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1962

Rural Lines

RURAL ELECTRIFICATION ADMINISTRATION • U. S. DEPARTMENT OF AGRICULTURE



SPECIAL SURVEY: RURAL POWER SPURS PROGRESS IN KENTUCKY (pages 3-14)

MAJOR TELEPHONE ADDRESS BY REA ADMINISTRATOR (starts on page 2)



Growth Through Agricultural Progress



A Message from the ADMINISTRATOR

Following is a condensation of a talk delivered by REA Administrator Norman M. Clapp before the 53rd Annual Meeting of the Minnesota Telephone Association:

The nature of the REA telephone program places special obligations on both the borrower and the lender of these long-term loan funds. There is a justified public interest in the nature and degree of performance achieved by the borrower toward the objectives of the telephone program. There is also a justified public interest in how well we in REA help the borrowers achieve the objectives of the Act and insure full repayment of the loans. In a real sense our borrowers and REA as an agency are accountable to the Congress and to the American public for the wise and prudent use of the resources which have been entrusted to us.

What does the record show? As of January 1 this year, REA had approved telephone loans totaling almost \$856 million. These loans have gone to 768 telephone organizations, including 556 commercial companies and 212 cooperatives. These loans will enable the borrowers to improve and expand telephone service for more than 1.6 million subscribers.

Despite this evidence of progress toward the objectives of the REA telephone program, there is no basis for complacency or a feeling that we can sit back and wait for the lines to fill. One in three farms in the Nation still lacks any kind of telephone service. Many thousands of farms still lack adequate service. Hundreds of small community centers still lack a modern, fully integrated farm-to-market dial telephone system. In many cases the existing industry has still failed to face up to the challenge of redeveloping service concepts and look at their entire assigned areas as a total unit with lines reaching out to all potential users.

REA financing is not made available to telephone borrowers as a reward or inducement to meet basic responsibilities within the assigned service territory. It is made available in recognition of its economic necessity to facilitate, where

(Continued on page 15)

Rural Lines

June E. Panciera, Editor

Contributors to this issue: Barton Stewart, Jr., Bernard Krug, Donald Runyon.

Cover picture: Lineman Carl Jones mounts ladder truck to make cut-in on Powell Telephone Company exchange. Powell, a family-owned and -operated telephone company, is located in the Clinch Mountains of eastern Tennessee.

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This sausage meat goes from hog to package in 24 hours. The plant, which is on Harrison's lines, is highly mechanized and sold nearly 5 million pounds last year.

THE TIDE IS TURNING

In north central Kentucky, the economy is being boosted and Harrison County Rural Electric Cooperative is actively participating in the effort.

Harrison's eight-county service area fans out from Cynthiana, Kentucky, over gently rolling land sandwiched in between the rich bluegrass country to the west and the Cumberland Mountains to the east.

For a number of years, the area had been losing ground economically. Industries closed down, and were not replaced. Young folks sought careers elsewhere.

Even the manager of Harrison Electric felt the pinch. His own son, graduated from the University of Kentucky,

was unable to find employment at home and had to migrate to a large city. Several years ago, however, the tide began to change. Sparked by the well organized statewide development association, local citizens—civic groups and individual local leaders—formed committees to revitalize the Cynthiana area. These were "action" committees that wasted little time in "just talking." Harrison County Rural Electric pitched in to help in every way possible. Bill Penn, its manager, and other members of the staff and board of directors, served on committees, bought bonds, and otherwise assisted the drive.

Penn says, "Our door was always open and a helping hand was always available."



Joe Botto (left) of East Kentucky power co-op discusses with Bill Penn, Harrison manager, problems and rewards of rural development in Penn's service area.

Today Cynthiana and the surrounding countryside have a clean, lively "looking to the future" air. New buildings try to outshine spruced up older establishments. Young people, able to find employment in the new industries that have sprung up in the area, are staying home. Many others who had left home, have returned. Among them, manager Penn's son, who is now employed by a metal fabricating plant that located near Cynthiana 2 years ago.

This plant employs 600 people — mostly men. Many of its employees are farmers who work at the factory part-time to supplement their farm income.

One of the first new industries to locate near Cynthiana was a mill that makes men's underwear. Its payroll of 100 persons consists mainly of women seamstresses. Most are farm wives who add to the family income by working a few hours outside the home each day.

Since this is tobacco country, it is logical that a tobacco auction warehouse should find its way to the neighborhood. Although it is open only about 3 months a year, it employs about 50 local farmers during the season. About 2 million pounds of tobacco pass through it each year.

A factory which manufactures wood and metal screws came to the area 18 months ago. It employs 40 people. And already this year, a company that makes tools, dies, valves, hacksaw blades, etc. went into operation. It employs 100 workers at present, but expects to have 400 on its payroll when it reaches full production.

The stepped-up activity all around it, motivated one of the area's older industries to remodel and expand.

The industry, a sausage plant, was begun 15 years ago by William Webber, who sold his product in bulk lots dipped from a can out of the back of

his car. A year later he built a small plant. His first week's profit was 50 cents and a pack of cigarettes. His output of sausage that year was about 5,000 pounds.

In 1961, the plant slaughtered 18,845 sows averaging 500 pounds each, with a 50 percent cutout. It sold nearly 5 million pounds of sausage via 18 refrigerated trucks throughout 98 of Kentucky's 120 counties. In addition, it rendered about 250,000 pounds of lard for the wholesale market, and sold the offal to a local fertilizer factory.

The plant is now being enlarged and remodeled. Its three 37½ KVA transformers are being changed over to three 100 KVA's. It expects to produce about 50 percent more sausage this year for inter-State distribution, concentrating on neighboring States.

Webber's son Bill, Jr. and the boy's friend Millard Reynolds were in high school when they hauled blocks used to build the original plant. After the elder Webber died, his son took over the business and appointed as vice president, Reynolds, who had worked in the plant full time since he graduated from high school.

