

LINES OF COPPER, TEARS OF GLASS:  
THE BIRTH, GROWTH AND DEATH OF THE MONTANA POWER COMPANY

by

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of

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## ABSTRACT

Montana Power collapsed amid images of TV reporters for *Sixty Minutes* chasing flustered Robert Gannon in Butte. The loss of two and a half billion dollars as well as the complete liquidation of thousands of shareholders created this Warhol moment for the firm's last president and Montana Power. Other dire consequences followed for the state: loss of Montana's only Fortune 500 firm, a doubling of utility bills and the loss of hundreds of jobs for the already depressed Butte area.

Montana Power's importance transcends this slapstick "fifteen minutes" of fame moment at its demise. Montana Power became one of the few utilities to break from state price regulation during the deregulation mania of the 1990's. In a jarring development, the firm dissipated all its assets and dissolved shortly thereafter amidst a great deal of controversy. However, besides the failure of the firm after the heated deregulation battle, three other areas of the history of this utility proved pivotal in political, economic and environmental terms for not only the state, but also the rest of the West and the United States, as the events surrounding the Butte firm were often regional or national in scope and importance.

First, the creation of the predecessors of the firm occurred at the very dawn of the electrical revolution at the turn of the nineteenth century. Powerful men and institutions from the Eastern United States set up the firm in a colonial-style environment and guided the development of the state. With the electricity revolution, dams, power lines, reservoirs, mills and logging operations appeared throughout the landscape. Second, the Great Depression produced an epic battle between public power advocates and trust-busters versus the Butte firm. The New Deal commenced building the Ft. Peck Dam and power stations, while working diligently to break up the utility trusts that included Montana Power. Third, lengthy car lines at gas pumps in the 1970's signaled the onset of the first energy crisis. The power company's attempt to generate energy using steam from coal mined in Eastern Montana set off a literal war with newly emergent environmental movement.

## CHAPTER 1

## INTRODUCTION

Enormous arrays of lights emblazoned the Chicago night skyline during the 1894 World's Fair. An illuminated imitation Taj Mahal highlighted the creation of a synthetic "White City" at a fair more heavily lit than any urban center in the United States at the time. Five thousand arc lamps, 90,000 incandescent light bulbs and a novel usage of alternating current (AC) technology produced this fairy city-containing an array of exhibits that utilized a substantial portion of advanced lighting technology on the North American continent. This celebration of light in the late nineteenth-century Midwestern sky highlighted the enormous progress that electricity had made in just a few years and seemingly augured a limitless future.<sup>1</sup>

Surprisingly, this dazzling urban scene had been foreshadowed in the wilds of Montana. A small group of primitive arc lights had pierced the darkness that enveloped the Alice Copper mine near the brawling new mining town of Butte in 1880. Outside of the small illuminated area around this hard rock mine, the awesome, star speckled dark of the Big Sky night had remained untouched. Yet this tiny display of lights had presaged an explosion in mining activity and the start of the electrical industry in Montana.<sup>2</sup>

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<sup>1</sup> David E. Nye, *Electrifying America: Social Meanings of a New Technology, 1880-1940* (Cambridge, MA, 1990), pp. 37-41.

<sup>2</sup> *Butte Daily Miner*, as quoted in Cecil H. Kirk, *A History of Montana Power, A Narrative of the Power of Montana and Montana Power*. Volume II, p. 33. This is a two volume, unpublished history of the company by an employee of the firm. The company never allowed publication of this work. The history covers Montana Power from predecessor firms to about 1968. At Montana Historical Society Archives (MHS), which received the work after the firm went out of business.

