Chapter 14

The Fruits of Victory

Long before the battle for full retail distribution of energy had ended, the Modesto Irrigation District began to harvest the fruits of victory.

Less than four years after MID power first was delivered to Modesto homes, farms and businesses, net profits from the district's electrical sales were being used to retire the bonds which had financed the development of the irrigation and electrical systems.

In 1954 as Stanislaus County's centennial year marked the transformation of a desert into one of the nation's most prosperous farming areas, the final payment was made on more than $5 million in MID bonds accumulated over nearly three-quarters of a century.

Virtually all of the principal had been paid from power revenues. Electrical profits were first applied to the retirement of irrigation and electrical bonds in 1927 with a $10,000 transfer. By July 1, 1954, when the final bond redemption payment was made, $4,817,808 in energy sale profits had been committed to retiring the bonded debt.

Financing the operations of the district has ranged from the initial out-of-pocket contributions by Robert McHenry, its first board president, and others to get things started to the $18.5-million bond issue floated in 1961 for the construction of New Don Pedro Dam.

In the first 67 years after the MID's formation, voters had approved 14 bond issues to finance the development of irrigation and electrical systems. The first was on December 14, 1887, and $800,000 issue whose value was almost destroyed by the subsequent battle royal over the very life of the district. After the turn of the century when pro-irrigationists recaptured control of the district, a second issue had to be voted to refinance those original bonds.

Following that, an even-dozen bond issues were approved between 1909 and 1934. The final payments made in 1954 were on a 1914 issue totaling $610,000, which had financed the first major upgrading of the irrigation system undertaken by the MID after the basic works were completed in 1904.

The district's excellent record of retiring debt by power revenue profits was so successful and well known that when the $18.5 million bond issue for New Don Pedro went to a vote on November 7, 1961, the voters' approval – 11,231 yes to 328 no – set a record that stands today, a 97 percent majority. Overwhelming approval also was given the most recent bond issue proposed - $14.2 million for the second unit of the McClure Generation Station – in a June 5, 1979, election, 5,361 yes to 573 no.

At the same time that retail power revenues were retiring electrical and irrigation system bonds, even larger amounts of the electrical profits were subsidizing irrigation operations and maintenance.

Starting in 1938, power revenues were transferred annually to the irrigation department. Sixteen years later when the district celebrated its freedom from bonded indebtedness, $5,367,229 from this source had been invested in irrigation development and operation. The policy continues to this day.

The transfer of power revenues permitted a steady reduction of irrigation taxes.

In 1935 the taxes were slashed from $6.40 per $100 assessed valuation of property to $2.76. Three years later, taxes were down to $2.40 and soon thereafter to $1.50. This rate prevailed for 16 years throughout World War II and the post war years when other districts were increasing water charges repeatedly. At the same time, assessed valuations of only $80 per acre had been unchanged since 1915, even though the land was selling for as much as $1,000 per acre. Thus, irrigators were receiving their annual supplies of water for a bare $1.20 per acre.

In 1959 irrigation taxes were canceled.

"It was more an i*rritation* tax than an irrigation tax," explained Thomas K. Beard, who early in his 16 years as a director representing the Modesto division led the effort to eliminate the tax. He reasoned:

> The amount of money generated by the tax was less than the cost of collecting it. So, it just made good business sense to eliminate an irritation, although the $1.50 to $2.50 a year they were taxed probably was the only reminder that the people of the City of Modesto had that they were a part of the MID.

Today the district remains tax free, although in 1976 an irrigation water-user charge was adopted.

In most years since 1961 the investment of electrical profits in irrigation operations has exceeded $1 million, some years nearly $2 million.

The retirement of irrigation and electrical bonds and the support of the irrigation operations through power revenues were accomplished while the MID maintained one of the lowest electrical rate schedules in the nation.

A 1957 Federal Power Commission survey revealed that Modestans were using more energy and paying less for it than most other Californians. Electrical rates in the MID were well below state and national levels, even though rates had not changed since the mid-1930s. During that time, the cost of living rose 18 percent in the postwar decade.

Even when San Francisco increased its wholesale charges for Hetch Hetchy power by 33 percent in 1960, the MID was able to hold the line on rates. The first retail electrical rate increase in the 50-year history of the department came in January 1974, based on recommendations of a financial consultant who urged that the revenue from electrical sales be increased. Ironically, after a half century of no increases, the weather forced rate increases in each of the next four years. The prolonged drought forced the MID to turn to expensive PG&E power purchases to meet the local consumer demands.

