask.

- e. As a condition to a working agreement, the private utilities would be justified in asking the TVA for a definition of its power policy and program, in order to remove what they claim to be a very real but undefined threat now hanging over them of uncompensated dismemberment and duplication of facilities, and which they claim now interferes with favorable refinancing, menaces the efficient conduct of business, and thereby delays reduction of rates, and puts them at an arbitrary disadvantage in relation to public power agencies.

Mutual Confidence

4. After agreement on the aims to be achieved, or as a condition to such agreement, the primary requirement for success in negotiating a power transmission pool is ~~mutual~~ ^{mutual} confidence. In a situation where such confidence has been inadequate and where at best it can be developed only gradually as it is fostered by favorable experience, it is particularly important that all proposals be characterized by thorough-going reasonableness and fair-minded recognition of the legitimate interests of both sides. If each side in negotiating tries to retain all possible arbitrary advantage and to exploit every need or disadvantage of the other in a process of ruthless strategy to drive the sharpest possible bargain, the undertaking probably will not fully succeed, and each side will soon have plausible basis for accusing the other of bad faith. Quite possibly the whole undertaking to create a power pool might fail. Only a sincere effort by each party to discover and to recognize the reasonable requirements of the other can be fully successful. In case either side takes a position which to the other side seems arbitrary or unreasonable, the proper remedy is not a counter unreasonableness or arbitrariness, but a persistent exploring of that particular position until it is surrendered or justified. Except insofar as these considerations are recognized, we may have only a competition of partisan viewpoints with a temptation to jockey for position before the public. Negotiation then will not be a process of peace making, but only a change in the form of ruthless warfare.

5. During my first discussion with the President on the power issue in the spring of 1933 he indicated, as he has since done repeatedly, that he much desires to find a fair basis for settlement, which will secure to the public the full advantage of economically generated, transmitted, and distributed electric power, and the right and free opportunity of the people to determine for themselves whether they shall serve themselves with electricity or shall be served by privately owned utilities.

6. Wherever he has been convinced of a willingness to seek a solution in harmony with the principles he has publicly stated, he has expressed desire to meet it with a genuine effort to secure reasonable recognition and protection to useful, prudent investment, and useful service. I believe that during a period of negotiation the public interest will best be served by sincere, patient, and persistent efforts to discover the conditions of fair dealing for both parties and for the public. The beginnings of mutual confidence are created with difficulty and are easily destroyed. Success or failure in this respect, rather than the technical difficulties involved, will determine the outcome of the negotiations.

PART II - GENERAL DISCUSSION OF POOL

7. Inasmuch as the British grid system is pointed to as the outstanding example of coordination of electrical facilities, it may be helpful to observe the conditions of the electrical industry in Britain prior to the creation of that system.

8. There were 494 generating stations. The kind and type of energy generated was not uniform. Some stations generated direct current, some stations alternating, some both alternating and direct. The alternating generating stations were of different phases and frequency and voltage. The sizes of stations and units of generation were small. The average capacity of British complete generating stations totaled but 7500 KW, whereas the average capacity of American stations would be much larger. The combined load factor was only 30% whereas the load factors of different units of the Commonwealth and Southern's southeastern system range from 49.8% to 58%, and in the aggregate, while less than these figures, is substantially greater than the British. There were but eight British stations with fuel consumption under two pounds per KWH, whereas in the best American practice the consumption is approximately one pound, and the American average is about 1.47 pounds. The aggregate energy sold was 6022 million KWH and the installed capacity 3,723,000 KW. The Commonwealth and Southern's southeastern system in 1935 sold 2900 Million KWH with approximately 1,229,000 KW of installed capacity, that is, one third as great capacity produced half as great output.

9. Even if no grid had been organized, it was imperative that something be done to bring about a service of like kind and type to the different cities and communities, so that equipment and appliances could be standardized for universal use. Even today there are 43 kinds of service voltages. This condition greatly retards the installation of appliances and greatly hinders the development of use of electricity. In America all such difficulties are already substantially eliminated.

10. The British possibilities of making savings and of increasing use are enormous. The principal factors of such savings will be available just as soon as distribution characteristics are standardized, more transmission facilities are provided, and the most efficient units of the existing properties generate the greater part of the energy. Not only will ~~fuel~~ be saved, but many of the inefficient stations will be shut down because of the diversity factor resulting from serving the load from a pool of power. Larger generating units with much higher efficiencies can be added and will bring about further savings. Less capacity will be required to supply the growth of the industry. Water power generation is not an important factor.

11. In comparison with the English situation, the Commonwealth and Southern's southeastern system, which, aside from the TVA system, is the only property suggested for initial membership in the pool, has already achieved many of these economies. Apart from the obvious advantages of cooperation as contrasted with uncoordinated competition, the greatest possibilities for further great economies in generation of energy by means of a pool would perhaps relate to supplying the growth of the industry from the most efficient sources

of new power, and, in association with the TVA, in the continuation of unified sources of power after the expiration of the present interchange and sale agreement. The Commonwealth and Southern is becoming hard pressed for a supply of energy to handle its present business during periods of low water and to provide for new business. Cooperation with the TVA will enable the Commonwealth and Southern to handle its load requirements without the use of inefficient plants, and without making immediate large investments in new facilities.

Complexities of the Total Project

12. The full development of a power pool, including all the transmission properties of the TVA and of the Commonwealth and Southern Corporation, is a very great undertaking, unprecedented in some respects for our country, involving many complex issues, important both to the public and to private investors, and requiring considerable time and a continuous and large supply of capital.

13. In arriving at the approximately complete and fully integrated pooling of resources, it might be necessary to make a satisfactory and mutually agreeable determination as to which transmission lines and perhaps generating stations should be taken into the pool, and to make new and separate appraisals of the value of generating stations and transmission and distribution lines from the standpoint both of the investment involved and of value to the pool. Execution of the ultimate project might in effect result in the guaranteeing by the pool of the fixed charges on all selected generating stations and transmission facilities at some pre-determined appraisal of value. In starting with the complete ultimate project instead of with a first

stage there would be required the immediate building-up of a complete pool organization. Boundaries of power distribution districts covering the entire area would need to be determined and described. Much more extended systems of records and accounting would be needed than for a limited first stage of a pool. There are many other complex problems, such as of personnel, equipment, accounting, taxes and new capital investment, which would have to be faced in working out the full development of a great pool.

A First Stage

14. Perhaps the most feasible way to approach the complete development is by a series of steps or stages. A simplified procedure might be adopted which would secure a large part of the total benefits of the ultimate project in the shortest possible time, and eliminate much of the uncertainty which may arise in the minds of trustees of private investments and of public undertakings concerning surrender of responsible control of their properties. This might be accomplished while keeping the road fully open for unlimited further development of the pool as experience should indicate such development to be desirable. If the TVA should supply power to large cities which are now served by utility systems other than the Commonwealth and Southern Corporation, then possible relations with such other systems should receive consideration in planning a pool.

15. Such a proposed first stage could be made to provide a satisfactory operating set-up capable of orderly and planned expansion into further stages at such times as agreements can be reached and preparations made, and as needs become apparent. It might be brought

about simply by a contract between the TVA and the Commonwealth and Southern Corporation, even without setting up a separate agency. The technical and administrative organization of such a first stage might take any one of several practicable forms. A discussion of these numerous alternatives is outside the scope of this memorandum on general principles and conditions.

16. The paramount benefit in any case would be from the pooling of power, from whatever source, and from its coordinated and economical transmission over a feasible area, by means of the pooled lines and by interchange arrangements over the entire systems involved. So long as power would come from selected stations and would have such unrestricted transmission, the question of whether or not the selected stations should be operated under direction of a pool would be secondary.

17. The problems relating to a limited basic transmission network are capable of much more ready determination and agreement than those relating to the generating facilities and to a widespread network of secondary transmission. The first stage might well restrict the pooling arrangement to the combined use of all transmission systems of TVA and selected transmission lines of the Commonwealth and Southern system, with interchange arrangements over the remainder of the Commonwealth and Southern system. To go beyond this and include generating stations, those transmission lines not immediately needed, and small distribution transmission networks, would immediately interpose some of the most difficult features of the plan.

18. The interest of the TVA in the unified control of the Tennessee River for navigation, flood control, power, and other purposes, will necessarily result in the creation of large power generating possibilities. The TVA should therefore have prior right to supply all new generating capacity in the region, so long as it can do so at costs comparing favorably with other power generating costs, and such TVA power should be made available to the pool. The determination of the cost of TVA power will include allocation of the total cost of river control between several purposes, especially navigation, flood control, and power.

19. I have purposely omitted discussion of technical and administrative organization, except where fundamental policies are involved. There are many feasible alternative possibilities for such organizations, which technical consultation can best solve. In my suggestions I have endeavored to eliminate the need for immediate new legislation, since to wait for such legislation might result in serious delay.

PART III -- REASONABLE CONDITIONS FOR A POOL

Suggestions as to Some Conditions Which Would Tend to Make it
Practicable for the T.V.A. and a Utility to Join a Transmission
Pool

20. Among the important conditions upon which the trustees for private investors might properly insist as considerations for joining a pool and making their transmission lines available for delivering competitive power are:

- A. The requirement that a community wishing to own and operate its own distribution system shall acquire the existing private system.
- B. The establishment of logical and normal area boundaries of distribution systems to be sold by private utilities to public agencies.
- C. Absorption by the pool of private generating capacity left idle due to the taking over of privately served distribution territory by public agencies which would then purchase power from the pool.
- D. A practicable technique for enforcing these and other reasonable conditions by the establishment of regulations.