By the time of the Chicago exhibition, the presence of electric lighting marked special occasions. This new technology illuminated the halls of the Palace Hotel in San Francisco for the triumphal appearances of Ulysses S. Grant and Philip Sheridan. After the introduction of the incandescent bulb in Butte, as legend has the town's swankiest house of ill repute signed up as one of the Copper City's earliest patrons. Great restaurants, such as Delmonico's in New York City enhanced their ambiance with this marvelous new invention. Gilded Age tycoons, compatriots of JP Morgan, the Rockefellers and Jay Gould camped at the eatery's sumptuous quarters. Their conversations undoubtedly focused on the rich opportunities for profit from finance, mining as well as the new technological complex in the emerging electrical industry. As we shall see, like Horace Greeley, these business titans looked with anticipation to the opportunities in the West.<sup>3</sup>

Along with many other impressive international displays of electrical prowess in this era, these events confirmed the rise of a revolutionary new technology. In a few decades the burgeoning uses of electrical power produced several new industries serving the ever-increasing demand for power in the United States. The pioneering power companies in Montana that preceded the Montana Power Company (MPC) arose as part of the industrial and financial processes that created both the glowing Chicago Fair as well as the harsh lights that cut the Montana sky in Butte. The Butte utility appeared on

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<sup>3</sup> Charles Coleman, *PG&E of California: The Centennial Story of the Pacific Gas and Electric Company, 1852-1952* (New York, 1952), pp. 31, 55, 60.

the scene in 1912, consolidating these companies into one firm, and commencing to dramatically expand the electrical network in Montana.<sup>4</sup>

The fall of the company ended far differently than implied by such an auspicious beginning, with images of TV reporters for *Sixty Minutes* chasing a flustered Robert Gannon in Butte. The loss of two and a half billion dollars as well as the complete liquidation of thousands of shareholders created this Warhol moment for the firm's last president and Montana Power. Other dire consequences followed for the state: loss of Montana's only Fortune 500 firm, a doubling of utility bills and the loss of hundreds of jobs for the already depressed Butte area.

Montana Power's importance transcends this slapstick "fifteen minutes" of fame moment at its demise. Montana Power became one of the few utilities to break from state price regulation during the deregulation mania of the 1990's. In a jarring development, the firm dissipated all its assets and dissolved shortly thereafter amidst a great deal of controversy. However, besides the failure of the firm after the heated deregulation battle, three other areas of the history of this utility proved pivotal in political, economic and environmental terms for not only the state, but also the rest of the West and the United States, as the events surrounding the Butte firm were often regional or national in scope and importance.

First, the creation of the predecessors of the firm occurred at the very dawn of the electrical revolution at the turn of the nineteenth century. Powerful men and institutions from the Eastern United States set up the firm in a colonial-style environment and guided

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<sup>4</sup> Frank Leighton, *Corporate History of the Montana Power Company, 1882-1912*, Bozeman, 1951, Master's Thesis. This thesis served as the basis for organizing the archives at the MHS.

the development of the state. With the electricity revolution, dams, power lines, reservoirs, mills and logging operations appeared throughout the landscape. Second, the Great Depression produced an epic battle between public power advocates and trust-busters versus the Butte firm. The New Deal commenced building the Ft. Peck Dam and power stations, while working diligently to break up the utility trusts that included Montana Power. Third, lengthy car lines at gas pumps in the 1970's signaled the onset of the first energy crisis. The power company's attempt to generate energy using steam from coal mined in Eastern Montana set off a literal war with newly emergent environmental movement.

#### Approaches to Utilities in History

The electric utility industry, including Montana Power, labored to create a powerful narrative describing the birth, growth and maturity of the business of supplying electricity and other forms of energy to America. One historian, Forest McDonald, fleshed out the utilities' line of thinking. He saw the industry history unfolding in a four step process. First, visionary pioneers such as Thomas Edison, Charles Brush, Elihu Thomson, Nikola Tesla and William Stanley invented or improved the technological building blocks of the industry: including arc lights, incandescent bulbs, dynamos and transmission wires. These founders integrated these parts into the first primitive electric systems.