Webber says he cannot praise too highly the service he gets from Harrison Electric Co-op.

"We used nearly 487,000 kwh last year, and outages," he says, "were at a minimum and of short duration. A prolonged outage could cost us thousands of dollars, so better-than-average service is a must with us."

The co-op has rigged up an alarm system, which sounds off if a phase goes out. The alarm can be heard for miles and the co-op gets the word within minutes.

Latest project of the north central Kentucky development groups, is developing some of the State's recreation areas. For example, a pair of adjoining lakes in Nicholas County have provided excellent potential for recreation

facilities. The smaller of the two has become the site of a 4-H Club camp. Designed to accommodate 150 occupants, the camp will change occupancy weekly. Thus, up to 2,400 young folks will be able to enjoy its facilities each summer.

The large lake will have 300 home sites along its banks. A 30-unit all-electric motel, boat dock, and bathing beach will enhance its desirability.

At Falmouth Lake, a 100-acre area within a 500-acre State Park is also being prepared for a playland. First, a dam was built and access roads started. Lots have been sold for private residences and a restaurant, lodge, cabins, boat dock, and picnic and camping grounds are planned for the near future. Eventually Falmouth Lake, as well as the lakes in Nicholas County, will be stocked with game fish.

All this development activity has been a shot in the arm for Harrison Rural Electric Co-op, which has reached 98 percent coverage of its area and, in order to keep growing, must add to its lines the new loads that develop in its service area. The co-op, which began in 1937 with 240 members, has grown to a total of about 5,300.

Last year, as a public service, the Harrison bought a farm on the outskirts of Cynthia. The farm serves two purposes. First, the co-op receives poles at an adjacent railroad siding and stores them on the farm.

The second and most important purpose, however, is to provide a recreation area for local organizations. The co-op built a picnic shelter with an all-electric kitchen, mapped out a baseball diamond, etc. Civic, educational, and Church groups are permitted the use of the grounds and kitchen without charge during the summer months. Last summer, the farm was used by 100 groups in 90 days.



Side view of farrowing house at the University of Kentucky, showing four of the eight electric heat pumps that were donated by East Kentucky Power cooperative.

POWER-FULL PROMOTION

“Low cost power for all of rural Kentucky through cooperative effort” is the goal of East Kentucky Rural Electric Cooperative, at Winchester, Kentucky. To achieve its goal, East Kentucky—a generation and transmission cooperative—is conducting a coordinated power sales promotion program.

The program is designed to promote new, greater, and more efficient use of electricity in the home and on the farm.

“What we do,” says Frank Downing, director of sales and research, “is generate ideas, and prepare power sales publicity for our member co-ops.”

East Kentucky, began operating in 1954. It provides power for 160,000 homes and businesses through its 16 member co-ops in 82 of Kentucky’s 120 counties — or about two-thirds of the State’s land area. (Two additional co-

operatives are expected to become members this year.) East Kentucky’s generating capacity is 176,000 kilowatts. To produce this power, it uses 1,350 tons of coal every 24 hours, and stockpiles about 150,000 tons.

It burns coal mined in the eastern part of the State, thus utilizing a local resource. In generating electricity from this coal, and transmitting it back to the homes of the miners, and in many cases to the coal fields to supply the power to mine the coal, it makes a complete cycle.

In order to assure an uninterrupted supply of coal, East Kentucky uses three transportation methods—barge, rail, and truck.

East Kentucky began its power sales promotion program in 1957 with a budget of \$15,000 for that year. In contrast, more than \$130,000 has been

earmarked for power sales in 1962. This does not include salaries of the power use staff, which would bring the figure to nearly a quarter of a million dollars.

The first year, East Kentucky promoted electric heating. As a result of its efforts, twenty-one homes converted to electric heat. By the end of 1961, the number of electrically heated homes had risen to 1,150—most of them were new construction—and East Kentucky expects to add almost 576 more to the total in 1962. Electric heating installed in 1957 raised sales of electricity by 378,000 kwh. In 1961, the kwh increase for heating was 21 million. East Kentucky's revenue from this source rose from \$3,099 in 1957 to \$169,949 in 1961. During the same periods, member co-ops shared revenue that jumped from \$5,670 to \$310,770.

The same success is evident in other promotions East Kentucky has added to its power sales program. For example, it embarked on a Gold Medallion home program in 1960, and its members connected 16 that year, 57 more in 1961, and expect to add an additional

144 by the end of 1962—an estimate based on planned construction and increased participation by member co-ops in the program. As part of the Gold Medallion program, East Kentucky holds a housing forum in January of each year to bring together home builders and those about to remodel, cooperative personnel, representatives of financing organizations, lumber dealers, plumbers, electricians, and all others interested in upgrading housing standards. At these forums all aspects of home building and remodeling are discussed.

The G&T added air conditioner promotion in 1960, and installed about 150 tons of equipment for a kwh rise of 320,000. In 1961, however, cool weather and low humidity during most of the summer dealt a severe blow to the program. Total installations were down to about 80 tons. The 1962 estimate, based on a weather bureau forecast for a sizzling summer, is an optimistic 540 tons, which would use about 810,000 kwh of electricity.

Water heater promotion was inaugurated in 1961, and 1,340 units were

ADVERTISING CALENDAR

	J	F	M	A	M	J	J	A	S	O	N	D
Housing Forum	★											
Electric Clothes Dryer		★	★									
Electric Heat				★		★	★	★	★	★		
Gold Medallion Home					★	★	★					
Range				★	★							
Milk Cooler				★		★						
Freezer					★							
Air Conditioning							★	★				
Traffic Appliances											★	★



Studying plans for the all-electric experimental farrowing house are (standing from left) Dr. John Walker, Agricultural Engineering Department, University of Kentucky; Dr. Charles Barnhart, head of the Swine Department; Dr. W. P. Garrigus, associate director of the Experiment Station; (seated) Frank Downing, director of research and sales, East Kentucky power co-op; Dr. William Seay, Dean, College of Agriculture; H. L. Spurlock, general manager of East Kentucky.

installed as a direct result of the program. Estimated kwh consumption of these units is 4 million, which will bring a revenue increase of \$32,160 to East Kentucky, while member co-ops will share over \$60,000.