21. Since agreement on these conditions would probably have to precede the establishment of a pool, I shall discuss them briefly.

A. Purchase of Private Distribution Systems by the Public
as a Condition to Receiving Pool Power or Interchange Power

22. As part of a proposed agreement the Commonwealth and Southern Corporation probably would be asked to agree to transmit power over any of its lines, for sale to any local distribution area. Such agreement might result in action by many communities to adopt public ownership and to purchase power from the pool. The manner in which a community now served by a private utility should transfer to public ownership and operation would be of great concern to the Commonwealth and Southern Corporation. Lacking some regulation, in many communities there might be temptation for unscrupulous persons seeking a dramatic political issue to advocate the purchase of the private property at a confiscatory price, with the alternative of duplicating facilities, and so threaten to destroy the private investment. A private utility could not reasonably be asked to enter into an agreement which would expose it to such a menace.

23. Provision should be made, as a condition to providing power to a public distribution agency in any community now served by a private utility, that the community should first purchase the existing distribution system and should pay other losses which, because of such purchase, unavoidably result to prudently and properly incurred investment. The determination of such costs and losses should be made by an impartial body chosen perhaps as suggested in paragraph 3-b of this memorandum.

B. Determination of Boundaries of Power Distribution Districts

24. The boundaries of political units, such as municipalities and counties, do not necessarily coincide with the normal and

economic boundaries of power distribution units. At present in territory served by private utilities, a municipality may be the center or hub of a radiating rural distribution system. For the municipality to take over the distribution system within the city limits and to refuse responsibility for the surrounding area, which is actually a physical part of the same distribution unit, would in some cases complicate the problem of service to the surrounding area, and from the standpoint of the private utilities might disrupt normal and economical distribution systems, taking away the most profitable central areas, and leaving the utility companies with physically uncoordinated and economically unprofitable fragments.

25. Moreover, one of the purposes of the government is to make electric power universally available at the least possible cost. Regardless of whether distribution systems are all publicly owned, or partly public and partly private, the determination of areas and boundaries for distribution units cannot wisely be left to be decided by a free-for-all scramble for the most profitable territory.*

* I saw that process take place in a state which enacted legislation to encourage the division of the entire state into an indefinite number of school districts, but left the number of districts and their boundaries to be determined by local initiative. Politically alert or favored communities rushed through proceedings to include as much territory as possible, expanding into prosperous rural regions which paid large taxes and avoiding areas of low income. The richer districts then built large permanent school plants, so that when deliberate effort was made to correct these errors, such correction was prevented or obstructed by heavy bonded indebtedness for school buildings, while other left-over communities were pitifully under-equipped and without adequate funds. The school system of that state has never recovered from that initial blunder.

26. To allow such irresponsible competition for territory by local authorities might result in unbalanced service, as well as in great loss to legitimate utility investment. To prevent this defect, as part of the process of working out a power transmission pool, the territory involved should be divided into normal distribution units, taking into consideration the general public welfare and reasonable regard for existing investments. Any community acting to take over the ownership and operation of its distribution system should be required to take over as a unit all territory within the prescribed boundaries. Private utilities also should recognize and conform to such distribution units. For purposes of this statement I will term such an area a power distribution district.

27. American state and local government has evolved varied and adequate procedures which can be adapted to nearly every problem that can arise with reference to the boundaries and interrelations of such power distribution districts. Such procedures are defined in drainage district, irrigation district, and school district laws, and relate to transfer of areas from one district to another, to the formation of sub-districts where only part of an area is ready for development, or where it may properly exercise local autonomy, to relations between districts, to the division or merging of districts, and to the settlement of the resulting financial and technical problems. From personal experience in drafting laws in several states and in administering numerous projects where such procedures were involved, I know that they are entirely feasible and practical. Regulations to the same effect could be anticipated in a contractual agreement in organizing a pool.

28. This predetermination of areas and boundaries of power transmission districts is not a detail which can be brushed aside and left for later determination. Such delay might result in great economic waste; would leave unfortunate areas without reasonable prospect for adequate service; and would leave private utilities without the protection to their investments which they are under obligation to demand, and which they probably would demand before entering into a pool of broad scope.

C. Absorption by the Pool of Displaced
Generating Capacity

29. As a condition of entering into a contract for a pool, allowing the use of its transmission lines to carry TVA power, a private utility may ask for provisions which would remove the alleged threat that low priced or allegedly subsidized TVA power might destroy investment in private generating facilities. To meet this issue, in case a large city or other large distribution area should acquire its distribution system from a private utility, which is a member of the pool and which heretofore had both generated and distributed such power, and in case as a result of such transfer of distribution area from private to public ownership the private company should lose a market for a large generating capacity, then reasonable protection should be given to the private generating capacity so released. The contract creating the pool might provide that in such case the pool would absorb the generating capacity so released, at such a power rate, and to the degree, and for a period, which impartial appraisal might determine to be necessary to prevent arbitrary loss of reasonable, prudent and theretofore useful investment in the private generating capacity involved.

D. A Key to the Enforcement of Pool Administration

30. The Commonwealth and Southern Corporation, in turning over transmission lines to a pool, or in agreeing to interchange arrangements to serve any distribution area, can by contract agree that such privileges shall extend only to power distribution districts or other customers which have met certain reasonable requirements. For the regulation of such customers in accordance with the policies of the pool, no legislation would be necessary, but only contractual arrangements. This provision for entering into contractual relations with present owners of transmission lines, as to the conditions under which power will be transmitted over such lines to public agencies, may be a key to the regulation of agencies receiving pool power, and with that key the regulating benefits of a pool may be achieved in a constitutional manner and without the delay of seeking further legislation or interstate compacts.

31. Among matters relevant to regulation would be:

- a. The requirement that a public agency, before displacing private distribution with public distribution, shall purchase the existing distribution system, and pay incidental costs or damages, as discussed in paragraphs 22 and 23.
- b. Reasonable assurance that competent personnel, not in policy forming positions, and who will be loyal to the new undertaking, will not be arbitrarily discarded during or after the transition from private to public ownership.
- c. The determination of suitable boundaries of a power distribution district or other distribution unit

as discussed in paragraph 24 et seq.

- d. The absorption by the pool of generating capacity lost to a private company by the adoption of public ownership, as discussed in paragraph 29.
- e. The use of uniform accounting methods with full publicity of accounts, in order to make possible genuine comparison of power distribution costs.
- f. Agreement to serve the distribution area reasonably and efficiently.
- g. Agreements on technical matters such as joint use of lines.
- h. Under this arrangement could be included requirements for uniform or standard resale rates, if that should be desirable.

No Obstruction to Public Ownership

32. As a condition to entering the pool, the parties should agree that, after formal decision has been made in legal manner, by properly constituted public authority, supported by vote of the people, to acquire any properly delimited part of privately owned distribution facilities, and when such public authority has met the conditions for such acquisition which are set out in the contract between the TVA and the Commonwealth and Southern Corporation for organizing the pool, such as sale price, damages, and determination of boundaries of distribution areas to be acquired; then neither party will interpose or condone obstacles to the acquisition by such public agencies of such portions of privately owned distribution area and facilities, but will cooperate in good faith in facilitating such acquisition.

PSF
TVA

Gen Corres
Drawer 2-37

Dec. 30, 1936

Remarks of Arthur E. Morgan
T.V.A.
At annual meeting of the American Economics Assn.

Letters of Jan. 4, 1937-from Morris L. Cooke attached.

SEE--Gen-Corres-Morris L. Cooke-Drawer 2--1937

file
HAR

TENNESSEE VALLEY AUTHORITY

Washington

PSF: T.V.A.

BOARD OF DIRECTORS
ARTHUR E. MORGAN, CHAIRMAN
HARCOURT A. MORGAN
DAVID E. LILIENTHAL

March 5, 1937

MEMORANDUM TO THE PRESIDENT

From: Harcourt A. Morgan, Vice Chairman
David E. Lilienthal, Director

We have come to you for your counsel. Recent events have made it plain to us that the Chairman of the TVA Board is actively cooperating with Mr. Wendell L. Willkie in such a manner as to prevent the Board from carrying out its obligations to the President and the Congress. We therefore feel that we must report the situation directly to you.

Our conclusion is based upon a series of events, culminating in disclosures set out in a memorandum from Dr. A. E. Morgan to Mr. Lilienthal dated February 24, 1937, the text of which we attach. The essentials of his memorandum were prepared in collaboration with Mr. Willkie in a private conference after the Board had taken action adverse to Mr. Willkie's proposals. (See underlining on page 3 of the attached memorandum.) The significance of this document is illuminated by Dr. Morgan's Memorandum on Pooling of September 28, 1936, and his lengthy attack on the Administration's power policies which appeared in the New York Times of January 17 and throughout the country.

Although the principal importance of the Chairman's memorandum to Mr. Lilienthal lies in the disclosure of collaboration with Mr. Willkie, it may be well to explain the subject-matter of the memorandum. It charges that Mr. Lilienthal's letter to Mr. Willkie of January 29 gives a false view of Mr. Willkie's position. That letter was in response to Mr. Willkie's letter of January 22 to Mr. Lilienthal, copy of which Mr. Willkie sent to you.