Second, manufacturers shipped equipment for power facilities throughout the Country, resulting in a dispersion of small power plants all over America. With this

equipment, colorful promoters established many small light and power companies. After an anarchic birthing phase, prophetic businessmen came forward to implement the third stage-consolidate and institutionalize this chaotic world. These numerous small companies coalesced into the “natural” monopolies that we know today. Fourth, these larger utilities, in spite of occasional ignorant government (according to McDonald) intervention, installed that latest technological innovations to assure a bountiful supply of cheap energy to American businesses and consumers.

This progress narrative contained nuggets of truth. McDonald correctly propounded that the vast majority of investor owned utilities across the country shared a common developmental experience. Despite the Company’s Western location and frontier nature, the Butte utility’s evolution closely mirrored developments of the electrical industry that occurred in the rest of the nation. However, this illustrious historian missed an essential contextual ingredient: the pervasive, guiding influence of powerful economic actors that shaped the application of technology in the country for their own benefit.<sup>5</sup>

These similarities in the birth, growth and maturity of electric power utilities allow the use of scholarly works focused on the evolution of electrical industry outside of the Rocky Mountain region. Two major writers, Thomas and David Nye put forth

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<sup>5</sup> Burke Video. Forrest McDonald, *Let There Be Light: The Electric Utility in Wisconsin, 1881-1955* (Madison, 1957); McDonald used this schema to identify periods of utility history. Corporate biographies echo these themes. See; Charles Nelson, *KPL in Kansas: A History of the Kansas City Power Company* (Lawrence, 1962); Charles Coleman, *PG & E of California: The Centennial Story of the Pacific Gas and Electric Company, 1852-1952* (New York, 1952); Raymond Mills, *The Force of Energy; A History of the Detroit Edison Company* (East Lansing, 1971); Herbert W Meyer, *Builders of the Northern States Power Company* (St. Paul, MN, 1957); Glen Weaver, *The Hartford Electric Light Company* (Hartford, 1969). Weaver, used the words “sophisticated,” “romance” and “high adventure” to describe the history of the HELC.

powerful concepts that will elucidate the historical importance of the Butte utility.

Hughes offers a similar approach to McDonald, but with a more powerful approach that demonstrates the impact of systems momentum in the growth of electrical systems in both Europe and the United States. Nye digs deeper, focusing on the economic, political, technological and financial factors that drove the consolidation of the American utility industry prior to the Second World War. Nye's work featured the evolution of General Electric (GE), which due to its ownership stake in Montana Power, exerted enormous influence on the firm. The use of these methodologies will allow us critically to evaluate the utility's experience from the founding of the enterprise in 1912 to the Company's demise in 2000.<sup>6</sup>

### Systems Dynamics in Utility Growth

Hughes analyzed the dynamics of the utility industry as a network system. He utilized a five part model that explained the evolution of major power systems. The invention and development of the basic electrical technology defined the first phase. In the second phase, financiers, inventors and entrepreneurs then transferred this technology to other locations. Problems, often substantial, arose impeding further progress. In the third phase, the system overcame these difficulties and resumed growth. During phase four, the system kept growing, achieving substantial momentum. This momentum created regional power systems. Lastly, the particular problems associated very large networks

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<sup>6</sup> David E Nye, *Electrifying America: Social Meanings of a New Technology, 1880-1940* (Cambridge, MA), 1990; Thomas P. Hughes, *Networks of Power; Electrification in Western Society, 1880-1930* (Baltimore, 1983); The Board of MPC voted to sell the utility assets in March, 2000. The company operationally turned into Touch America at this point..

occurred needing sophisticated financiers and consulting engineers (public and private) to devise solutions to the problems posed by vast electrical systems. The development of the Butte enterprise followed this model. The evolution of the electrical industry in Butte illustrated this.<sup>7</sup>

In the 1880's a number of small firms in the Copper City constructed primitive systems based on Edison's early discoveries. Butte Electric (BE), one of these firms, received equipment and expertise from a predecessor company of General Electric in 1888 in exchange for stock and board membership. The first transmission, direct current (DC) technology limited electric power to small grids reached by each generator. Electricity from these transformers could not reach the copper deposits outside of Butte. Miners needed to generate electricity at the dig site.

