
Franklin D. Roosevelt — “The Great Communicator”

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Message to the Legislature

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TO THE LEGISLATURE:

For a generation the need for power for industrial and domestic purposes has been steadily increasing and during this period the ownership by the people of the State of New York of a vast potential source of energy in their portion of the waters of the St. Lawrence River has received increasing public attention.

In the past the actual necessity for the development of this potential energy has not been wholly clear but the time has now come when the great preponderance of informed opinion recognizes the immediate need for action.

The State owns or controls other much smaller water power rights but it seems to me best at this time to focus my recommendations and public attention on the development on the St. Lawrence River.

In making use of this potential energy on the St. Lawrence, owned by the people of the State, the objective of the problem is essentially this:

1. The physical transforming of falling water into electrical current.
2. The transmission and distribution of this current from the plant where it is developed to the industries and homes of the people of the State.

As this St. Lawrence power source is the property of the people of the State, we can, I think, all agree that the actual energy

therefrom should be, for all time, under the immediate control of the people of the State and should be transmitted and distributed to the people of the State at the lowest practical cost.

Let me briefly develop these underlying principles. In the matter of the actual development of the St. Lawrence power, it is not enough that the ultimate title vest in the State. I hope there will be no difficulty in securing agreement that, not only title, but physical possession of the development should at all times vest in direct representatives of the people.

At least equal importance is the problem of transmission and distribution to the ultimate consumer. A mere development of power at a low sales price is insufficient unless, at the same time, we make clear that it is finally distributed to the ultimate consumer at a fair price, under which no individual or corporation involved in the business of transmitting or distributing, will make more than a reasonable profit.

Right there we are confronted with a double difficulty.

First arises the question of who should do the transmitting and distributing of the power actually generated by representatives of the people of the State. I follow, I think, the opinion of my distinguished predecessor in saying that because of the complications involved, the actual operation of a transmission or a distributing system in this field of activity should, if possible, be undertaken by private enterprise, and that the State should undertake

it only if private enterprise proves that it cannot or will not successfully carry out the task.

In regard to the second point involving the actual rates to be charged to consumers, we are confronted with what many believe to be a failure of the present rate regulating powers of the Public Service Commission. When this Commission was first created, about twenty-five years ago, the basic purpose was to provide fair rates based on fair return to private capital. It was recognized then that private capital entering the public utility field would be distinguished from private capital entering wholly private fields of industry, in that the profit to a ^{public} utility company would be limited, and sums earned, over and above ~~the~~ a fair return, would be passed back to the consumer in the form of lower rates.

Since that time a series of court decisions, especially in the Federal Courts, have to a large extent nullified the protection originally intended for the consumer. Originally it was intended that fair earnings should be limited to the actual cash capital invested, but today it is notorious that because of court rulings involving replacement value, "going value", so-called good-will, and allowances for surplus, have made legally possible investment returns of as high as fifty percent or even one hundred percent annually on the original investment.

That is why in trying to treat this whole problem of development, transmission and distribution of St. Lawrence power, as a complete picture in the interests of the people of the State, I have sought a method by which we could avoid the rate regulating powers of

the Public Service Commission, tied up as it is at the present time by Federal Court rulings. I have, therefore, after consultation with many experts on the subject, come to the conclusion that the representatives or trustees who develop the power can enter into contract with transmitting and distributing companies, under which contracts a fair price to the consumer will be guaranteed, this price to make allowances only for a fair return to the companies on the actual capital invested. It is a method which is frankly based on theory of contract rather than the theory of regulation.

To meet this problem the Federal Power Commission has special rules for setting up capital investment, limited wholly to actual cash, less property deduction for obsolescions, depreciation and the like. But in the Federal government these rules are valuable only in practice in case the government wishes to recapture a plant built under license from the Board. There is no reason why the State of New York should not apply the principle of these same rules for the purpose of making contracts for the transmission and distribution of its power. Those who ~~had~~ ^{have} thoughtfully considered the matter see but one way to protect the consumer and to prevent the exploitation of our water power again: that ~~this~~ ^{be} by applying the principle embodied in the State Housing Law, to make the discontinued right to have power from the power station depend absolutely on a fixed maximum return on actual investment, with taxes kept in accordance with rules fixed and agreed upon in advance. This is the method adopted by Congressman Frederick M. Davenport in his bill dealing

with the Boulder Dam project, and approved by the House of Representatives. It is neither Republican nor Democratic in principle. It is just a sound business method used in the public interest.

I want to reiterate that the St. Lawrence problem involves not only the actual development of the site or sites, but must be thought through to the legitimate end of guaranteeing to the consumer, after the power has been transmitted and is ready for distribution, a final price based only on a fair return on actual investment.