A majority of the Board, after a study of the whole record and after hearing Mr. Willkie for several hours, was of the opinion that the letter of January 29 correctly set out (1) the offer of the Authority, i.e., to sell TVA power to Mr. Willkie's companies, but not to the exclusion of sales to public agencies, and (2) Mr. Willkie's response to that offer.

The critical significance of Dr. Morgan's memorandum, however, is not whether a majority of the Board was correct in its interpretation of the situation. The chief importance of the memorandum is that it demonstrates that Dr. Morgan is unwilling to abide by a decision of the Board, and on the contrary is actively collaborating with Mr. Willkie in opposition to the Board's action, by building up an adverse record and casting discredit upon the Board's good faith.

Many incidents of cooperation with the opposition form the background for this latest disclosure. At the time of your Power Pool Conference of September 30, Dr. Morgan privately made available to Mr. Willkie and the opposition press copies of his Memorandum on Pooling which we believe you have seen. That Memorandum was prepared with the aid of the former Chief Engineer of the Insull Middle West Utilities Company. With the type of proposal for pooling made in that Memorandum we believe you are familiar. Following this came Dr. Morgan's public statement of January 17, appearing in the New York Times and throughout the country. This criticism of the Administration has been effectively used by the utility industry and the entire opposition press as part of the utilities' program to influence public opinion against your policies and thereby obstruct the Administration.

This situation, we feel, handicaps if it does not indeed tie the Authority's hands in working out its electric problems. Hence this report and request for your advice.

Harcourt & Morgan
David E. Silienthal

COPY

Mr. David E. Lilienthal
Arthur E. Morgan
February 24, 1937

This is in reply to your memorandum of February 5 to the TVA Board. In that memorandum you quote parts of statements by Mr. Willkie, but you omit other statements by him. Taking the situation as a whole, it is my opinion that your letter of January 29 to Mr. Willkie (copies of which you said you had sent to the President and to others), and especially your statement to the press, made public immediately after the meeting of the TVA Board and Commonwealth & Southern representatives on February 2, give a very inaccurate impression of the situation, and may be very misleading to Congress, the President, and the public. I give below my reasons for that conclusion.

On January 29 you sent to the members of the Board copies of a letter addressed to Mr. Willkie, in which you presumably stated the attitude of his company, as determined in recent conferences with him. At the meeting on February 2 of the TVA Board and Mr. Willkie and others of the Commonwealth & Southern Corporation, I read to Mr. Willkie the following from that letter:

"3. Your companies are not willing to contract for the sale and interchange of power from TVA unless that contract bars the Tennessee Valley Authority from selling power to any other agency in any part of the vast areas in the four states in which your companies carry on operations. In other words, as a condition of the purchase of any power, your position is that the Tennessee Valley Authority must give you a monopoly which would prevent it from selling power to municipalities, rural cooperatives, or industries in any part of the four states in which you operate."

In the presence of the Board at that meeting I asked Mr. Willkie whether that statement represented the attitude of the Commonwealth & Southern Corporation, and he replied explicitly and unqualifiedly that it did not. I here quote from a memorandum I made directly after the conference:

"During the conference Mr. Willkie presented to each TVA director a typed copy of a statement, from which the following is quoted:

Mr. David E. Lillienthal
Arthur E. Morgan
February 24, 1957

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'Your Board asked me this afternoon to name what we had to suggest in regard to a solution of the present problem and relationship between the Tennessee Valley Authority and the utilities in which we are interested. Let me say that we are completely open-minded and will consider any solution.

'Among those which we have discussed at various times with representatives of the federal government are the following:.....

'3. The suggestion has been made that the government purchase all of our generation, transmission, and distribution systems; or buy one of our companies; or a lesser generation, transmission, and distribution system. If the TVA desires us to make a joint study of any of these possibilities we shall be glad to explore the same with them.

'It is our belief that if the federal government through the TVA desires to acquire some of our distribution systems, that there should be an understanding that the government will not compete with the balance of our distribution systems.....

'The above suggestions are not in any way exclusive as to the others. If the TVA has any suggested solutions we shall give them our best and immediate study.'

"In response to my questions Mr. Willkie indicated to the Board in greater detail the position outlined in the above paragraphs. He stated that, in purchase of Commonwealth & Southern properties by public agencies, he would not take the position that the entire Commonwealth & Southern property must be purchased as a unit, or that any one of the operating companies must be purchased as a unit. He said he would welcome a study to determine what would constitute reasonable and efficient distribution areas as units for purchase and operation. He indicated that when such reasonable and effi-

Mr. David E. Lillienthal
Arthur E. Morgan
February 24, 1937

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cient units were determined that they should be acquired by the public, if at all, as units, and that within any such units there should be no competitive distribution of power; that is, such units should be wholly publicly owned or wholly privately owned, thus avoiding the waste and inefficiency caused by duplication of facilities. He expressed his personal opinion that large units would prove to be more economical. He also indicated that he would consider determination of distribution areas as a continuing process.

"He stated that he would oppose the separate sale of the large distribution centers alone, as that would leave the Commonwealth & Southern system owning the residue. He expressed the opinion that no power system could survive that kind of dismemberment."

After the meeting I read this memorandum to Mr. Willkie and asked him whether it accurately stated his position as presented to the Board. He confirmed the statement sentence by sentence as I read it to him, and said that I might make it public if I should see fit to do so.

During the meeting of February 2, after Mr. Willkie had made his explanation, and while he was out of the room, you stated to the Board that Mr. Willkie's explanation did not add anything new, that he had only repeated the position he had taken all along. You said he had indicated his willingness to sell all the Commonwealth property or any part of it, and that you had so reported to the Board. You particularly referred to your negotiations with him in May 1936, and to your report on those negotiations. (That report does not cover the same ground as his explanation of February 2.)

During the meeting on February 2 Mr. Willkie protested vigorously and at length against being put in the position of having to agree or disagree to the sole question of purchase of TVA power when, in his opinion, this question was inseparable from the problem as a whole. He stated that if forced to decide on this single matter taken by itself he would be compelled to require as a condition that TVA power be not sold competitively in Commonwealth & Southern territory. He protested, however, that to be forced to take a

Mr. David E. Lillienthal
Arthur E. Morgan
February 24, 1937

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position on that isolated item would put him in a false position, and would give the impression of an irreconcilable attitude which, he said, he did not take, as he believed that a reasonable solution of the problem could be reached. He strongly urged that the door be not closed to a search for a reasonable solution. However, the explicit and limited proposal presented to him by you left no alternative. This proposal, which you presented to the Board in the form of a resolution when Commonwealth & Southern representatives were not present, in my opinion set up arbitrary and unnecessary alternatives, and therefore I declined to vote on the resolution, because I felt that neither a "yes" or a "no" vote would express my views.

Notwithstanding Mr. Willkie's explicit statement at this meeting that the paragraphs quoted from your letter of January 29 did not represent the attitude of his company, and notwithstanding the fact that he furnished the Board a typed statement of his position which was very different from the statement in your letter of January 29, and that he enlarged in detail upon his typed statement as I have indicated above, and notwithstanding the fact that you told the Board that his typed and verbal statements were not in any way new, but were only a repetition of the position he had taken all along; nevertheless, at the close of the meeting you gave to the press a formal statement quoting the parts of your letter of January 29, 1937, which he had specifically said did not represent his opinion, and which gave a very false and inaccurate impression of his statement of his position. The exact wording of this part of your news release is as follows:

"3. The Commonwealth & Southern is unwilling, TVA officials said, to contract for the sale and interchange of power from TVA unless that contract bars TVA from selling power to any other agency in those parts of the four states in which the Commonwealth & Southern companies operate.

"As a condition of the purchase of power, the Commonwealth & Southern position is that the TVA must give it a monopoly over TVA power, which would prevent the Tennessee Valley Authority from selling power to municipalities, rural

Mr. David E. Lilienthal
Arthur E. Morgan
February 24, 1937

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cooperatives, or industries in any part of the four states
in which the Commonwealth & Southern operates."

In my opinion this news release constitutes an inaccurate statement which may seriously mislead the public, the Congress, and the Administration. Your attitude at this conference seemed to me very definitely to be that of endeavoring to prevent any basis for agreement from being found, and to force Mr. Willkie into an apparently unreasonable position. Since the negotiations had been in your hands I did not take part in negotiation, but limited myself to asking Mr. Willkie questions concerning your statement and his attitude.

(Signed) Arthur E. Morgan
Arthur E. Morgan

~~CONFIDENTIAL~~ DRAFT

Report on Administrative Organization
of the
Tennessee Valley Authority
and
Future Regional Authorities

Washington, D. C.

May 14, 1937

Washington, D. C.
May 14, 1937.

The President,
The White House.

Sir:

In accordance with your instructions, we have the honor to transmit herewith a report on administrative organization in the Tennessee Valley Authority and future regional Authorities. The undersigned have proceeded in the manner outlined in the memorandum of understanding dated April 3, 1937, and approved by you. They wish to acknowledge the great assistance rendered by Professor John M. Gaus, who acted as consultant to the Committee at various stages of the inquiry. A cordial and helpful cooperation by members of the Board and Staff of the Tennessee Valley Authority is also gratefully acknowledged.