The development of both a functioning AC transformer and improvements in transmission capacity allowed Butte Electric to utilize hydroelectric power. Due to the small company's relationship with GE, the firm possessed the technological and financial resources to build dams on the Madison, Wise and Big Hole Rivers. Their transmission lines from these dams enabled Montana Power to supply ACM in both Anaconda and Butte with hydroelectric power. The utility also expanded operations via subsidiaries to Billings, Bozeman and Livingston.

In 1912, Butte Electric morphed into Montana Power, adding new power generating resources in Great Falls, Helena and Thompson Falls. This new concern quickly gained the momentum in the state of Montana described by Hughes. Over the next two decades, the Company built several more dams, vastly expanding generation

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<sup>7</sup> Hughes, *Networks of Power*, pp. 14-17; Kirk, *A History of Montana Power*.

capacity in Montana. The utility also ferried much of this new power to ACM facilities in Anaconda, Butte and Great Falls.<sup>8</sup>

The new power firm exercised powerful financial muscle. Between 1912 and the advent of the Great Depression, the utility acquired all rivals in the state. By 1928 Gifford Pinchot ranked Montana Power as one of the top 41 utility holding corporations in the United States.<sup>9</sup>

The Depression almost crushed ACM, thereby suppressing electricity demand in Montana. However, due to the resources made available to Montana Power by American Power and Light, the firm expanded its power network into natural gas and petroleum production. However, the perceived failure of private utility trusts prior to the Depression led to a powerful drive for public power generation on a vast scale, particularly in the West.<sup>10</sup>

As World War II commenced, improved transmission grids enabled the utility to ferry electric power on a regional basis both to and from either public and private producers in the Northwest. The Butte firm kept adding power capacity to serve ever broadening markets. By the 1970's this trend led to the vast expansion of coal-fired power generation that occurred at Colstrip, Montana.

In fact, during this period, Robert Gannon, the last president of the company, developed the belief that the electrical network had grown so large and so heavily regulated that the company could no longer receive adequate returns for power generation

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<sup>8</sup> Kirk, *A History of Montana Power*.

<sup>9</sup> Gifford Pinchot, *The Power Monopoly: Its Makeup and Its Menace* (Milford, PA., 1928), pp. 4, 123, 207, 208.

<sup>10</sup> *Ibid*, p. 4; Kirk, *A History of Montana Power*.

As he ascended to lead the enterprise, he instead championed the need for the firm to move into the emerging telecommunications network. He anticipated that fiber optic networks would prove superior to the copper one. Montana Power, newly renamed Touch America, commenced to lay down a massive network of fiber optic cables with few committed customers for this service.<sup>11</sup>

### The Power Industry as a Social Construction

David Nye used a multi-factored approach to understand the development of the electrical supply industry in the United States. The process he described culminated in the creation of the duopoly of General Electric and Westinghouse. Nye posited that GE and Westinghouse utilized the economic, technological, financial, and political power at their disposal to dominate their industry. As we have seen, the rise of GE to prominence proved critical in the development of the Montana firm. The manufacturer's cash, technology and expertise powered the development of the Butte firm.

Montanans often connected the ownership of Montana Power with ACM, as these two companies teamed up in the public consciousness to form the "Twins". John D. Ryan served as president of both companies from 1912 to 1933 creating the image of the companies working in lockstep with the giant copper concern as the clearly senior "Twin". However, the Eastern manufacturer helped finance the major predecessor

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<sup>11</sup> Burke Video. Interview with Burke in Butte, August 2005.

company of the utility, Butte Electric, and controlled a majority of the shares of the Butte firm until 1949.<sup>12</sup>

Nye postulated that the growth of the electric complex occurred in waves, reflecting the impact of the introduction of new inventions and innovation. Each wave followed the direction laid out by major industry players to maximize profits and control in this new industry for the period 1880-1940. Between 1880 and 1900, industry leaders emphasized expansion of public lighting and street car franchises as the key area of growth for their business. In this era, Montana saw the introduction of street lights and some street cars became common in a number of Montana cities.