Rates were reduced once the drought was over and today remain well below state and national averages.

The revenue gains were due entirely to the rapid rise in the number of MID power users and their ever-increasing energy consumption. This growth increased steadily in spite of the great depression. In 1938, for instance, a record-breaking gain was attributed primarily to the installation that year of 408 new electric ranges and 135 new electric water heaters in homes served by the MID.

Throughout the postwar years, energy consumption overall increased 10 percent per year. By 1950, the electrical department was showing a $1 million-a-year net profit.

As the district reached its debt-free milestone, nearly five times more meters were in place than in the first full year of operation. Each consumer, furthermore, was using seven times more energy. Whereas the average annual consumption on 5,045 meters in 1924 was 1,100 kilowatt hours, 23,047 consumers used 7,700 kilowatt hours each during 1953.

This boom in the use of electrical energy was a measure of pride for the district, something for which it worked diligently. In recent years, however, the emphasis has been reversed as conservation became necessary.

The technological revolution that produced electric clothes washers and dryers, food freezers, dishwashers, television sets, air conditioners, food processors, hair dryers, razors, computers and even toothbrushes contributed greatly to the lifestyle changes of that period.

The fact that MID consumers paid lower energy rates than those served by private utilities and even by most other public agencies meant these useful and convenient electrical "aids" of the 20th Century became affordable here much sooner than elsewhere.

This pattern of expanding electrification likewise put increasing demands on the MID to produce and distribute the accelerated levels of power being used. Meeting this power need has become a priority objective of the district.

Energy purchased from private utilities was expensive, and in the quest for lower-cost sources the MID appealed to its old adversary, the City and County of San Francisco.

An MID offer to buy surplus Hetch Hetchy power was rejected by San Francisco in the mid-1930s. San Francisco had been wholesaling to PG&E the Hetch Hetchy energy not used for its streetcar lines and other municipal purposes since July 1925. Apparently San Francisco considered the giant private utility a more stable customer than the Valley irrigation district, which had fought San Francisco so vigorously over the Hetch Hetchy issue.

The legality of selling Hetch Hetchy power to PG&E was questionable, however.

In 1925 when the city entered into an agreement with the private utility, *the San Francisco Examiner* called it more than questionable. It editorialized that:

> It was a wrongful and shameful policy…Hetch Hetchy is the peoples'. They paid for it. Its profits and benefits ought to remain with the people. This transfer of Hetch Hetchy power to PG&E is a subversion of the public grant.

Over the years, San Francisco voters eight times had rejected bond issues to purchase the PG&E distribution system in the city, which was the home of PG&E's headquarters. Under President Franklin D. Roosevelt, Secretary of Interior Harold Ickes began to breathe down San Francisco's neck. Ickes forced two more unsuccessful elections in attempts to win approval of local distribution of Hetch Hetchy power. The "Old Curmudgeon" took an active role in these campaigns.

Construction of the Riverbank aluminum plant on the Hetch Hetchy transmission line by the World War II Defense Plant Corporation temporarily prevented the U. S. Department of Interior from forcing compliance with the Raker Act by attempting to shut down San Francisco's Moccasin Creek power plant.

Secretary Ickes, however, still demanded a plan to dispose of Hetch Hetchy power without selling to PG&E.

Negotiations between the city and the Modesto and Turlock districts were reopened. A scheme was devised by which the irrigation districts would take all surplus Hetch Hetchy power, then sell to PG&E any that they did not need. This caused a furor. Secretary Ickes charged that San Francisco still was trying to circumvent the Raker Act.

Ickes' contention was supported by *The Modesto Bee* and Frank Andrews, a Modesto electrician and hard-working campaigner for the retail distribution of power by the MID. Andrews turned against the district, however, and formed the Modesto Water and Power Users Association when the MID became aligned with San Francisco.

Modesto Irrigation District Chief Engineer Clifford Plummer undertook a personal effort to resolve the issue.

The MID was buying substantial amounts of energy from PG&E and Plummer knew that considerable savings could be achieved through the purchase of Hetch Hetchy power instead. A direct appeal to Undersecretary of Interior Abe Fortas, later to become a U. S. Supreme Court justice, won from Fortas an admission that the MID made a "very compelling case" for its need for energy at costs lower than what it was paying PG&E. Interior Secretary Ickes, however, was unmoved, still insisting that the proposal was illegal and violated the Raker Act.