This year, East Kentucky is adding ranges, clothes dryers, and milk coolers to its program.

The power sales program is divided into three parts.

- The equipment and appliance promotion provides guidelines for members on how much each promotion will cost on a per-home basis, how many homes to aim for, and the best months to promote certain items.

- The educational programs include the annual housing forum, dealer meet-

ings, and open houses during Gold Medallion home promotion months.

- The advertising campaigns are directed toward every media. East Kentucky will match member co-op funds for newspaper and radio advertising. Further, it will provide members with newspaper stories, mats, and artwork, recorded 1-minute radio spots, posters for lobby display boards, envelope stuffers, handout and other materials. It will also provide materials for dealer kits on electric heat, dryers, ranges, and air conditioning.

All advertising is done in the names of the member co-ops. East Kentucky acts as the coordinator.

The power co-op figures its sales promotion costs about \$4.22 per kw of

load. It expects recovery of its investment to take a little over 6 years.

Last year, as a community service activity, East Kentucky donated funds to the University of Kentucky to buy eight electric heat pumps to control the temperature in an experimental pig farrowing house. The pumps have four-way baffles to cut down drafts.

The farrowing house, designed by Dr. Charles Barnhart, head of the University's swine department, incorporates the most current advances in structure and equipment.

East Kentucky's kwh sales have jumped from 365 million in 1957 to

584 million in 1961, but the co-op is far from finished with its expansion. Last September, REA approved a \$25 million loan to the co-op; \$17 million is earmarked for construction of a 100,000 kw steam generating unit at a new plant in the vicinity of Burnside. The remaining \$8 million will finance construction of 152 miles of 161 kv transmission line, 190 miles of 69 kv line, and 6 substations.

First unit of the new generating plant is scheduled for operation in 1964, and already long range plans are being prepared for three additional units of the same size or larger.

CO-OP OFFERS FREE WELL TESTING

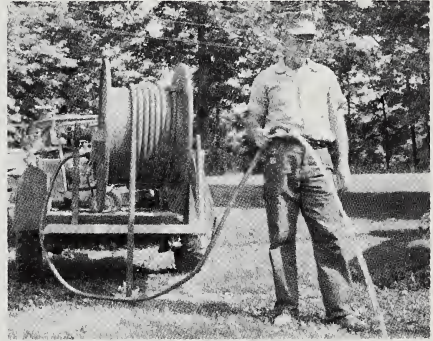
Profitable farming and comfortable living depend greatly on an adequate supply of pure water. Nowhere is this more apparent than in southern Kentucky, where the land is underlaid with limestone formations that cause the underground water supply to vary markedly from farm to farm.

In the past, many farmers have been reluctant to invest the hundreds of dollars necessary to install adequate water systems because they doubted the adequacy or dependability of their wells.

Farmers Rural Electric Cooperative Corporation at Glasgow, aware that action was needed, assigned the problem to James Sherfey, its electrification advisor. Sherfey decided that well testing was needed.

He immediately went to work and assembled a well-test trailer using a borrowed submersible pump and a 5 KVA generator belonging to the cooperative. He bought the trailer, 200 feet of plastic pipe, a reel, electric equipment, and a flow-gauge for \$270.

The equipment tests the output of a well in gallons-per-minute by a pumping process. Usually a minimum of 1 to 2 hours pumping will determine well



Farmers Electric measures output of consumer's wells with this equipment.

yield, but unusual circumstances sometimes make several hours of continuous or intermittent pumping necessary.

When the well test is completed, the co-op recommends the type and capacity of pump, size of pressure tank, and size of pipe for most efficient operation. It also offers tips on building the pump-house and planning and locating the bathroom.

Member reaction to the new service has been most gratifying. In 16 months 75 members have requested this service and have had their wells tested.

NATURAL RESOURCES

—LOCAL PRODUCTS

—UNIQUE IDEAS

SPARK KENTUCKY INDUSTRIES

Warren Rural Electric Cooperative at Bowling Green, Kentucky, is serving some diverse rural enterprises. For example, a retired minister in Barren County combines pig farming with operating his tourist attraction, Diamond Caverns.

The Rev. Dr. Elwood Rowsey, who opened the cavern to the public in 1924, is continuously improving and enlarging his operation. In 1947, he built a new colonial-type lodge over the cave entrance. The cave is entered through the lobby. Only the architectural design of the building, however, is colonial. The electric lighting is modern as are the electric heat pumps, which control the temperature. Dr. Rowsey also has an electric heat pump in the family living quarters nearby.

His enterprise used 291,600 kwh of electricity in 1961. Dr. Rowsey says that a trip through Diamond Caverns provides a revealing chapter in the history of the earth's formation. The cavern is located on the edge of a slightly rolling plateau. Its geologic story began, according to authorities, about 325 million years ago when huge limestone rocks were deposited in a great body of water known as the Mississippian Sea. Much later the area rose above the level of the sea and erosion carved out valleys and otherwise sculptured the landscape. As surface water pushed through the limestone rock, it formed underground passageways, which were gradually enlarged through solution and further erosion. This process produced the

grand galleries and extensive avenues visible today.

Dr. Rowsey recently began work on an electric railway to transport visitors through the cavern. The trains will have flat, open cars, with two rows of seats running lengthwise back-to-back down the center of each car. As the trains move through the cavern, they will trip mercury switches embedded in the tracks, turning the lights on in the passages ahead and off after the train passes. The railroad tour will take about 50 minutes and will traverse 3 miles of cavern passageways. When the railway is completed, Diamond Caverns will be the first scenic cave in the United States boasting a rail line. In fact, the only other one in the world is Postumia in northern Yugoslavia.

