

Boston, Massachusetts
December 6, 1922

To the President and Members
of the City Council

I regret that I can not be present tonight to explain in person the reasons why I question the advisability of the City's acquiring the electric light plant at this time. Being unable to be present, I am taking the liberty of writing you the reasons for my conclusions in this matter.

I may say at the outset that my conclusion is not based upon the usual argument that the plant would be run less efficiently under municipal ownership than under private ownership. The experience of the vast majority of municipally owned plants, although there may be some exceptions; the experience of the Shipping Board in the government ownership of ships and the experience of foreign governments in the ownership of railroads indicates that as a usual thing, government ownership is less efficient, but even if the City could operate the plant exactly as well as the present Company, which I do not say is impossible, there are still strong reasons against the Council's voting to take the plant over at this time.

The first point I would make in this connection is that the primary function of our municipal and state governments is to govern the people and to undertake to do for the people that which can not otherwise be accomplished for them. The chief argument of those in favor of taking over the plant is that the City would make money thereby, and so reduce the tax rate. As far as this argument is concerned, that the City would make money by taking over the electric plant, it could be equally well contended that the City should run any kind of business which shows a profit. But the carrying on of various kinds of businesses merely in order to make a profit for the taxpayers is not a function of City governments, and no business should be undertaken by the City unless there is a real necessity therefor. If there were no electric light plant, and no private interests were prepared to build one, there would, of course, be a justifiable necessity for the City's going into this business. If the

present plant was being improperly or inefficiently run, or if the rates being charged to the public were obviously too high, I would say there was a necessity for taking the plant over, unless it was clear we could force better service or better rates by other means. Even if, however, the rates charged might be a little lower, or the service rendered is not entirely satisfactory, we should still hesitate to take the plant over unless we could be sure we were getting it for a price sufficiently low to insure its being a good business proposition for the City to take it over at such price.

With this preliminary, I should like to make my second point, namely, that there does not appear at the present time to be any such necessity as would justify us in taking over the plant now. This question of necessity depends primarily upon whether the citizens of Cambridge are being charged too high rates. If they are being charged too high rates, and we can not get relief otherwise, I would not, as I said above, oppose taking over the plant.

In this connection I submit the following facts. The maximum rate charged by Cambridge June 30, 1921, as shown in the last report of the Public Utilities Commission, is ten cents per Kilowatt Hour. That this is reasonable and in fact low is shown by comparison with the following rates charged by other cities:

Ayer	14¢	Lawrence	11.7¢
Beverly	14¢	Lowell	10 ¢
Charlestown	10½¢	Lynn	12 ¢
Boston	10½¢	Milton	11 ¢
Fall River	10.45¢	New Bedford	12.35¢
Fitchburg	13¢	Newburyport	14.4¢
Gloucester	16¢	Plymouth	16¢
Greenfield	13½¢	Quincy	12¢
Haverhill	13¢	Salem	13¢
Ware	15¢		

As against these cities charging the same or more, there may be mentioned Brockton, which charges only nine cents, and Worcester, which charges only eight cents. However, since June 30, 1921 I am informed Boston and Cambridge have both reduced their rates to nine and one-half cents and nine cents respectively. It would thus appear that our rates are favorable as compared to practically all the other cities which are anywhere near the same size. If we take comparisons of the smaller cities and towns, it will be found that

the rates charged are almost universally higher than Cambridge, but of course the smaller cities do not give such a fair comparison.

If it be urged that under municipal ownership we could charge under the present rate, we should see what other municipal plants are charging. The following cities and towns were charging ten cents on June 30, 1921, which is the same rate that Cambridge then charged:

Ashburnham	-	Belmont	-	Groton	-	Holden
Mansfield	-	North Attleboro	-	Sterling		

The following are the only municipal plants which charged less than Cambridge:

Chicopee	-	Holyoke	-	Wellesley
Norwood	-	Westfield		

On the other hand, the following municipal plants all charged substantially more than Cambridge, their rates varying from ten cents to as high as eighteen cents:

Boylston	Concord	Dana	Danvers
Georgetown	Groveland	Hingham	Hudson
Hull	Ipswich	Littleton	Marblehead
Merrimac	Middleboro	Middleton	Paxton
Peabody	Plympton	Reading	Rowley
Russell	Shrewsbury	Southwick	South Hadley
Taunton	Templeton	Wakefield	West Boylston

There is thus little comfort to be found in these statistics on the proposition that based on the experience of other plants Cambridge citizens would get much of a reduction in rates through municipal ownership.

In view of the profits which the Cambridge Company is apparently now making, I should think we would be well justified in expecting the Company, not only to continue to give us as low a rate as nine cents, but if it appears that even at that price it is earning more than a reasonable rate on its investment, to give us a still better price than nine cents, for it is not my desire in any way to protect this Company against earning more than a reasonable rate on its investment, and therefore, even though the present rates are not high in comparison, but are in fact low, if we feel we are entitled to a still lower rate and that the Company can afford to give us a still lower rate, we would be justified and it would be our duty to take the necessary steps to secure the same for the benefit of the public.

The third point I desire to bring to your attention is the fact that we have no means of knowing how much we would have to pay for the plant. From a business standpoint, leaving out all questions as to the policy of the City's engaging in this sort of business, whether we should go ahead depends on one factor alone--what we would have to pay for the plant. Holyoke acquired its plant back in 1890 when prices were very near their lowest point. If we could acquire the plant for the price which the Electric Company paid for it, less depreciation, it might be urged that we would have as good an opportunity to make money out of it as the present Company. But that is not the case. Under the statute, we would have to pay the fair market price of the plant today.