Respectfully,

Ernest G. Draper, Assistant Secretary
of Commerce

A. L. Parsons, Captain (C.E.C.) U. S.
Navy

Herbert Emmerich, Deputy Governor,
Farm Credit Administration.

Committee

C O N T E N T S

Report on Administrative Organization
of the
Tennessee Valley Authority
and
Future Regional Authorities

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REPORT ON ADMINISTRATIVE ORGANIZATION OF THE TENNESSEE VALLEY
AUTHORITY AND FUTURE REGIONAL AUTHORITIES

Committee

Ernest G. Draper, Assistant Secretary of Commerce

A. L. Parsons, Captain (C.E.C.) U. S. Navy

Herbert E. Emerich, Deputy Governor, Farm Credit Administration

Scope of the Report

This report is concerned with the problem of administrative organization in regional authorities created by the Federal Government. The Committee was designated by the President to conduct an inquiry and render a report to him in accordance with the instructions contained in a memorandum of understanding dated April 5, 1937, which he approved (Exhibit 1). Pursuant to those instructions, the Committee has reviewed the preliminary draft of report which has been prepared by a member of the staff of the Tennessee Valley Authority. It has visited the Valley region and inspected a number of major projects including Norris Dam, Pickwick Landing Dam, Wilson Dam and Fertilizer Plant, and Wheeler Dam. It has interviewed all the members of the Board of the Tennessee Valley Authority and principal members of its staff. (Exhibit 2). It has studied the organization of the Port of New York Authority as well as that of several private corporations. Throughout the course of this study, the Committee has endeavored to keep two principal objectives in mind:

1. The development of recommendations for improvements in the form of organization of the Tennessee Valley Authority.
2. The development of recommendations with regard to administrative organization of future regional authorities.

No attempt is made in this report to answer policy questions. Administrative management, however, is only a means to an end, -the tool of execution for policies and plans. An adequate report on organization cannot evade the question of where responsibility and authority for policy making and planning should lie. Problems of this nature therefore are treated herein.

The Committee was increasingly impressed as the study proceeded by the magnitude and variety of the program and the magnificent accomplishment in quality as well as quantity of the Tennessee Valley Authority organization within the relatively short period of its existence. It was particularly struck by the high quality of personnel which the Tennessee Valley Authority has attracted and the spirit of devotion that its program has inspired throughout the organization. In spite of serious weaknesses in the basic organization structure, a splendid record of performance, probably unsurpassed in public work, has been achieved. The prestige and ability of the three Board members, the needs of the times, and, the high purposes for which the Authority was created, all contributed to the quality of the personnel which was attracted to it and the spirit in which it has thus far accomplished its task.

It was requested in the memorandum of understanding previously referred to, that the inquiry be conducted with all possible expedition. The necessity for speed became increasingly apparent as the study progressed. It is doubtful whether the initial enthusiasm which characterized the emergency period of organization can be depended upon to counteract basic flaws of the administrative structure which are already beginning to affect morale. It is apparent that to preserve the morale and to conserve the talent that has been assembled, prompt attention to the problem of a more permanent form of organization is imperative.

For these reasons, the Committee has placed the major emphasis on speed in submitting its report. It is keenly aware that so vast and intricate a problem needs more time for thorough and detailed inquiry. It did not have the assistance of a research staff of qualified specialists during the period of its survey. There are many detailed points on which the Committee would have liked to have had an opportunity for more extended study. However, on the principal points of organization it feels able to present its recommendations with a considerable degree of confidence. Under the terms of reference of the Committee, these recommendations logically divide themselves into three main parts:

- Part 1. Proposals for a form of organization of the Tennessee Valley Authority under existing law.
- Part 2. Proposals for a form of organization of the Tennessee Valley Authority, involving legislative amendments.

Part 3. Proposals for principles of administrative organization in future regional authorities.

PROPOSALS FOR A PLAN OF ADMINISTRATION OF THE DISTRICTS UNDER THE
LOCAL GOVERNMENT ACTS, 1972

The Districts (Administrative Arrangements) Bill, 1972, which was introduced in the House of Commons on 19th July 1972, and which was passed by the House of Commons on 19th July 1972, and by the House of Lords on 21st July 1972, will provide for the re-organisation of the administrative structure of the districts under the Local Government Act, 1972.

The Bill provides for the re-organisation of the administrative structure of the districts under the Local Government Act, 1972, and for the transfer of certain functions to the districts.

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Part One

PROPOSALS FOR A FORM OF ORGANIZATION OF THE TENNESSEE VALLEY

AUTHORITY UNDER EXISTING LAW

Creation and Authority.

The Tennessee Valley Authority is a permanent independent agency created by Public Act No. 17, Seventy-third Congress, approved by the President on May 18, 1933. The President, by Executive Orders Nos. 6161 and 6162 of June 8, 1933, delegated to the directors of the Authority certain powers granted to him by the act.

The Seventy-fourth Congress, by amendment, specifically directs construction of dams and reservoirs in the Tennessee River and its tributaries which, in conjunction with Wilson, Norris, Wheeler, and Pickwick Landing dams, will provide a 9-foot channel from Knoxville to the mouth of the Tennessee River.

Purposes.

The purposes of the Tennessee Valley Authority are as follows:

1. Unified development and control of the water resources of the Tennessee River and its tributaries through the construction of dams to provide navigation, control floods and, as an important incident thereto, produce power.
2. The development of uses for electrical power so produced and the transmission and sale of such part of that power as may not be needed for governmental purposes in such a manner as to encourage increased domestic and rural use of electricity.

3. Experimentation to lower the cost of production, distribution, and application of the major elements of fertilizers, and promotion of the national defense by maintaining a plant ready to manufacture nitrates. Maintenance and operation of government-owned properties in the vicinity of Muscle Shoals, Alabama.
4. Planning for the complete Tennessee River watershed, including erosion control, forestation, the further use of mineral resources, the promotion and coordination of industry and agriculture, surveys and plans for the proper use of land and other natural resources, and the general social and economic well-being of the valley.

Distinctive Features of Tennessee Valley Program and Organization.

Certain outstanding features of the Tennessee Valley Authority program and organization should be borne in mind. It is established as a multiple purpose decentralized agency of the Federal Government, serving an area comprising the Tennessee River watershed. Its program contains both regional elements and elements such as chemical experimentation in fertilizers and war materials which may be said to be national in scope. It shares the characteristics of private business and government. In respect to the former it is given the corporate form so that it may enjoy a greater degree of freedom of operation than characterizes more conventional governmental units. It is, however, discharging governmental purposes, using appropriated moneys and is publicly answerable to Congress and the President. It

is thus limited in its procedure in matters of public accountability in a manner which differs from purely private enterprise, even a publicly regulated one. It has authority and funds for a great many subsidiary purposes which contribute to its main objectives and thus has latitude for a wide field of regional experimentation. It is significant also in being an experiment in regional administration covering a larger territory than a state but more closely integrated with regional needs than a national agency.

The opportunities for reclaiming and improving a large region through such a program are very great. Administration of such an enterprise, however, is not without its dangers. It must exercise restraint in discharging its varied powers to avoid duplication with single purpose Federal agencies having overlapping functions whose organizations are already at its disposal. It must avoid the danger of conflicting with and discouraging initiative on the part of state and local authorities.

Administrative History.

Very soon after its organization the Board of Directors divided the administrative functions of the work among the three Board members (See Exhibit 3). The early stages of the work were necessarily devoted to planning and development of the various aspects of the program, the assembling of personnel and the experimentation and policy development that characterizes a new organization. Each Board member concentrated on the development of the part of the program in which he was particularly qualified and interested. Subsequently, attempts were made to move in the direction of more integrated management. A Coordinator

was appointed who later became Acting General Manager. The Acting General Manager has never been granted sufficient authority to act as a General Manager, but functioned more as a Coordinator with somewhat wider and more direct supervision over the management and demonstration services. The Chairman of the Board continues to serve as Chief Engineer. The other two directors continue to maintain direct relations with the members of the staff engaged in the activities in which they are primarily interested: agriculture and electricity respectively.

Board of Directors

Granting the possible need for a division of administrative function among Board members in the nascent period of the Authority, the time has passed when this form of organization can continue effectively. It is essential that the members of the Board discontinue operating as three independent administrators and proceed to operate only by Board action as a Board. The Board members should undertake no individual administrative action. They should refrain from directing the operations of any of the departments or of any of the personnel. They should divest themselves of particular supervision of all specific activities or projects. In Board meetings they should not represent different spheres of interests. Reports should be made by the management to the Board as a whole, not to individual members of the Board. Instructions should be transmitted to the management by the Board, not by individual directors. All the members of the Board should be interested in and take time to study all of the important angles of the operations of the Authority. They should be relieved

of management functions and should be free to devote themselves as a Board to planning and policy matters. Negotiations with outside interests should not be conducted by Board members but should be conducted either by the entire Board or delegated to members of its staff. Public statements implying commitments on the part of the Authority by individual directors should not be made unless specifically authorized by the Board as such. It is reported that a vast area of matters involving Board decision are awaiting Board action. Under this plan of operation the directors would be free to devote all their time to policy board matters. It is not possible to make a definite distinction between policy and administrative functions that should come to the Board's attention. There is apparently a great number of problems which the Board will increasingly leave to the staff but the complete delegation of which may be legally impractical.