A number of years ago, Dr. Rowsey took up hog raising as a hobby. This enterprise has grown to encompass 125 acres of land and, when current expansion is completed, Dr. Rowsey expects to market 6,000 hogs annually.

Dr. Rowsey applies many of the principles and techniques developed at the University of Kentucky in the hog operation. All his hogs are raised on concrete from birth to market; this conserves feed because dropped feed cannot be rooted into the ground, and it is sanitary.

The farrowing house, part of the expansion, will accommodate 60 hogs at a time. It will have electric heating coils embedded in the concrete floor to keep the baby pigs warm and concrete dividers between the farrowing crates

to eliminate drafts and prevent the spread of diseases. Overall room temperature will be maintained by electric heat pumps.

The growing house, which is completed, has an evaporative cooling system which reduces temperature through evaporation. Since hogs cannot perspire, they must have cool moist air for comfort. In the finishing house, air is kept moist with fog nozzles which continuously spray water over the animals in warm weather.

Automatic electric equipment mixes, measures, and delivers feed to the hogs.

Church Pews

Over in Logan County, on the outskirts of Auburn, another rural industry has expanded its operations. This factory, operated by Mr. and Mrs. John Graham, custom designs and makes church pews, kneelers, pulpits, and other chancel items—mostly from local woods. The main types are red oak, white oak, and maple. No veneers are used.

The factory employs about 30 persons in 2 shifts. Nearly all of those working the evening shift are local rural people who operate small farming enterprises by day.

The factory's motto, "We have seated the biggest Churches in the country," has held true for 13 years and continues today. Factory representatives are forever on the go—taking measurements for a pulpit in Maine, installing pews in California, or fitting kneelers in Florida. The factory built and installed 16,911 feet of pews alone in 1961. Its total consumption of electricity was 72,560 kwh for the year.

Plastic Bait

A couple of years ago, Dewey Haven of Kentucky and Ernest Webber of Minnesota met at a fishing tackle show in Chicago. It wasn't long until they were making plans to merge their bait businesses. They chose Kentucky as the base for their combined operation because of its mild climate, plentiful labor, and low cost electric power.

Colonial lodge at left was built over the entrance to Diamond Caverns.

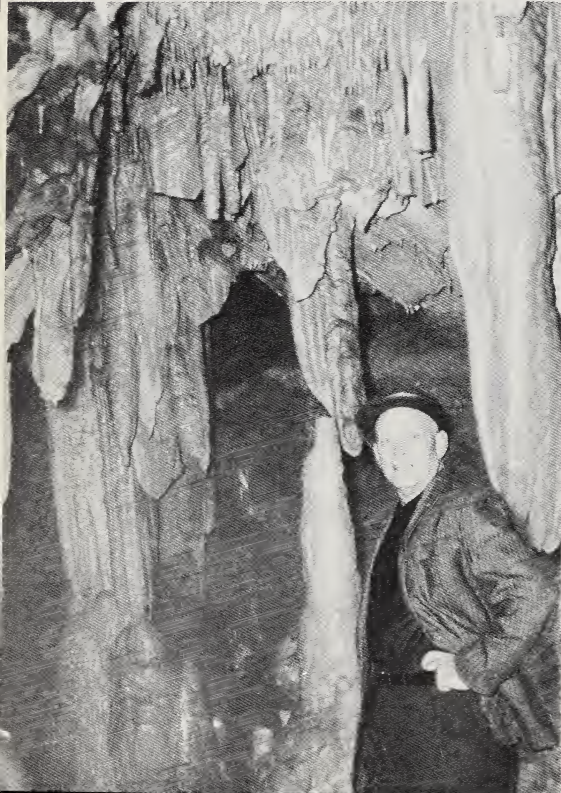




Employee at bait factory squeezes plastisol into mold—first step in making flexible plastic bait. These night crawlers will be fitted with hooks, then baked.

Phil Palmer, Warren assistant manager, admires beauty of Diamond Caverns.

Dr. Rowsey began pig raising as hobby — built it into a sideline business.





The factory makes and sells over 200 different flexible and hard plastic baits.



These custom-designed church pews are made near Auburn from local woods.

Doris Pruitt, home service advisor for Warren Rural Electric Cooperative, demonstrates proper laundering techniques at high schools in the co-op's service area.



The factory, located near Cromwell, makes over 200 different types of plastic baits. Hard plastic pieces are molded on electric presses at the factory. Flexible plastics, however can be baked in molds in any ordinary oven at 350° F. Thus they can be made in a farm kitchen as easily as the factory.

In addition to their wives, Haven and Webber employ about 35 people—22 work at the factory and the rest add to their farm incomes by utilizing spare time at home. These rural people come to the factory, pick up the materials—molds, liquid plastisol, hooks. They mold the bait at home and return the finished product to the factory.

These unusual industries are only three of the more than 1,200 small commercial loads served by Warren Rural Electric Cooperative, which began operating in 1938 with 300 consumer-members. The co-op now serves 17,800 consumers on 4,200 miles of line.

The co-op employs 80 people at a main office, located in Bowling Green, and four branch offices. Charles Stewart, the co-op manager, says that much of its success has resulted from consumer cooperation.

The town of Lindseyville is an example of this cooperation and is brighter for it. Lindseyville is a unincorporated community of about 40 homes. It is located on a major highway, and served by the co-op. The people of Lindseyville needed street lighting. They got together and at their request the co-op installed 22 mercury vapor security

lights. They agreed to have a proportionate part of the rental cost added to their electric bills each month.

Lindseyville is in an area where water is a problem. A farmer just outside the town had a large spring on his land. His public spirit was so great that, at his own expense, he installed a 7½ h.p. positive displacement pump, and now supplies water to about 65 families—including all of Lindseyville.

Cooperation developed Morgantown, too. Morgantown, the county seat of Butler County, is served by the co-op. It was a country village 6 years ago when the county was designated a pilot rural development county by the U. S. Department of Agriculture. Town leaders and co-op personnel sparked a drive that has resulted in a new bank, hardware store, clinic, public health center, library, supermarket, and a number of other new businesses. Further, the first heat pump sold to a user in the State of Kentucky is in Morgantown.