Pioneering power companies with their massive electrical infrastructures desperately needed a highly conductive material to move electrical current from the generating source to the user. Copper turned out to fill the bill better and cheaper than other alternatives. This mineral's superior performance as an electrical transmission media caused the demand for and price of copper to rise considerably. The development of the massive copper deposits in the area surrounding Butte, Montana ensued.

This ever-increasing demand for copper caused enormous interest in the Butte copper load by corporate interests who wished to control this valuable resource. Local entrepreneurs had already developed a number of mineral properties in the area. Agents from Rockefeller and allied interests came into the state and purchased a key copper load. The owners of the Amalgamated properties, including the legendary Marcus Daly, found

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<sup>12</sup> Joseph K. Howard, *Montana: High, Wide and Handsome* (New Haven, 1959), p. 254; Leighton, *Corporate History*.

themselves cashed out for almost unimaginable \$39,000,000. This transaction served as the starting point for the legendary Anaconda Company.<sup>13</sup>

Mining managers quickly discovered the utility of electricity in all areas of underground mining. From the early introduction of the Brush arc light in the 1880's, miners found that electric power meant trustworthy and safe lighting. Electrical mining machinery soon proved much more efficacious for subsurface tunneling than steam or hand powered tools. To feed the insatiable demand for copper spawned by the run-up to the First World War, Anaconda introduced giant electric smelting furnaces. The great ore diggers needed plentiful and cheap "juice."<sup>14</sup>

During this period, Montana remained deeply rural. The state followed national trends, with rural areas receiving scant access to electrical power until after 1930. Private power businesses, concerned about the bottom line rather than social welfare, viewed electrification of rural areas as prohibitively expensive. Only action by the national government during the New Deal dramatically hastened electrification of thinly populated regions.<sup>15</sup>

Technology emerged as the key factor in Nye's analysis, driving the burgeoning electrical industry. In the late 1870's and early 1880's, Brush's simple arc light and Edison's incandescent bulb allowed for the first practical use of electrical illumination. The late 1880's and early 1890's witnessed the introduction of sophisticated transformers

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<sup>13</sup> Lawton, Thomas, *Frenzied Finance*, New York, 1905, pp. 228-233, 315, 338. Lawton worked as an investment pool operator. He describes how Rockefeller interests purchased the Amalgamated Copper properties in Butte and promptly turned around and sold the shares for \$75,000,000. Lawton posits that markets are rigged and run for the benefit of a few inside players.

<sup>14</sup> Nye, *Electrifying America*, p. 186; Burke Video.

<sup>15</sup> *Ibid*, pp. 216, 314; Kirk, *A History of Montana Power*, volume II, chapter 11, pp. 1-3, 39.

that enabled the transmission of electrical power over vast distances. Substantial improvement in electric motors as well as transmission and distribution systems continued until the advent of the Great Depression. Importantly, trusts came to dominate these technological processes. This allowed them three potent means to place them to control electricity markets: the mastery of the process of invention and innovation, control of patents and access to massive amounts of investment capital.<sup>16</sup>

Anyone entering the utility industry needed to possess the basic generating plant, as well as a rudimentary distribution system. GE and Westinghouse served as gate keepers for this technological base, as they possessed the manufacturing infrastructure and the crucial patents to create these systems. The endless innovation in the early years of the industry required manufacturers with the technological resources to keep up. Patent laws in the United States generally protected invention and innovation. Successful pioneers in the field could either freeze out or charge hefty rents to late comers to the business.<sup>17</sup>

Every aspect of power development proved enormously, almost ruinously, expensive. The invention, manufacture and placement of utility infrastructure as well as constant innovation required large staffs of rare, highly trained scientists and technicians. An early industry rule of thumb stated that in order to generate one dollar of annual revenue, three dollars of permanent investment had to be made.<sup>18</sup>

Pioneers and promoters of the electrical complex possessed limited funds. To survive and prosper, these entrepreneurs needed permanent investment capital. However,

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<sup>16</sup> Ibid, pp. 172, 350-351.