The following recommendations are made in respect to reorganization of the method of Board operation of the Authority:

First. That the Board should discontinue operating as three individual administrators and proceed to operate only as a Board.

Second. That the General Counsel of the Authority report directly to the Board of Directors and that he be designated to act as Secretary of the Board. ^{XYZ} The Board will thus have the constant benefit of immediate legal advice in its deliberations and the minutes will be kept currently in a legally acceptable form.

Third. That for all other purposes the Board's contacts with the management be through a General Manager. ^{x x x} On account of the wide variety of technical talent employed in its work, the General Manager will undoubtedly call into Board meetings numerous members of the staff for the presentation of their problems.

omit.

The General Manager.

We recommend the appointment of a General Manager who will report directly to the Board and to whom all the departments and activities of the Tennessee Valley Authority will in turn be responsible. The General Manager will be responsible for securing Board approval on all decisions requiring such approval and transmitting to the staff the decisions of the Board; and seeing that they are properly executed and that the various activities of the Authority are properly coordinated. All the bureau heads of the administrative staff will report directly to the General Manager. He will initiate recommendations for all necessary changes in the organization including the appointment of, termination and status changes of personnel. All orders to the personnel will be issued by him.

The General Manager will regularly attend Board meetings calling in qualified staff members on various phases of the work. The General Manager and the administrative staff will constitute the management of the Authority. The Board should delegate to the General Manager a maximum of authority compatible with law for the execution of its

policies. The General Manager should be responsible for having surveys and reports prepared for the information of the Board in connection with its planning and policy functions.

There should be a Deputy General Manager who would be Acting General Manager in the absence of the General Manager. The General Manager should necessarily have considerable latitude for the flexible development of his immediate personal staff to assist him on matters of coordination, budgets, surveys and general administrative problems. One of the first duties of a General Manager when designated would be to make recommendations for filling the major positions of chiefs of the six principal bureaus hereinafter proposed.

Major Divisions of Management.

The activities of the Authority should be administered by the General Manager through six major bureaus or divisions corresponding to the major functions of the Authority. The exact allocation of the subdivisions of these bureaus would be a matter of varying emphasis and would change from time to time with the needs of the program.

1. BUREAU OF PUBLIC WORKS

Planning

Design

Construction

2. BUREAU OF
WATER CONTROL OPERATION

Navigation

Flood control

Power

3. BUREAU OF ELECTRICITY

Planning (Power Use)

Commercial

4. BUREAU OF SOIL CONSERVATION
AND NATIONAL DEFENSE

Chemical Engineering

Agricultural Relations

Forestry Relations

5. BUREAU OF
REGIONAL SERVICES

Regional Studies

Public Health and Safety

Rural Enterprises

Commerce

Land and Town Management

6. BUREAU OF
MANAGEMENT SERVICES

Finance

Legal

Land Acquisition

Personnel

Materials

Information

1. Bureau of Public Works.

The design and construction of all the Public Works (plant and structures) of the Authority should be consolidated in this bureau except for highly specialized and largely experimental projects which can best be worked out by the technical experts engaged in research. The Bureau of Public Works would include all the planning, design and construction work now under the Assistant Chief Engineer, which embraces dams, locks, and power plants; the work now under the Electricity Department having to do with the design and construction of transmission lines, substations, rights of way, surveys, etc., and such public works design and construction as are now handled by

other departments, divisions, or sections. The important function of water control planning or engineering planning bears on operation but is so intimately related to design and construction that it remains here.

2. Bureau of Water Control Operation.

The increasing importance of water control operation as new dams are completed leads us to the conclusion that this function should not be subordinated to others, but should report directly to the General Manager.

This bureau would be charged with the regulation of the Tennessee River and its tributaries for the purposes of navigation, flood control, and the generation and transmission of hydroelectric power. In effect, it would manage the flood control facilities, the dispatching of water and the operation and upkeep of hydraulic structures and equipment, power plants, substations and transmission lines. The locks and terminals for navigation should be operated by this bureau.

The present Electricity Department would be relieved of the operations of power plants, substations and transmission lines.

Maintenance and repair of plant and structures would probably be taken care of in part by the Bureau of Public Works. The lines of demarcation would depend on local conditions.

3. Bureau of Electricity.

This bureau would confine itself to the complicated problems of planning and negotiating for the disposal of the power which is produced incident to the operation of the river systems for navigation and flood control.

One of the major functions would be the planning for the use of power, to what points it should be distributed and in what quantities, so that the power available may best promote the prosperity of the area. This function would have an important bearing on plans for dam construction in their early stages.

The remaining functions are commercial involving the intricate question of rates, interchange of power, contracts and the fiscal affairs relating to power sales.

4. Bureau of Soil Conservation and National Defense.

Chemical Engineering embraces researches having to do with fertilizer processes, operation of fertilizer plants and maintaining of national defense facilities in a standby condition. Agricultural Relations and Forestry Relations contemplate work of the same scope as at present.

5. Bureau of Regional Services.

This group of activities may be referred to as staff activities but have to do primarily with service to the region. They are of a planning and demonstration character and must be closely integrated with state and local activities as well as with those of other

Federal agencies. General economic and social studies would be conducted by the Regional Studies Division. Public Health and Safety, Rural Enterprise, and Commerce are all activities now being conducted under similar names and would properly belong in this group. A new subdivision, Land and Town Management, is to provide for the administration of towns, lands adjacent to reservoirs and other owned properties.

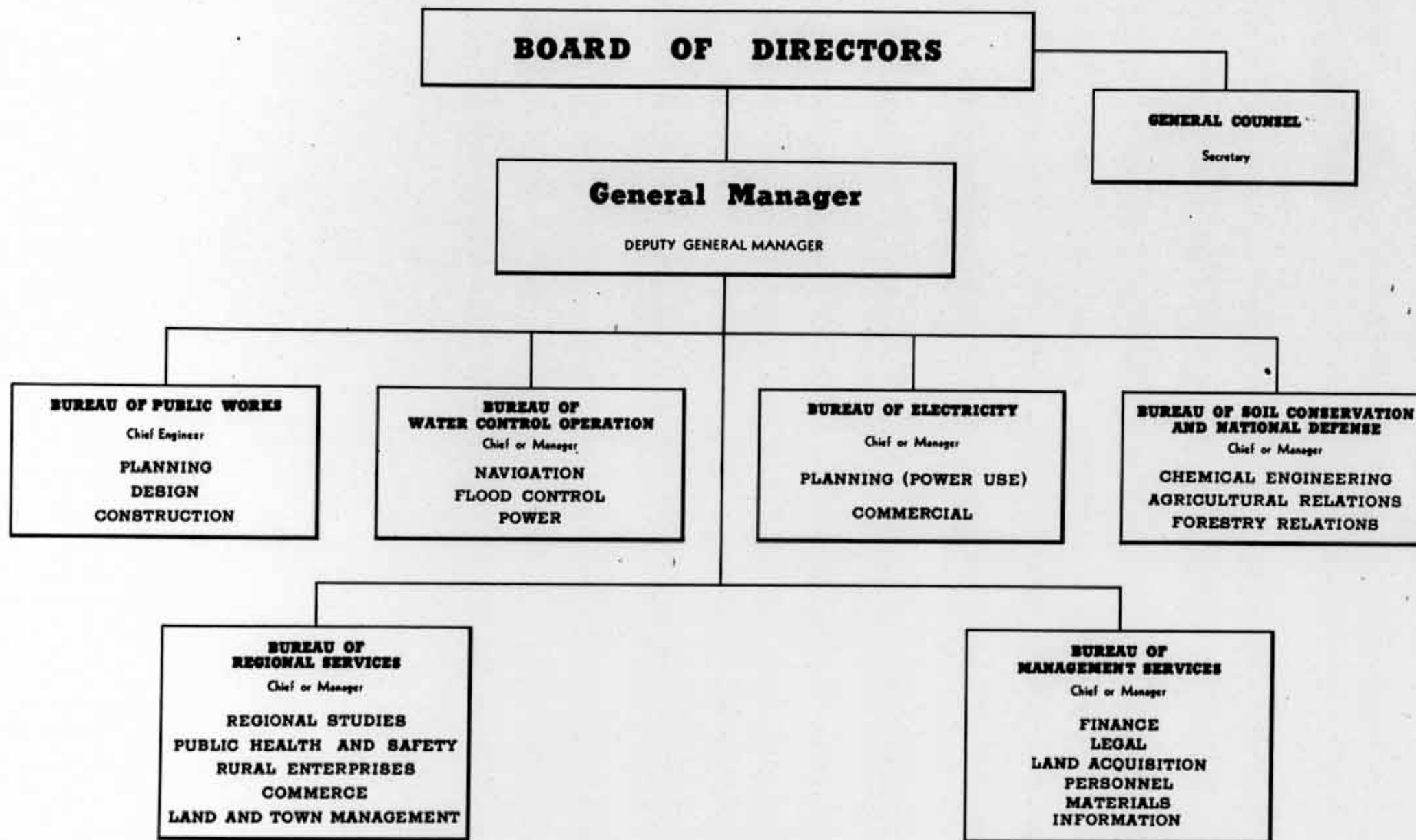
6. Bureau of Management Services.