Warren Electric Cooperative is now watching with interest a TVA steam plant, being built on Green River. This river, the deepest for its width in the world, flows into the Ohio, and will provide a water route to urban centers for heavy industries that are expected to follow the generating plant. Warren Electric co-op plans to be ready to serve any new industries that may develop in its service area after the plant goes into operation in September of this year.

NOTHING SUCCEEDS LIKE SAFETY

As of April, REA borrowers had suffered no fatal accidents in 1962. This is a significant achievement in safety and job training. It means that safety, like success, can become habitual. Your patience, determination, alertness and just plain hard work are helping you to keep the slate clean. To maintain this fine record is to remember:

“The Pledge For You —

No Fatal Accident in 1962.”

A Message from the ADMINISTRATOR

(Continued from page 2)

needed, the reorganization, the recapitalization and technical improvements needed to expand service to all rural subscribers, to make that service modern and efficient, and to accomplish this within rate structures which rural people can afford to pay. We in REA, then, do have an abiding interest in your growth and stability, in your efficient management, and in development of improving concepts of total communications service to subscribers.

While our interest is in your progress and development and in the security of loan funds, this does not mean that REA lays a heavy hand on the borrower's shoulder in the management process. But it must mean that the character of the ownership and management are important to us. We have a long road ahead over which we must ride together. We want it to be a smooth road. As relationships prove successful through experience, as the level of owner equity grows, our confidence in management grows with it and the need for special assistance diminishes. It also means that we recognize at REA that success of this program is chiefly dependent upon the motivations, the experience, and the management skill of our borrowers.

We in REA are concerned far more with the responsiveness of borrowers to the needs for service than we are with the form of organization a borrower may use. However, I believe it only fair to say that our experience does indicate that there is a relationship in general between ownership motivation and quality of service. At REA, we have made loans covering the

full spectrum of various types of ownership. We have had successful relationships with borrowers representing various types of ownership, and we have found that the degree of local identity has an important bearing upon the responsiveness of the borrower to the objectives of the REA program in servicing rural communities.

Where ownership is insulated, however slightly, from these pressures, the decision-making process is less influenced by these pressures. The broader the base of local ownership, the greater importance is likely to be attached to good service as a primary management objective. When policy is influenced by these pressures, REA has found that the borrower is more likely to live up to its responsibilities in the community it serves.

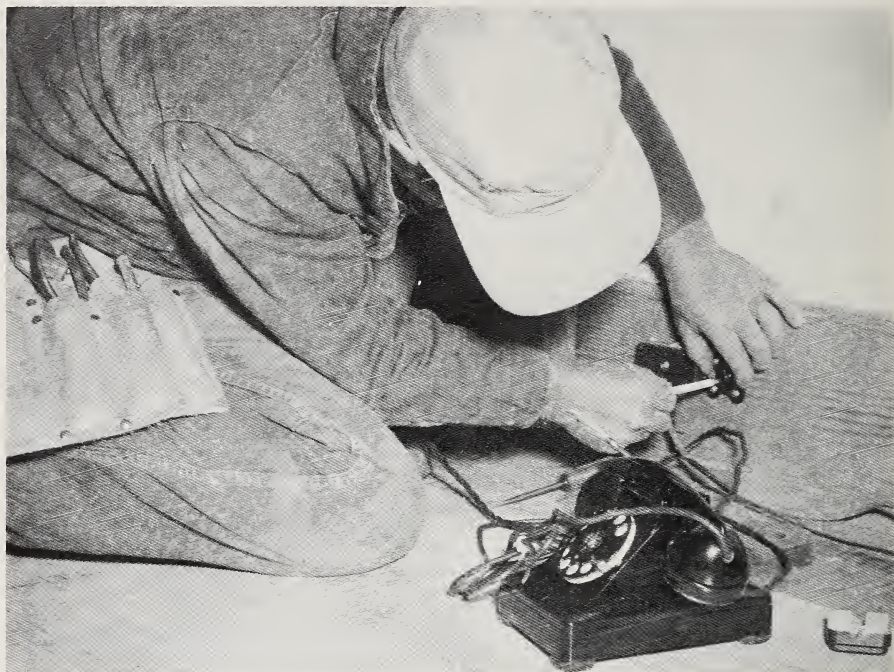
The more we look at the REA telephone program, as it has developed in the past, the more we appreciate the part which local ownership has played in carrying out the objectives of the program. Whether it is a cooperative owned by all its subscriber-members, a family firm, or a stock corporation whose shareholders live in the community which the company serves, we believe that local ownership will be most responsive and responsible in meeting community needs. A telephone company which is a part of the community, not apart from it, is much more likely to do the job that REA was assigned to assist.

There is a trend toward larger companies and a growing concentration of local telephone companies into satellite systems building around various holding companies. Along with this trend, we find a rise in the potential for speculation in stock ownership of small telephone companies. Because this is of concern to you in the telephone community and to REA, I want to talk to you candidly and seriously about this

threat to the future of the REA telephone program—and to the future of the independent telephone industry. The number of independent telephone systems has been shrinking since 1927 when some 60,000 telephone organizations existed in the United States. In 1961, there were 3,187 surviving independent telephone companies, and the

number with less than 750 telephones each had dropped to just over 2,000.

There are no hard and fast rules that are infallible when it comes to predicting what kind of telephone organization is going to give the best service to a community. The locally-owned ones are not all good. Nor are the large investor-owned companies all bad.



The installation of a telephone is an important event in the life of a new telephone subscriber. REA feels that a telephone company which is a part of the community, not apart from it, is more likely to do the job REA was assigned to assist.

But viewing the problems of the industry in the light of the service objectives of the REA program, there are some general conclusions that can be drawn from the differences in the dominant interest of the various types of operations.