<sup>17</sup> Ibid, p. 172.

<sup>18</sup> Ibid, p. 169; Thomas K McCraw, *The TVA and the Power Fight, 1933-1939* (New York, 1971).

as Nye and others pointed out, the United States at this time possessed the financial sector of a less developed country.<sup>19</sup>

This period has been called the era of Finance Capitalism. Ironically, in practice this meant that only a few institutions possessed the requisite resources to make substantial productive investments. The Federal and state governments supplied bond guaranties and large land grants for railroads and land development. However, much of the actual money needed for capital intensive industries like railroads and utilities the United States came from large metropolitan banks on the East Coast at high rates of interest.<sup>20</sup>

Unsurprisingly, the captains of finance that ran these banks allocated capital for the growing electrical industry. American and Western European financial institutions preferred funding the large trusts (which they perceived as less risky than smaller firms) with these firm's supposedly more certain cash flows. Consequently, the power industry sector consequently experienced consolidation and concentration. In the early 1880's fifteen major firms competed for contracts. By the turn of the century, General Electric and Westinghouse conducted the lion's share of the business.<sup>21</sup>

As we shall see, the utility industry in Montana followed suit. A small electric power industry emerged in the state during the 1880's. This diffuse group of small enterprises experienced a process of slow consolidation, as the smaller companies lacking the resources to remain competitive sold out to stronger rival firms. Industry

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<sup>19</sup> Ibid, pp. 169-172; McDonald, Forrest, *Insull*, (Chicago, 1962), pp. 26-42; McDonald, *Let There be Light*, p. 13.

<sup>20</sup> Nye, *Electrifying America*, pp. 172-173.

<sup>21</sup> Ibid, p. 170.

consolidation accelerated with the introduction of alternating current to transmit electricity. AC, unlike Direct Current, allowed for the long distance transmission of electricity. The importance of moving cheap hydroelectric power from remote dams to mining sites became a factor after the turn of the century. Only power companies backed by wealthy patrons could afford to build the large dams and transmission lines necessary to harness inexpensive, relatively abundant hydroelectric power. Power companies that lacked the requisite financial resources sold out.

This concentration of financial and economic power required acquiescence of the politicians. Nye analyzed the interaction of electric early industry leaders with federal, state and local governments and demonstrated how the early victories by trusts in the political arena helped lead to the creation of the GE and Westinghouse duopoly. These events also subsequently impacted the creation and growth of Montana Power, not only in power generation, but also in the development of natural gas, oil, coal, and telecommunications.

Federal and state authorities seemingly offered electric industry pioneers of the 1880's an inviting space to establish their industry. Decentralization, a limited scope of power and a pro-development philosophy characterized these two levels of government in the United States. The introduction of the electric power industry in Europe provoked a far heavier involvement by governmental entities. In the United States, some municipalities ran power stations in the United States, but private ownership remained the cultural norm.<sup>22</sup>

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<sup>22</sup> Ibid, pp. 179-182. Hughes, *Networks of Power*, pp. 59-65, 184-187.

By the 1920's, entrepreneurs such as Samuel Insull and institutions such as Goldman, Sachs as well as GE had cobbled together immense holding companies of electric utility companies. Montana Power joined such a trust in 1928, becoming part of the American Power & Light. After the market cataclysm in late October of 1929, the share value of the utilities in these trusts and pools plummeted by as much as ninety percent from the record heights of the late twenties.<sup>23</sup>

These losses suffered by stock investors placed these trusts in disrepute with the public and a majority of Congress. The trusts' new pariah status engendered a hostile reaction to the utility industry. First of all, Congress passed the Utility Holding Company Act in 1934. This act abolished the multi-state utility holding company. Also, the public viewed electrical rates as artificially high. These high charges fed trust profits. This perceived predatory performance by the electric trusts greatly increased public interest in public generation of power at the national level.<sup>24</sup>