In this bureau are grouped the staff activities whose primary function is to render a service within the organization. The activities are identical with those now placed under a division of the same title except that Public Health and Safety has been transferred to the Bureau of Regional Services. While the preservation and the care of the health and safety of the employees is an important function of the Division of Public Health and Safety, the broader and long-term aspects of its work are the development of disease prevention measures for the general community.

Presumably, the subdivisions of the various staff services would remain much as they now are pending further development of the organization under a General Manager. Under "Finance" are now grouped Disbursing, Accounting, Auditing and the Budget. Under "Materials" are now grouped Purchasing, Property Records, Warehousing and Transportation.

Planning and Research Staff

The entire staff of the Authority should be regarded as a panel from which the general manager can select individual technicians and groups of specialists for planning and research activity. No standing committee or special planning bureau is, therefore, recommended.



PROPOSED ORGANIZATION FOR THE TENNESSEE VALLEY AUTHORITY

Part Two

PROPOSALS FOR A FORM OF ORGANIZATION OF THE TENNESSEE VALLEY

AUTHORITY INVOLVING LEGISLATIVE AMENDMENTS.

Administrative Defects in Present Act.

Although a very great degree of improvement can be effected in the administrative organization of the Tennessee Valley Authority without changes in basic law as recommended in Part One of this report, it is the conclusion of the Committee that from a long-term standpoint legislative changes are needed. Full-time salaried boards, in charge of agencies having operating and administrative functions, have not proved themselves to be effective bodies. This is particularly true in the case of the full-time three-man board where the chances for two to one division are almost inevitable and the temptation for members to reach down into the staff and exercise administrative jurisdiction over it is accentuated. Except in times of great national emergency, it is difficult to obtain men of the same caliber to accept full-time salaried service that can be obtained by part-time unpaid service. Men of the highest standing and ability in their communities are very often eager to accept advisory posts in governmental activities, but would be unable to give full time to such work. A part-time board is more likely to be detached in its consideration of public questions and is less likely to desire to expand its size and prestige than a full-time one. It is closer to public opinion as it is not resident

on the job and each member remains in touch with contacts in his locality and his profession between board meetings. A part-time board is more likely to delegate to a general manager of high type full responsibility for administration. The Port of New York Authority is a very successful example of the effectiveness of the part-time board and has been studied with interest by the Committee. Other successful examples are the boards of directors of the Federal Reserve Banks, the Federal Land Banks, and the Federal Home Loan Banks.

As long as the corporate form is retained in the Tennessee Valley Authority, and there are a great many reasons for retaining it, a board of directors is necessary as public trustees for policy decisions. The administrative features of the Acts creating the Authority, however, leave great discretion in certain important matters to the Board, fail to permit proper delegation of executive and administrative action to the management, and in certain cases describe in minute detail minor procedures which should be left to Board decision. The Act contemplates, for example, that the three directors should occupy the houses that have been erected at Muscle Shoals and that the Authority should have its headquarters there. From time to time it may prove expedient and efficient to change the headquarters of the Authority and more latitude should be permitted in the basic act in matters of this kind. The maximum salary limit of \$10,000 prescribed in the Act defeats one

of the main purposes for which the corporate form was adopted by limiting the Board in the field of selection of a general manager and staff. The inability of the Board to delegate administrative functions would also be a handicap in retaining the services of a properly qualified general manager.

Only the main principles that would apply to the new form of organization are outlined in the following proposals. A very careful study of the entire Act by qualified legal draftsmen would have to be made in order to arrive at legislation suitable for a proper division of functions between board and management.

The historic reasons for the protection of the Tennessee Valley Authority program by a full-time board serving nine year terms are fully recognized. The Committee submits, however, that, in the minds of Congress and the public, the responsibility for the success or failure of the program of a regional authority, using Federal funds, will inevitably be placed on the President. Under the present Act, the President has responsibility without compatible authority. He appoints full-time members for nine years, or inherits them from a previous administration. Board members are not removable under the Act by the President except for the one specific cause of violating the merit system provisions (Section 6). Otherwise, the Act provides for their removal only by a joint resolution of Congress. He has no means of coordinating their program with that of other Federal agencies engaged in conflicting or similar functions. His control

through budgetary procedures is necessarily limited. He has no means of correcting serious mistakes in policy, irreconcilable Board conflicts, or ineffective organization and management procedures.

A Part-Time Board.

It is recommended that the present full-time board of three resident salaried members be abolished and that there be substituted therefor a part-time board of seven members. The President would appoint the board members, subject to the advice and consent of the Senate, and would designate the member to be chairman and vice chairman, respectively, of the Board. The length of term of the directors first appointed would be as follows: three years each for three members; two years each for three members; and one year for one member; and thereafter as terms expired the Board members would be appointed for three-year terms. Citizens in private life would in general not be attracted to service over a longer period of years, but well qualified members might agree to be reappointed after they had become familiar with and interested in the work. A per diem fee, plus the actual cost of travel and subsistence during time spent, should be authorized for board members. The Board should adopt bylaws and, from time to time, appropriate amendments thereto, which would be approved by the President or by the head of an executive department designated by him. In this manner the President could coordinate the basic policies of the Authority with the work of other Federal agencies engaged in similar activities and prevent conflict in programs and procedures.

Statutory Position of General Manager

It is recommended that the Act provide specifically for the position of general manager (and deputy general manager), and set forth in some detail his functions and relations to the board of directors. The present Act makes no such provision. The general manager should be appointed by the board of directors and serve at its pleasure. It is advisable, however, that the appointment of a general manager be approved by the President or the head of an executive department designated by him. A veto power over the selection of the keyman of the organization would be an additional precaution in favor of the selection of well-qualified executives. It is preferable that there be no limitation on the salary that the Board may pay the general manager, but it is recommended that in no event should statutory limitation be less than \$15,000. The general manager will operate with a minimum of supervision and the Board should have at least this much latitude in compensation to attract an administrator or business executive of high capacity.

It would be highly desirable if such agencies could be authorized to employ government officials in the civil or military services for positions such as general manager and chiefs of the principal bureaus and divisions of a regional authority. Such a provision would be effective only if those officials were entitled to receive during such service the difference between their regular compensation and the pay provided for the position in question and if they were protected in their former status and could return to it at the conclusion of the assignment.

Other Personnel.

It is recommended that the present clauses in the Tennessee Valley Authority Act protecting the Authority against political considerations in the making of appointments be retained. They have undoubtedly assisted in enabling the Authority to build up a highly qualified staff. The President, however, should be given the right to place all or any part of the staff under civil service laws when, in his judgment, this would be advantageous to good administration.

It is further recommended that all appointments and personnel changes, including terminations, shall be made by the general manager, subject to a schedule of salary rates approved by the Board. Such salary schedule should not exceed any maximum set by law for the manager.

It is also recommended that the present authority in the Act to retain outside specialists and contract for services, including legal and technical services, be continued.

Functions of the Board and Management.

It is recommended that a careful redrafting of the Act be undertaken to the end that the part-time Board be free to devote itself entirely to planning and policy matters and that the management, under the general manager, be given the very widest possible latitude for execution and administration.

Part Three

PROPOSALS FOR PRINCIPLES OF ADMINISTRATIVE ORGANIZATION IN
FUTURE REGIONAL AUTHORITIES.

General Considerations with Regard to Future Authorities.

It is evident, of course, that the emphasis in the various watersheds in which future authorities may be established will vary according to the dominant purposes of the projects. Flood control, navigation and resulting power are of paramount interest in the Tennessee Valley; whereas irrigation and power may be of primary concern in the Columbia River area. The Committee is able, therefore, to indicate only a general pattern which might be useful in organizing future regional authorities. The emphasis and objectives of the various authorities will differ and the organization plans will have to be suitably modified in each case.

A coordinating or supervising agency in Washington should be provided for the various functions of regional authorities. If these regional agencies are given jurisdiction over locks and navigation, their navigation policies must be integrated with those of the War Department. There would be close association in power policy matters with the work of the Federal Power Commission. In general regional planning there is opportunity for cooperation with the National Resources Committee and its regional consultants, as well as with the state and local planning agencies. The War Department is concerned in the national defense features of such programs. The Departments of Agriculture and Interior will be greatly interested in the agricultural, conservation, forestry, and irrigation activities of such

authorities.

Since the establishment of the Tennessee Valley Authority various programs on a nation-wide basis have been initiated that include some of the functions originally given to the Tennessee Valley Authority. The examples of this are the Soil Conservation Service of the Department of Agriculture and the planning functions of the National Resources Committee. The combination of functions assigned Tennessee Valley Authority was in part due to the nonexistence of such agencies and in part to the accident of the existence of an unused war-time project. It would seem to be unwise to duplicate its pattern exactly in regions where such conditions do not prevail.

It is the opinion of the Committee that the creation of independent regional authorities may add to the difficulty that now exists in the development of coordination of Federal programs in which the various departments of the Federal Government and the states and localities are interested. In each new project it is important for the President to be informed on the following points: 1, the way in which this project fits in with other activities of the national Government in that area; 2, the way in which this project fits in with state and local projects; and, 3, the way in which this project is related to a long-time development program for the area. These problems touch on the entire question of the coordination of Federal agencies in Washington and a full description of their implications has been more adequately covered in the report of the President's Committee on Administrative Management. Another problem in the creation of numerous

regional authorities will be the danger of conflict between them as to boundaries and jurisdiction.