At one end of the scale is the cooperative, owned by the subscribers, whose interests are solely in good service at as low a cost as possible. Then comes the locally-owned-and-controlled company in which the owners, although striving to operate at a profit, still must meet

their subscribers face to face every day on Main Street, at the post office, at Kiwanis club, at lodge, and in their homes. They have to live with the people they serve. The chances are good that they will want to do a pretty good job for them.

Then we move on to the larger operating company with absentee ownership of varying degrees. The interest of the absentee owner of that kind of company becomes more and more mercenary in its objectives, less and less concerned with the service impact of

the company's operations except as a means of making dividends, but at least the company is an *operating* company with a professional management interest, as a rule, in good operation.

At the far end of the scale is the company which is in the business of manipulating telephone systems, buying up companies, promoting service company arrangements, parlaying operations into capital gains. In this game, financial gain is likely to dominate so completely that operational standards, service objectives, and even the maintenance of the operating facilities on which these gains are presumed to be based—all these are likely to be sacrificed as immaterial, irrelevant, and inconsequential.

I believe it well at this point that I spell out my own position toward any such extreme tendencies coming to the fore in the telephone industry. If financial promoters move in on the small telephone companies; if such promoters are allowed to substitute their tortuous tentacles of control for sound, responsive local management; if they are permitted to fashion a blue-sky type of financial pyramid out of token equities in operating telephone companies, then this industry and this program and the future of good local service are in deep trouble.

We have only to look at the electrical industry in the 1920's and 1930's to see what could be in store for the telephone industry. What started out to be a sensible move toward integration of neighboring small electric power systems became a wild scramble to buy up more and more power companies and to issue securities of dubious merit in order to secure funds from the public to buy still more power systems. It got to the point that utility systems were developed not because of the operating economies involved but strictly from a desire to reap the promoter's profit,

plus the desire of investment bankers to bring another company within their sphere and sell additional securities. The final payoff came from an unconscionable milking of the properties mortgaged to defenseless bondholders.

The very nature of the telephone business as a growth industry, enjoying an assured rate of return on a high capital investment—with only a low equity required for control—is attractive to the get-rich-quick speculator who would promote his own selfish interests at the expense of your industry's high standing, the welfare of the local community, and the objectives of the REA telephone program. We have been aware of this potential danger for some time and are taking steps, in fact have taken some already, to head it off in the REA program to the limit of our means and authority.

Our best safeguard, of course, is in the continuation and strengthening of the policies favoring local ownership. Here are the principles we have established for ownership and control of the telephone systems we finance:

1. REA considers local ownership and control to be an important factor in assuring continued interest of the borrower in providing adequate telephone service to the community.

2. Where ownership and control are not locally held, REA generally will require the borrower to provide initially a minimum level of net worth in the corporation as evidence of its interest and intent in providing adequate telephone service.

3. Where a borrower contemplates expansion of its system through acquisition of existing facilities with REA financing, REA will not approve a loan, if, in its opinion, the facilities to be acquired do not, because of their remote location, constitute a logical extension of the borrower's existing system or if alternate arrangements would

provide better assurance of loan security or of attaining the objectives of the REA telephone loan program.

Along with this we call for increased emphasis on more prudent planning of acquisitions where REA financing is involved either in the acquisition or the improvement of the facilities. The speculator should not be allowed to run up the price of existing properties to the detriment of the community or the REA loan program.

We shall also use the loan contract to provide additional safeguards against the abuses which clever minds may seek to inflict on investors, on powerless subsidiaries and subordinates, and the fellow who has to pay the eventual bill—the telephone subscriber in the local community.

We have told our field accountants and other staff personnel to be particularly watchful for signs of the usual milking techniques — high salaries to officers who do not have a place in the day-to-day local operations, unreasonable prices for services or materials provided by related companies, transfer of general funds to headquarters, and other means of siphoning off current revenues and funds.

Local ownership is a built-in safeguard that we in REA feel is important in protecting the security of the REA loan and continuing progress toward the objectives of the program. But in the face of these acknowledged trends toward more and more absentee ownership, especially where it gets to the point of organization for financial speculation, we are going to have to take measures to protect the service objectives of the program.

In taking such steps, we feel we have a common cause with the independent industry. For in the protection of the service objectives of the REA program

lies the future of the independent telephone industry, which is bound up so closely with the good will and support of local communities for its success.

REA makes loans running up to almost 100 percent of the value of the system financed. The more closely the ownership objectives of the system coincide with the service and area coverage objectives of the REA program, the more liberal we can afford to be on equity requirements with assurance that REA loan funds will be serving their purpose.

REA loans are to provide better service for rural areas on an area coverage basis, not to make profits for the owners. There are and will be reasonable profits from accomplishing these objectives, but these are incidental, not the objective of 2 percent REA loans.

So it is reasonable to raise the question about how far REA itself should go in participating with management of organizations which are not primarily service motivated in helping them develop the properties they acquire. I, for one, find it hard to justify an REA loan to an operating company controlled by a holding company which seems to have plenty of money from public and other sources to buy additional properties at inflated prices. Certainly if such REA financing is necessary to promote rural area coverage in that company's territory, at least we should insist in these instances on a substantial increase in the equity requirement.

The independent telephone industry has a unique and special place in the communities where it serves; keep that place and keep the independence upon which it is based.

I am hopeful that this is a common interest we both share — you in the industry and we in REA.



Paul Frost, manager of Central Valley Electric, presents \$500,000 check to REA Administrator Norman M. Clapp.

REA RECEIVES \$500,000 ADVANCE PAYMENT

If there were among REA borrowers an organization known as the "Million Dollar Advance Payment Club," it would have a new member—the Central Valley Electric Cooperative of Artesia, New Mexico.

A \$500,000 check presented to REA Administrator Norman M. Clapp on March 9, 1962, brought to \$1,083,937 the amount of advance payments made by the cooperative on its REA loans. The check was presented to the Administrator by Paul Frost, manager of the cooperative. This was one of the largest such payments ever received by REA, and more than established the co-op's 2-year cushion of advance payments as recommended in REA's new bulletin on general funds.