The election of 1932 placed Franklin D. Roosevelt, a critic of private utility behavior and advocate of public power, in the Presidency of the United States. FDR proposed a number of massive public power ventures. Congress ultimately authorized the creation of the Tennessee Valley and the Bonneville Power Authorities. Public power generated by these Bureau of Reclamation facilities loomed as massive competitive threat to private Western utilities like Montana Power. The Federal government also pushed rural electrification with the creation of the Rural Electrification Act in 1935.<sup>25</sup>

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<sup>23</sup> Pinchot, *The Power Monopoly*, pp. 4,123, 207-208.

<sup>24</sup> Robert Sobel, *The Great Bull Market: Wall Street in the 1920's* (New York, 1968), pp. 93-94.

<sup>25</sup> McCraw, *TVA and the Power Fight*, pp. 80-86, 90, 97, 109-110.

Like the Federal government, state governments initially refrained from intervening against the private development of electric power until well into the twentieth century. As we shall see below, electrical utilities experienced increasing problems from both corrupt and progressively oriented municipalities. This led electric utilities to prefer state regulation over municipal. After the First World War, this preference for state regulation led key leaders of utility trusts to join forces with progressive political groups to place electric utilities under state supervision. The utility leaderships believed that state public service commissions invariably lacked the staffs and funding to do more than inconvenience power companies. Hence, electric power companies, with substantial resources, normally got the better of the regulatory process.<sup>26</sup>

Montana Power experienced few problems with city and state governments. The Montana Public Service Commission started in 1920, but didn't really oppose imitative of the Company until the 1970's. However, when it came to the dealing with the Federal government, The Butte firm found itself at ground zero in the New Deal's efforts to generate power, significantly increase rural electrification and regulate power companies.

Political influence, even by powerful elites, can prove fleeting without public support. As Nye showed, these elites had two potential political problems to deal with. First of all, they needed to overcome the obstacles to the introduction of electricity to new areas. The industry faced opposition from gas lighting companies and those who found electrical wiring denigrated the urban space. These very forces significantly slowed the electrification of London. Further, another group of opponents favored electrical power,

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<sup>26</sup> Nye, *Electrifying America*, pp. 179-181; Hughes, *Networks of Power*, p. 207; McDonald, *Let There Be Light*, pp. 118-119.

they believed in public ownership of the generating and transmission facilities. Industry leaders needed to frame the public perception of electricity to combat both poles of opposition.

The electrical trusts and their associates approached these crucial public relations efforts or “spin” in the current parlance, on three levels. First of all, the industry continuously portrayed electrical technology as a consumer product or commodity, rather than as a factor of economic power. Crucially, GE and Westinghouse designed and controlled their own exhibitions at international fairs. These two firms saw their message viewed by millions of fair goers. The electric suppliers showed consumers a world in which individuals could either now or later purchase new devices that would enhance their personal well being. The exhibitors portrayed electricity as a phenomenon that empowered individuals. As electric appliance use increased, later fairs focused consumers on the use of electricity in their own house, as opposed to collective uses. A choice by an individual consumer did not imply the need for a collective, political response.<sup>27</sup>

Novel technology and gaudy lights caused a strong public reaction at the end of the nineteenth century. The visual experience of electricity proved transformative to many in society, filling a large part of the American populace with a sense of awe and wonder. Nye labeled this reaction the technological sublime. This new technology miraculously altered the night sky and changed the night time environment in breathtaking ways. In ever increasing levels of brilliance, the fairs put forward the use of electricity as a current consumption item and a sublime technological artifact that pointed

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<sup>27</sup> Nye, *Electrifying America*, pp. 193-198.

the way to an unlimited future of wonder and prosperity. While railroads may have held some romance and allure, their steaming locomotives could not stand up in the public mind to the awesome electrical towers that defeated man's ancient foe of darkness nightly at various world fairs. The electrical trusts worked diligently to shape these feelings and images to further their own designs.<sup>28</sup>