After Ickes formally rejected the scheme in January 1945, San Francisco asked the federal courts to ratify the proposed contract with the districts as being in "reasonable compliance" with the Raker Act. The courts, instead, issued an injunction against the further sale of Hetch Hetchy power to PG&E. San Francisco had no alternative but to work out a deal with the irrigation districts. The city needed a market and the MID needed a supplier.

PG&E purchases of power from the Turlock district, which at first saw no reason for it to become involved in the negotiations, proved to be a stumbling block to any agreement. The Department of the Interior refused to allow the TID to become a conduit of Hetch Hetchy power to the private utility.

The compromise finally approved by Secretary Ickes and the courts called upon the TID to agree that whenever it received electricity from the Hetch Hetchy system, it would not sell to PG&E more power than it sold in 1944 when the TID was wholesaling only its surplus Don Pedro energy. The TID agreed

reluctantly, but it was not many years before that district found itself using all of its Don Pedro power and TID sales to PG&E ended.

Federal Judge Michael Roche found this arrangement to be in compliance with the Raker Act on July 9,1945.

A few days later the MID signed a nine-year contract with San Francisco. Because of the need for new substations and interconnecting transmission lines, Hetch Hetchy energy was not received in Modesto until 1946.

The contract was expected to save the MID $112,000 per year since the cost of Hetch Hetchy power was just half what the district had been paying PG&E. Five years after the agreement was implemented, Plummer reported the district already had saved $2.5 million.

The agreement was to be the target of a new investigation a decade later when Tuolumne County Water District No. 2, with the assistance of Congressman Clair Engle, sought to take over a Tuolumne River powerhouse site authorized for San Francisco as a part of the original Raker Act development program.

For some years the Tuolumne County water agency had been eyeing power sites on the Tuolumne River. In 1954 Representative Engle introduced legislation to amend the Raker Act to permit the mountain county water district to build a $20-million power project using San Francisco's still-undeveloped Early Intake site. The reasoning was that San Francisco had "sat" on the site for 40 years without using it and it should be put to work. "Playing dog in the manger with a vengeance" was how Engle described San Francisco's inaction.

The Raker Act had forced cooperative development on the Tuolumne River, which by then included five operating reservoirs. A sixth was under construction and the seventh was in the planning stage.

Noting this, the Valley irrigation districts were quick to object to the takeover. Projections showed that energy generated at all district and San Francisco power plants would be needed to meet future demands.

The irrigation districts also were concerned that the move might push San Francisco into building the Early Intake project ahead of the next scheduled powerhouse, which would use water stored behind the

then under-construction Cherry Valley Dam. The reason for this concern was an agreement that the districts would receive 35 percent of the Cherry Valley-generated power at cost and the balance at minimal profits for the city. No such arrangement applied to the Early Intake powerhouse, so if the mountain water district actions forced a change in schedules, power costs for the Valley districts would be affected adversely.

The fiscal concerns, however, were not stated in the formal declaration issued by the irrigation districts in May 1954:

> The introduction of a third agency on the river for the generation of power could hamper the coordinated releases for water supply, power and flood control. With all power plants under one control, certain plants could be idle while the remaining plants operated to meet the load demand. In this manner, Hetch Hetchy Reservoir releases could be discontinued at times to increase Hetch Hetchy storage and other similar adjustments made over the watershed.

Tuolumne County had no firm market for the power to be generated and Engle urged that it be sold to the U. S. Bureau of Reclamation Central Valleys Project. Up to that point, the CVP had not purchased any power. In fact, 47 percent of the energy then being generated at Bureau of Reclamation powerhouses was being sold to PG&E.

At hearings held by the House of Representatives Subcommittee on Irrigation and Reclamation which Democrat Engle chaired, Congressman John Saylor of Pennsylvania, the senior Republican member of the committee, charged that the only reason a powerhouse would be feasible at the location was San Francisco's earlier construction of Hetch Hetchy Reservoir. Saylor called San Francisco's long-range development plan sound and likened Congressman Engle's "dog in the manger" charge similar to a "case where a wise and provident father who when he builds a house puts on an extra bedroom in anticipation of future growth of the family. Then a complete outsider comes along and say, "You're not using that bedroom and I'm going to move in."