In addition, Central Valley has made regular principal payments of \$1,157,971 on the \$6.6 million in loan funds advanced to it by REA, and has paid \$578,995 in interest.

Nationally, and during 1961, rural electric systems increased their balance of advance payments by \$13.2 million—for an average of about \$1.1 million a month. By year's end, 806 of REA's 992 electrification borrowers had more than \$176.4 million in advance payments on the principal of their Government loans. On top of that, they had made regular principal payments of \$853.2 million on the \$3.8 billion in loan funds advanced to them by REA, and had paid \$503 million in interest.



A SCHOOL FOR SAFETY

Students in training at electrical safety school "learn by doing."

About 525 linemen and groundmen from 27 Illinois rural electric co-ops have studied at the Hot Line Maintenance Training School, since it was founded in 1954. Linemen from a Springfield commercial utility also have attended. The school, one of the first of its kind in the Nation, is credited with providing valuable experience and knowledge for men on dangerous jobs.

Handling energized lines with voltages up to 69,000 can be tricky business, but to these men it's all in a day's work. Safety precautions and improved tools, plus the emphasis on a combination of experience and training enable them to get the job done with a minimum of risk.

A course at the school covers 5 days. The men live in dormitories, eat at the cafeteria, and spend the daylight hours training. During training, they use proper protective equipment. For example, they use rubber gloves ground to ground and hard hats on all jobs.

All who attend the school are experienced linemen. Some have been climbing electric line poles for 25 years. But, because of improved methods and tools, refresher courses improve their efficiency.

The Illinois school is located on the campus of Southern Illinois University's Vocational-Technical Institute. It is sponsored by the University, the Illinois State Board of Vocational Education, and by the Association of Illinois Electric Cooperatives, headquartered in Springfield. All of the electric co-ops in the State are members of the Association.

The school's curriculum has become well known throughout the Nation. Instructors C. M. Scott and Don Davis of the State Board of Vocational Education say they've received no less than 75 requests from other States to use it as a model for similar programs.

TWO IMPORTANT BULLETINS

Two bulletins issued by REA in February 1962 are of vital interest to electric and telephone borrowers. One offers guidelines on the use of general funds; the other calls for fair play and amity in settling territorial disputes among power suppliers.

In the general funds bulletin, REA notifies all borrowers that it will henceforth consider the amount and management of a borrower's general funds in reviewing each loan application. After setting forth recommendations on the amount of general funds that should be set aside for working capital and reserve purposes, the bulletin suggests that a borrower use any remaining funds to establish a 2-year cushion of credit of advance payments to REA. REA further suggests that the borrower then consider reducing rates or, in the case of cooperative borrowers, refunding patronage capital for the benefit of consumers and subscribers.

Administrator Norman M. Clapp stresses the borrower's continuing responsibility in determining the amount and proper use of its general funds. He adds that REA's consideration of a borrower's general funds in connection with future loan applications will be on the basis of the new recommendations.

"REA is properly concerned," he says, "that the investments and expenditures of general funds shall not impair the Government's security, the ability of the borrower to repay its notes, or the accomplishment of the objectives of the Rural Electrification Act."

In the bulletin on territorial protection for electric borrowers, Adminis-

trator Clapp states that REA-financed systems are entitled to fair play and the right to serve all consumers, large and small, in their service areas, even when these areas are annexed or incorporated. Similar rights of other suppliers are entitled to the same consideration. He points out that "territorial encroachments impair system effectiveness, curtail benefits normally derived from economic growth and new loads in service areas, and result in higher cost service to the consumer."

The bulletin states that REA will join in helping borrowers and their associations in dealing with this problem. It urges borrowers in States where legislative protection is not presently provided to "consider seeking the enactment of legislation to prohibit duplication of service, protect service areas, and confirm borrower's rights to continue and extend service in areas annexed to municipalities."

The bulletin advises borrowers to "utilize all appropriate means to retain all consumers served by them and to secure as their consumers all new potential users who seek to locate in their service areas." Generally, this objective can be achieved by furnishing reliable, adequate, low cost electric service and through strong consumer and public relations programs and community development activities.

REA also suggests "amicable settlements of conflicts" with neighboring power suppliers, and recommends "frequent interchange of views and discussion of problems" to prevent and settle disputes.

New and Revised REA Bulletins . . .

New Bulletins:

- 40-7 (1/22/62), "National Electrical Safety Code—Sixth Edition." This bulletin announces the availability of the Sixth Edition of the National Electrical Safety Code and summarizes the changes that have been made.
- 3-3 (2/12/62), "Protection of Territorial Integrity of Electric Borrowers." This bulletin discusses the basic considerations in connection with the territorial integrity of rural electric systems and offers guidelines in dealing with the problem.
- 1-7, 300-5 (2/12/62), "General Funds." This bulletin sets forth Rural Electrification Administration recommendations with respect to the general funds of REA borrowers and REA consideration of such funds in making loans.

Revised Bulletins:

- 408-1 (1/2/62), "Telephone Borrowers' Financial and Statistical Reports." A revision to provide instructions for the preparation of the operating reports, Form 479, in accordance with current account designations and to provide for its submission to REA in triplicate instead of duplicate.
- 300-4 (January 1962), "Annual Statistical Report—Rural Telephone Program." The 1960 edition of the annual report showing the financial and statistical data for rural telephone borrowers.
- 1-4, 300-3 (1/16/62), "Participation of Electrification Borrowers in Telephone Program." A revision to encourage greater participation by electrification borrowers in the telephone program and to distinguish between recommended preloan and postloan activities.
- 3-2, 303-1 (2/6/62), "State and Local Legislation Affecting REA Programs." A revision to emphasize the importance of legislation for the protection of borrowers' system integrity.
- 320-1 (2/9/62), "Preloan Procedures for Rural Telephone Cooperatives." A revision to bring preloan policies and procedures for cooperatives into line with current program objectives and to include equity and sign-up requirements formerly issued separately as Bulletin 321-3.