Regional authorities should be primarily planning and operating agencies, contracting with other government jurisdictions and bureaus for the construction and specialized services wherever possible. Very few of the contemplated regional authorities will be operating agencies at the start. In most cases they will be regional planning bodies for the purpose of coordinating programs of localities, state and Federal activities, and recommending projects. Their greatest contribution can be coordination of national, state, and local activity and avoidance of waste and unnecessary expense by making comprehensive studies before new projects are undertaken. This is particularly true in the case of projects purely local in nature which the Federal government may be asked to undertake.

Two plans, having these considerations in mind, are hereby proposed for the administration of the future regional authorities:

responsibilities of Federal regional and interstate development are limited in scope and a national authority would seem to be appropriate for their solution. Regional development and administration should be directed by properly constituted regional administrative and regional advisory boards.

The Federal Government should be authorized to establish regional development and administration boards in each of the States and Territories. These boards should be composed of representatives of the Federal Government, the State or Territory, and the local community.

Plan A - Unified Plan for all Authorities including the Tennessee Valley Authority.

Recognizing the difficulties of predicting an appropriate administrative pattern which would be applicable to each of the authorities to be created and at the same time form the basis of national coordination of policy and program in Washington, a unified flexible plan is now proposed. Consideration is recommended for the creation of a single National Authority for Regional Conservation. Such Authority should have its headquarters in Washington. This would afford the advantage of direct contact and access to all the other departments and activities of government with which it must necessarily coordinate. Wide jurisdiction could be given to such a National Authority for the variation of its administrative field pattern in the various regions and watersheds according to their needs. The President and Congress would have contact with one single responsible agency instead of with the eight or more authorities which have been proposed from time to time. Many of the responsibilities of Federal regional and watershed development are national in scope and a national authority would seem to be appropriate for their solution. Regional influence and decentralization could be fostered by properly constituted regional administration and regionally chosen citizens' advisory boards.

A simple method of establishing a National Authority for regional conservation is presented by the possibility of a comparatively small number of amendments to the Tennessee Valley Authority

Acts. The amendments required, in the opinion of the Committee, would be along the following lines: The name of the Tennessee Valley Authority would be changed to the National Authority for Regional Conservation. Its headquarters would be removed from the Tennessee Valley to Washington. The freedom of the corporate form would be retained. A national board of directors would replace the present regional Board, and the Board would be enlarged from three to seven members. All of the directors of the Board of the new National Authority would be part time officials except a Chairman. The President would continue to appoint the members of the Board, three to be confirmed by the Senate and four to be chosen by the President from among officials of the government, including Cabinet officers if he so elects.

The Chairman of the national board would be a full-time salaried officer and would also be designated as National Administrator. All policy matters would be approved by the Board of Directors, but the administrative actions would be under the jurisdiction of the Chairman. He would appoint Regional Administrators and other necessary personnel, subject to the approval of salary scales approved by the Board. The Regional Administrator, subject to the jurisdiction and control of the Board, would have authority to operate large Federal projects constructed in various regions and watersheds or to construct them where necessary. Where desirable he would be authorized to render technical planning service to regional planning committees cooperating with the National Resources Committee. Such committees could be authorized to render advice to the Administrator on regional

problems. By appropriate amendments to the Act wide latitude for regional decentralization of administration could be given. Many of the administrative provisions would indeed follow the recommendations made under Part Two of this report. By administrative action of the Board there could be considerable experimentation with various forms of regional administration which would be difficult, if not impossible, to draft into legislation in advance of actual experience with the problems in question.

The National Authority would be, in short, a unified national agency of a corporate character, authorized to establish appropriate regional administrations when, as, and in the manner needed throughout the United States and to operate large regional and watershed projects involving all elements of conservation and including navigation, flood control, power, irrigation and regional planning and welfare.

Plan B - Individual Plan for New Authorities.

Regional advisory boards under this plan would be selected by the President in a manner very similar to the Board contemplated in Part Two of this report. They would be part-time, unsalaried citizens, but they would differ from the Board in Part Two in respect to a greater emphasis in function on planning activities for the region. They would have no administrative authority in the appointment of personnel or actual construction of watershed projects and their operations. Such regional boards would preferably be affiliated with the National Resources Committee. In addition to their general functional coordination with national and local planning, they would

be available also to the regional administrator as an advisory council on problems affecting his jurisdiction.

The Regional Administrator in these cases would be appointed by the President or an appropriate Cabinet officer designated by the President, and would be charged with the actual operation of the completed projects. He, in this plan also, could be designated as research secretary for the regional advisory board. In this way he would provide them with an expert staff on regional planning whose work would be tempered by realistic contact with actual projects. In areas in which Federal projects have been completed, or are nearing completion, his emphasis would be more on operating such completed projects. In areas in which there has been no Federal activity, the emphasis would be more upon the planning and research phases.

The Regional Administrator should be given the greatest possible latitude consistent with good public policy in the appointment of personnel and its compensation, and the making of contracts and acquisition of land. Whenever this can be accomplished without the use of the corporate device, it should be so arranged. The corporate device gives a maximum measure of operating freedom, but for that reason should be employed with great circumspection. The Regional Administrator should be authorized to make contracts with appropriate Federal agencies for such services as may be needed in construction, forestry, conservation, and other fields. A comparatively

small research and operating staff will then be the only requirement for his organization except when he is unable to procure the necessary services from existing agencies. Where a regional corporation must be created, its board of directors should be part-time and the structure should resemble the one described in Part Two of this report.

PSF: T V A

TENNESSEE VALLEY AUTHORITY

Knoxville, Tennessee

*file
press mail*

BOARD OF DIRECTORS
ARTHUR E. MORGAN, CHAIRMAN
HARCOURT A. MORGAN
DAVID E. LILIENTHAL

THE WHITE HOUSE

SEP 9 9 00 AM '37

RECEIVED

September 7, 1957

The President
The White House
Washington, D.C.

Dear Mr. President:

In reply to your letter of September 3, concerning an article in the Atlantic Monthly, I shall follow up the matter as quickly as I can. Your letter came just as I am leaving to meet some engagements.

Sincerely yours,

Arthur E. Morgan

Arthur E. Morgan

PSF: TVA

*file
"personal"*

PSF: TVA

TENNESSEE VALLEY AUTHORITY

Knoxville, Tennessee

September 13, 1937

BOARD OF DIRECTORS
ARTHUR E. MORGAN, CHAIRMAN
HARCOURT A. MORGAN
DAVID E. LILIENTHAL

Dear Mr. President:

Mr. Lilienthal and I are sending you herewith a memorandum which forms the basis of the action of the Board of Directors in adopting a resolution, copy of which I transmitted to you on the date of its adoption. This memorandum, as you will see, analyzes the articles of Dr. A. E. Morgan and Mr. Wendell L. Willkie appearing in the Atlantic Monthly. Because of the explicit character of your letter in this matter, we feel that you should have before you the basis upon which the Board acted.

Faithfully yours,

Harcourt A. Morgan
Harcourt A. Morgan

The President
The White House
Washington, D. C.

MEMORANDUM OF ANALYSIS OF ARTICLES
BY DR. A. E. MORGAN AND MR. WENDELL WILLKIE,
IN ATLANTIC MONTHLY, SEPTEMBER 1937

A brief analysis of the article by Arthur E. Morgan in the September 1937 issue of the Atlantic Monthly will demonstrate its character as an attack upon the honesty and integrity of the Board of Directors of the Tennessee Valley Authority and upon Government power policy generally.

The setting in which the article appeared should be noted. Writing in the preceding issue of the same periodical, Mr. Wendell L. Willkie, President of the Commonwealth & Southern Corporation, had argued against public ownership of power. His paper was in the main an attack on the fairness and reasonableness of the Government and its representatives in the public power controversy, but Mr. Willkie singled out Dr. Morgan as the one Government official to be excepted from his attack:

Last January, Dr. Arthur E. Morgan, head of the TVA, made a public statement which--although I disagreed with certain parts of it--was so fair in its approach that we hoped a solution was near at hand. . . he believed that duplication of facilities should be avoided, that public-ownership reports should be factual, and that government yardsticks should be honest. . .

. . . Unfortunately, no echo of Dr. Morgan's statement has been heard in other government quarters. Official tongues still lash the utilities and recommend no compromise. The President has discontinued his power conference. The TVA is vigorously expanding its competitive power activities. Seven other TVA's are in process of preparation. . .

[W.L.W., August Atlantic Monthly, p. 218]

Dr. Morgan, in the September article, purported to defend public ownership of power. In fact, however, he confirmed the essentials of the position Mr. Willkie had taken in his article. While making a plea on his own behalf for fairness and honesty, he charged other Government officials with the lack of these qualities. Despite the generality of most of Dr. Morgan's statements, it is clear that his charges of "improprieties" are especially aimed at the Board. If there could be any doubt, Dr. Morgan removed it in one of the concluding paragraphs:

The writer is a minority member of the Board of Directors of the Tennessee Valley Authority, of which he is the Chairman. In important respects he differs from what he judges to be the actual power policy of his associates. This statement therefore reflects his personal views, and not the working policy of the power issue. Neither does it undertake to criticize in detail what the writer believes to be the improprieties of that policy.

[A.E.M., September Atlantic Monthly, p. 346]. [All emphasis in this and subsequent quotations supplied.]