At these hearings the Tuolumne agency admitted that its $75-million power and irrigation development plan would force San Francisco to maintain a constant discharge from Hetch Hetchy and would serve only 12,000 people irrigating 40,000 acres. The mountain district confirmed it had no idea where it would sell the 400 million kilowatts of power generated there and at powerhouses proposed in a

number of other filings. That volume would rival the output of the great Shasta Dam on the Sacramento River.

Engle refused to give up, however, and called in the U. S. General Accounting Office, Congress' independent watchdog agency.

The General Accounting Office investigation was opened in August 1955 and 10 months later Comptroller General Joseph Campbell found San Francisco to be "in reasonable compliance" with the Raker Act. He also declared that all future power development would be required to meet the needs of various public agencies, including the MID and TID.

By the time the report was filed, the voters of San Francisco had approved a $54 million bond issue to proceed immediately with both power plants. The Cherry Dam Powerhouse, built first, was completed in 1960, with the Canyon facility constructed the following year. The Modesto district once again was assured of an adequate supply of Hetch Hetchy energy.

The alliance of the MID and its partners on the Tuolumne River, Turlock and San Francisco, also proved effective in the mid-20th Century struggles to keep federal and state agencies from moving in on the electrical energy resources of the watershed.

The U. S. Bureau of Reclamation conceived a plan to develop 8.1 billion kilowatt hours of energy a year, enough to serve 5,182,000 homes. The 38 reservoirs involved included one at Jacksonville on the Tuolumne River, first inventoried by the bureau in 1944 as part of an ambitious $3 billion program to develop the water resources of 17 Western states. The scheme would make supplemental water available to some 2 million acres then under irrigation and provide water to 3 million other acres not being irrigated.

The three partners on the Tuolumne wanted no interference with their own energy and water development and irrigators especially feared that federal involvement would impose the 160-acre limitation on lands receiving Bureau of Reclamation water.

The districts and San Francisco, therefore, opposed the inclusion of the Tuolumne River in any such program, including the Central Valleys Project. The CVP's Delta-Mendota Canal, which ultimately went down the west side of Stanislaus County, bypassed the Modesto and Turlock Districts. The proposed East Side Canal may never be built.

The districts also bluntly told State Water Resources Director Harvey Banks to keep his hands off the Tuolumne River in developing his State Water Plan.

While it prevented the intrusion of federal, state and local governments on the Tuolumne watershed, the Modesto district carried on a major expansion of its electrical transmission and distribution system to meet ever-growing demands for more and more energy.

Continual modernization of the electrical distribution system is essential.

"If you don't believe it," comments retiring Chief Executive Officer H. L. Brooks, "experience a power loss during the World Series. You're in big trouble!" Brooks also recalls the time years ago when a homemaker sued the irrigation district for $1 for the loss of a cake which was in the oven when there was a power loss.

As it observes its 100th anniversary, the Modesto Irrigation District's electrical distribution system has 25 substations, more than 18 miles of 115,000-volt transmission lines, 207 miles of 69,000-volt transmission lines and 1,102 miles of distribution lines, of which 266 miles are underground. Electrical lines in all new residential subdivisions now are being placed underground.

Today the electrical distribution system represents a capital investment in plant and equipment of $117,131,000. More than 74,000 electrical customers being served use nearly 1.5 billion kilowatt hours of energy annually. The gross revenue for the electrical department exceeds $70 million annually.

The generation and distribution of electrical energy which had been started as a by-product of the district's irrigation operations has become the dominant function. Not only was the district's "cash crop" highly profitable, it made the MID less political entity than a commercial enterprise.

This was verified by the California State Supreme Court as early as 1953 in a case brought by Andrews' Modesto Water and Power Users Association over the purchase of transformers and other electrical equipment. Andrews had protested that these were not purchased through competitive bidding.

The Supreme Court ruled against Andrews' contention and found that an irrigation district engaged in the generation, transmission and the sale of electrical energy is the operator of a proprietary enterprise and as such did not have to seek competitive bids in purchasing routine equipment. MID Attorney Vernon Gan explained this made the electrical operation "more of a business than a government

entity, free from some of the restrictions ordinarily applicable to an irrigation district" but at the same time "losing some of the immunities with which an irrigation district ordinarily is clothed by law."

There was no question but that the Modesto Irrigation District had become big business, dealing in retail electrical energy and agricultural water.