Supplements and Partial Revisions to REA Bulletins:

- 344-2 (December 1961), "List of Materials Acceptable for Use on Telephone Systems of REA Borrowers." A supplement to bring the current basic list of acceptable materials up to date.
- 322-1 (1/23/62), "Area Coverage Survey." A memorandum to provide guidelines for area coverage surveys and design procedures until Bulletin 322-1 and Sections 205 and 206 of the Telephone Engineering and Construction Manual can be revised to reflect current procedures.
- 81-10 (1/25/62), "Standard Bid Bond and Revision of Notice and Instructions to Bidders." A memorandum providing a list of states which no longer require countersignature of bid bonds by resident agents in connection with building or construction contracts.
- 381-8 (1/25/62), "Contract Construction, Telephone Borrower's Initial System Outside Plant Facilities." A memorandum providing a list of states which no longer require countersignature of bid bonds by resident agents in connection with building or construction contracts.



Dell Addresses Telephone Engineers

Deputy Administrator Richard A. Dell

Richard A. Dell, Deputy Administrator of REA, addressed engineers and borrowers' representatives at two recent telephone engineering symposia. One was held at Minneapolis and the other at Memphis, and between the two all sections of the country were represented. The purpose was to enable consulting engineers to acquaint themselves with specifications and procedures governing the engineering and construction of REA-financed telephone facilities. In his talk, Mr. Dell cited the important role engineers have played in the development of telephony and pointed out that the challenge ahead is to provide or improve telephone service to the more isolated areas of our Nation. The symposia, held by REA telephone standards division, were considered by all who attended a great success and others are planned for the near future.

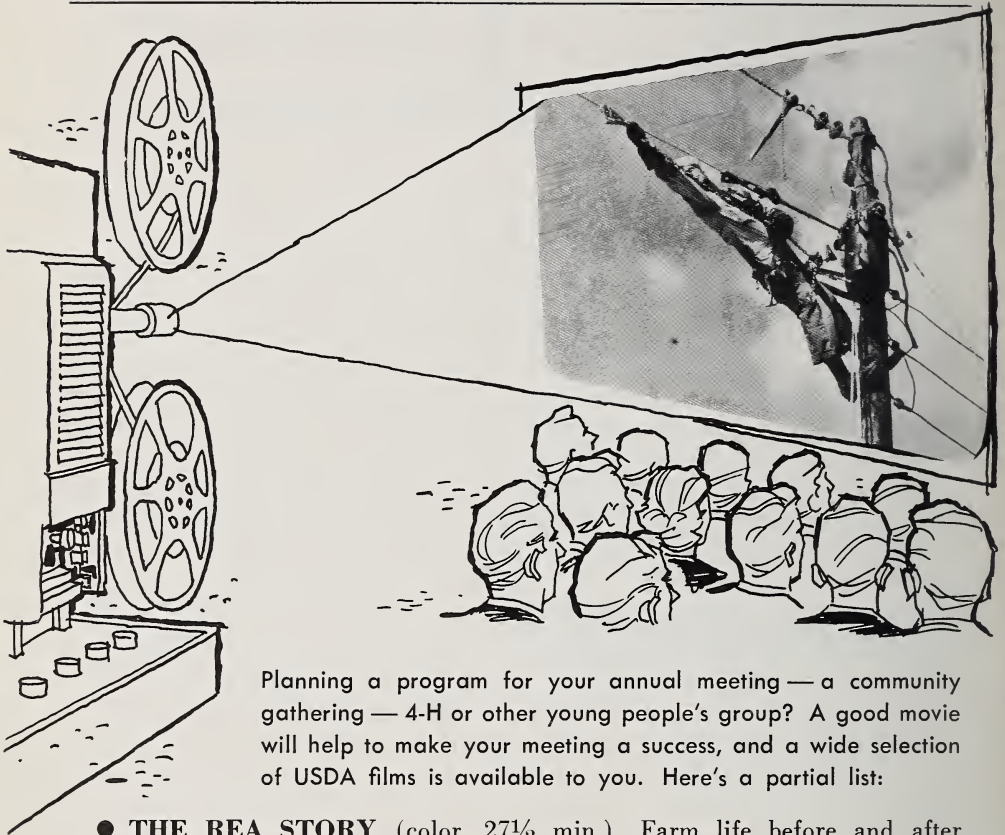
THIS MONTH

2. Administrator's Message
3. The Tide is Turning
6. Power-Full Promotion
9. Co-op Offers Free Well Testing
10. Resources, Products, Ideas Spark Kentucky Industries
19. REA Receives \$500,000 Advance Payment
20. A School for Safety
21. Two Important Bulletins
22. New and Revised Bulletins
23. Dell Addresses Telephone Engineers

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OFFICIAL BUSINESS



Planning a program for your annual meeting — a community gathering — 4-H or other young people's group? A good movie will help to make your meeting a success, and a wide selection of USDA films is available to you. Here's a partial list:

- **THE REA STORY** (color, 27½ min.) Farm life before and after electricity.
- **WATER FOR FARM AND CITY** (b/w, 13½ min.) Effect of water on land and people.
- **THE AGRICULTURE STORY** (color, 13½ min.) USDA's impact on research, education, industry.
- **MIRACLES FROM AGRICULTURE** (color, also b/w, 13½ min.) Production and marketing of high-quality foods.

These 16 mm sound films can be borrowed at little or no charge from the Cooperating Film Library of your Land Grant College or State University, or from Motion Picture Service, U. S. Department of Agriculture, Washington 25, D. C. For catalog with complete list, also write the USDA address.

NOTE: Later this year the documentary Centennial film, **AGRICULTURE, U.S.A.** (16 mm, color, 27½ min.) will be available. Make your reservation early.