Laying aside for the moment the several innuendoes in the passage, it should be observed that by his disclaimer of detailed criticism, Dr. Morgan expresses the intention that his paper shall be taken as a general discussion of the "improprieties" in the "actual" conduct of the Board of the Tennessee Valley Authority.

His charges may be summarized as follows:

1. That the Board is actuated in its relations with private utilities by motives of hate, vengeance, and a desire for personal political aggrandizement.
2. That the Board has unreasonably, arbitrarily, and capriciously ignored the just interests of the private utilities,

and is engaged in a destructive campaign of duplication and dismemberment.

3. That the Authority's "yardstick" is based on hidden subsidies and that its records and accounts are dishonest and misleading.

That these are in fact the charges made is shown by a reading of the more significant passages.

1. That the Board is actuated in its relations with private utilities by motives of hate, vengeance, and a desire for personal political aggrandizement.

In opening his article, Dr. Morgan briefly points out that there have been and still are great "abuses in the power industry." He refers to "the Insull collapse," "overcapitalization," "excessive charges by service companies," and manipulation by "insiders" (p. 340).

With the private utilities thus severely characterized, the article proceeds to bracket the present administration of public power in the same class. Dr. Morgan attributes to "certain public men" a "'fight to the finish'" attitude which originated with private utility management (p. 341). The abuses of the utility industry, he writes, "can equally be exploited by the utilities and by self-seeking persons in public life" (p. 342). "What is primarily needed on both sides," he states, "is common honesty and openness, a common willingness to give up privilege and preferred position." Continuing, he says, "If either side had clean hands and an unspotted record of public service, the public soon would reach a sound conclusion" (p. 346).

In a passage about Government officers, unmistakable in its intent Dr. Morgan says:

Third, having invited the investment of private capital to supply the public with electric power, the public is under obligation to respect actual honest and useful investment, and not to jeopardize or destroy it by capricious and arbitrary coercion. The abuses of the private power industry have bred in some men an attitude of bitter hatred, and a conviction that the only course to take is a war without quarter against the private companies. This attitude may be exploited by other men who have no such convictions, but who will endeavor to ride to political power on the issue. A fair settlement of the question might leave such men without a place in the limelight. In my opinion, for public men to retaliate with arbitrary coercion, to use false or misleading propaganda, and to use other methods than open and impartial processes of government, not only is unfair to legitimate private investors, but tends to substitute private dictation for democratic process of government. I have no confidence in the supposed liberalism of people who use such methods. Whoever will use unfair methods for the public probably will use unfair methods against the public for his own advantage. The public can have no greater security than the habit in its public officials of fair and open treatment of every issue, no matter who is affected [pp. 344-345].

2. That the Board has unreasonably, arbitrarily, and capriciously ignored the just interests of private utilities and is engaged in a destructive campaign of duplication and dismemberment.

3. That the Authority's "yardstick" is based on hidden subsidies and its records and accounts are dishonest and misleading.

As will have been observed, in making all of the charges, Dr. Morgan employs the same method of indirection. By professing to describe those qualities of honesty and fairness which are required in connection with public ownership of power, he denies their existence in "the working policy of the Tennessee Valley Authority on the power issue." In this way

he characterizes "the actual power policy of his associates" and defines "what the writer believes to be the improprieties of that policy." Thus he says:

Under any method there are certain proprieties and deficiencies of government which should be observed. Where the public has invited private capital to supply an essential public service, there should be no capricious arbitrariness in destruction or duplication of facilities to the loss of honest, necessary, and useful investment. . . . In case public power is used as a 'yardstick,' or as a measure of what the private power industry should charge for its services, then it is imperative that records and accounts be honest and fair and open, and that there be no hidden element of subsidy. The very fundamental element of such comparison is honesty, fairness, and openness in measurement [p. 342].

Charges of falsifying the yardstick and destroying private utility properties thread through the entire article. Thus at other points Dr. Morgan continues in the same vein:

There should be no arbitrary dismemberment of existing private power systems. For public agencies to take over the profitable large centres of distribution, leaving private companies with dismembered rural fragments, will destroy private investments, and will not serve the public interests in the long run. Private companies are justified in refusing to consider the sale of properties which would bring about such dismemberment [p. 345].

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In the operation of public 'yardstick' systems there should be no hidden subsidies, no undisclosed government assistance to local public power systems. It is due both to private investors and to municipalities which consider purchasing their power systems that the full actual cost

of service be publicly disclosed. If there is government subsidy, it should be in the open [pp. 345-346].

The full measure of the attack upon the Board and Government administration of power can be appreciated only by a reading of the entire article. However carefully extracts may be assembled, they fail to reflect adequately the spirit which animates the whole. It is impossible, for example, without reading the full article, to feel the cumulative effect of the necessary inferences from such paragraphs as the following:

If the Tennessee Valley Authority Act is fairly interpreted and administered, it can mark a great advance in the planned and orderly development of a great river system [p. 342].

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In many cases [referring to the Tennessee Valley Authority projects] the same large dam can serve for navigation control, flood control, and for power; if the operation of such a system is in the hands of persons interested only in power, such a multi-purpose project can be abused, perhaps with serious results [p. 343].

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For private interests to try to force a high price by obstructive litigation, or for public men to try to secure an unreasonably low price by threat of duplication or dismemberment, leads to suspicion, conflict, and social waste [p. 345].

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When private power systems are taken over by the public,

the competent and loyal employees, at least below policy-making grades, should be continued in service, and should not be displaced to provide political appointments [p. 346].

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In my opinion, the best corrective for the improper attitudes of any one party is not a process of 'fighting fire with fire,' but rather a persistent fairness and openness which gradually will win public confidence and approval [p. 346].

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In important respects he [the writer] differs from what he judges to be the actual power policy of his associates [p. 346].

Standing alone any one of Dr. Morgan's statements might be regarded as inadvertent, or ambiguous in application, and therefore deserving of charitable interpretation. Taken together, however, they disclose a studied purpose to destroy public confidence in the Board of Directors of the Tennessee Valley Authority and in the Federal Government's power policy.

The article was immediately seized upon by the utilities attacking the Authority. In a so-called "letter of rebuttal," in the contributor's column of the same issue of the Atlantic Monthly, Mr. Willkie commented as follows:

Dr. Morgan is the only government official of standing who has had the courage to state that 'in the operation of public "yardstick" systems there should be no hidden subsidies.' He of course would not say this if he were not conscious that such exist. Unfortunately, he has not carried the decision in the councils of those who control government power policy or the TVA.

Mr. Willkie saw in the article further fuel for the fight against public power. In the same "letter of rebuttal," Mr. Willkie said:

Dr. Morgan, a public official, questions the honesty of other public officials. If he is correct that state regulation has failed through corrupt public officials, then he doubly warns us against the adoption of public ownership, where the opportunities for corruption by public officials would be greatly multiplied.

The undermining of confidence in the Authority and the Government by Dr. Morgan's internal attack is incalculable. It is, of course, serious as a matter of internal administration. Moreover, Dr. Morgan, heretofore relied upon as an important witness for the Government, has here made public acknowledgment of charges which are the basis of the pending court action brought against the Authority by the combination of utilities in the Tennessee Valley Authority area.

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TENNESSEE VALLEY AUTHORITY

Knoxville, Tennessee

November 19, 1937

BOARD OF DIRECTORS
ARTHUR E. MORGAN, CHAIRMAN
HARCOURT A. MORGAN
DAVID E. LILIENTHAL

MEMORANDUM FOR THE PRESIDENT

From: Harcourt A. Morgan, Vice-Chairman
David E. Lilienthal, Director

Dr. Arthur E. Morgan's public and private attacks upon the TVA, and his relations with the utilities, have exposed your Administration's conservation policies to grave danger in court attacks. That he would go beyond this, however, and seek a judicial decision invalidating certain activities of the agency of which he is still Chairman, is almost incredible. This, however, is what has occurred.

The essential facts are these:

The Authority's General Counsel, Mr. James Lawrence Fly, and its Special Assistant, Mr. John Lord O'Brian, of Buffalo, had tentatively concluded that Dr. Morgan should not be used as a TVA witness in the eighteen-utilities suit against the TVA (now on trial), because of his written attacks on the Authority and his general attitude of opposition. These attacks constitute legal admissions, by a party to the suit, of the truth of many of the charges upon which the utilities' case rests. In an extended conference with these lawyers, on November 9 and 10, just before the trial opened, Dr. Morgan repeatedly suggested that the Authority's case be so presented that the Court would hold unconstitutional such portions of the power activities as he, Dr. Morgan, disapproved.

The details of these conferences have been recorded by Mr. Fly, after consultation with Mr. O'Brian, and are, of course, available to you if you so desire.

The conduct of the case is wholly in the hands of the Authority's General Counsel, who has full power

NOVEMBER 15, 1937

MEMORANDUM FOR THE PRESIDENT

MEMORANDUM FOR THE PRESIDENT

BOARD OF DIRECTORS
MEMORANDUM FOR THE PRESIDENT
MEMORANDUM FOR THE PRESIDENT
MEMORANDUM FOR THE PRESIDENT

-2-

Memorandum for the President

November 19, 1937

to act. The Board believes it will be able to meet any situation that may arise, but we feel we owe you a duty to report these facts.

Respectfully submitted,

Karen KA Morgan
Vice-Chairman

Dora S. Menthae
Director