As the members of the Council no doubt appreciate, prices today are at least fifty per cent. greater than they were immediately before the war. Most of the plant of the Electric Company was built a good many years even before 1914, so the reproduction value of this plant, before depreciation, would undoubtedly be a great deal more even than fifty per cent. in excess of its book value. I would invite your attention to the fact that very few private corporations are building public utilities at the present time on account of the high price which they would have to pay for constructing them, and if it is not profitable at today's prices for private enterprise to build new plants, why should we consider it would be profitable for the City.

Prices are in fact so high today that I do not doubt that a great many public utilities would be only too glad to sell out to the municipalities at reproduction value less depreciation. Through such a sale the stockholders would get back undoubtedly a great deal more than their investment, and would therefore be well pleased.

I stress this point because the balance sheet of the Cambridge Electric Light Company shows that its plant assets are only carried at a little over \$2,600,000., and some of the councillors may think for this reason that that is all the City would have to pay, but I have no doubt that if we proceeded with our programme, on account of high reproduction values today, even allowing for depreciation, the Company would claim that we would have to pay \$3,500,000. or \$4,000,000. We would undoubtedly be so far apart in negotiating with the Company that we would never be able to agree on the price to be paid, and the matter therefore would have to be taken to Court to determine what the price should be. If the Court should finally say we had to pay \$4,000,000., it would then be too late for us to repent of our bargain. The Electric Light Company would undoubtedly be only too pleased to get this amount of money. While it might be all very well if we could be sure in advance that we could acquire the plant for a reasonable figure, say \$2,000,000. or \$2,500,000., it

would be a totally different thing if, to use a slang expression, we got "stuck" and had to pay \$3,500,000. or \$4,000,000.

If we were private capitalists considering a thing of this sort, we would undoubtedly have an appraisal made by the American Appraisal Company or some qualified engineers so as to know about what we would have to pay in advance. If the Federal government should take over the railroads, for example, they would have a very fair idea of what they would have to pay, as they have had all of the railroads appraised in advance by the Interstate Commerce Commission. I would therefore say that even if we deemed it might be good policy to take over this plant, we would be very foolish to take such a large gamble on what we would have to pay for it as we would be doing if we voted blindly as we are now being asked to do in favor of this proposition.

One last point I would make is that those who favor the proposition are in my opinion unduly sanguine on how much the City would be able to reduce the tax rate even if everything went most favorably. Assume the City only paid \$2,500,000. which is not at all likely. They would be allowed a maximum of eight per cent. on their investment, which would be \$200,000. Out of this, however, they would have to pay interest on the bonds they issued for the purpose. Four and one-half per cent., say, on \$2,500,000. would be \$112,500. so they would only be left with \$87,500. Even this they would not be able as a practical matter to turn over to the City treasury as all light companies are required to continually strengthen their cash resources in order to take care of improvements and additions, and I personally have been unable to learn of any municipally owned plant yet which has turned over any surplus to the City treasury. There may be some few cases where this has happened, but I have yet to learn of them. Even assuming the Company made \$87,500. or even a little more, it is to be noted that the City would lose what it now receives in taxes. The Electric Light Company pays about \$140,000. in taxes, most of which go to the City of Cambridge.

The conclusion I would draw from all I have written would be that even under the most favorable circumstances the City would not profit, particularly so far as the tax rate is concerned, through turning over surplus earnings to the City treasury. The only real advantage that could be hoped for would be in the reduction in the price charged citizens for electricity. As explained above, the rate they are now paying is not at all high in comparison either with the rates charged by other cities or with the rates charged by municipalities. But if the Council thinks that even at ten cents the

rate is too high and that we should have a nine cent rate, say, as in Brockton, their proper remedy would be to take the matter up with the Utilities Commission rather than to go to an expense estimated at anywhere from \$2,000,000. to \$4,000,000. in order to get a slight reduction in the price of electricity. Cambridge can ill afford at this time to incur this added indebtedness, in view of the other calls for money which we know the City is threatened with, such as a contribution to the cost of the new Harvard Bridge and the likelihood that we will have to incur additional large expenses for a memorial building and other expenses.

Merrill Ginn

Electric
Light Plant

CITY OF CAMBRIDGE



MASSACHUSETTS

In City Council Dec. 12th 1922.

YEA			NAY	ABSENT
		MR. ANDERSON	/	
/		MR. BRADBURY		
		MR. BROWN	/	
/		MR. COADY		
		MR. DRINKWATER	/	
		MR. GRISWOLD		/
/		MR. HOGAN		
/		MR. LEAHY		
/		MR. LEHAN		
/		MR. MAHLER		
/		MR. McCARTHY		
/		MR. SHEA		
		MR. SKILTON	/	
		MR. WRIGHT	/	
/		PRESIDENT BARRETT		
9			5	/



City of Cambridge

In City Council

November 14, 1922.

ORDERED:-

Under authority of Chapter 164 of the General Laws of Massachusetts that the City of Cambridge acquire an electric lighting plant for the manufacture and distributing ^{on} of electricity for municipal use and for the use of its inhabitants.

DEC 12 1922

In City Council.....

Failed of Adoption

yeas 9; Nays 5; Absent 1

Frederick H. Beale

City Clerk

Order 27
relative to acquiring an
Electric Light Plant by
the city

Table

Nov 14, 1922

In City Council

Laid On Table

Frederick H. Burke

City Clerk

Mr. Lehan