Lastly, the electrical utility industry both as individual companies and through key trade organizations propagandized on the behalf of private power and attack public power initiatives. These public relations gambits commenced in earnest after the First World War and accelerated under the New Deal. The company took advantage of both a captive media and customer base to evangelize its views. By the early 1920's the ACM had absorbed all but a couple of newspapers in Montana. This state of affairs lasted until 1959. Unsurprisingly, little investigative journalism into the doings of the power industry occurred during this period.<sup>29</sup>

### Chapter Breakdown

This thesis considers the birth, evolution, and ignominious end of Montana Power, breaking the firm's history into two parts. The first two chapters will cover the essentially colonial period of the company, when the management and ownership possessed almost complete freedom of action in Montana. The second part, consisting of the last three chapters, will deal with the company facing the challenges of public power,

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<sup>28</sup> Ibid, 193-198; Mumford, Lewis, *Technics and Civilization* (New York, 1934), pp. 108, 205.

<sup>29</sup> Bradley Snow, *From the Sixth Floor to the Copper Dome: The Company's Political Influence in Montana, 1920-1959*, Bozeman, 2003. Master's Thesis; Dennis L. Swiblod, *Copper Chorus: Money, Politics, and the Montana Press, 1889-1959* (Helena, 2006).

the environmental movement and regulation that severely curtailed the firm's freedom of action.

The first chapter covers roughly 1878 to 1912. As with any story involving electricity, one must make the obligatory journey to Menlo Park, New Jersey to follow how Edison and the other pioneers created the electrical industry. Special attention will be paid to the crucial advent of a usable AC current. Using Butte as a focal point, we will examine evolution of the smaller firms (predecessor companies) that came to form Butte Electric and ultimately Montana Power. In the second chapter covering from the creation of the firm in 1912 to the advent of the New Deal, under the firm direction Ryan, not only continuing to grow, but also consolidate almost the entire Montana electrical power market. At the end of this period, American Power and Light purchased the Butte firm. The utility thereby joined this enormous GE controlled holding company.<sup>30</sup>

The after shocks of the Great Panic of 1929 on Wall Street profoundly impacted the Butte enterprise and will be examined in chapter three. The federal government intervened aggressively into the operations and prospects of the power company. Montana Power ran afoul of the Securities and Exchange Commission, dam building initiatives by the Army Corps of Engineers and the Bureau of Reclamation and the Federal Power Commission. The Second World War somewhat dampened the conflict with the national government. From then until roughly 1970, the utility faced both conflict and cooperation with the Federal government. This period represented the storied presidency of Jack Corette. During this period MPC largely triumphed, profiting mightily

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<sup>30</sup> Frank Leighton, *Corporate History*.

from the utility's access to inexpensive hydroelectric power produced by the national government.<sup>31</sup>

In chapter four, covering 1970 until the mid-nineties, the power company bent to the pressures of national and regional electrical networks, commencing to build the massive Colstrip coal fired plant complex. This project led to direct conflict with the emerging environmental movement. The fallout from this prolonged struggle severely tested the firm. The firm's sour experience at Colstrip encouraged the company to seek deregulation and to embrace the telecommunications business while deemphasizing the energy operations.

To accomplish these goals, Montana Power needed to get the state of Montana to deregulate the Company. Covered in chapter five, a whirlwind campaign in 1997 succeeded in gaining freedom from the regulation of electricity production. This success enabled the management to sell all the utility assets of the firm at a very favorable price and place the newly generated proceeds into the ill starred Touch America.<sup>32</sup>

This scenario surrounding the creation of Touch America brings to mind the character played by Kevin Costner in the film *Field of Dreams*. He firmly believed that if he built a ball field in the middle of an obscure cornfield in rural Iowa, the mysterious players he desired to meet must appear. Similarly, Montana Power managers apparently believed that if they only created the fiber infrastructure, then customers would surely show up. This deep belief that success must occur in advanced technological ventures

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<sup>31</sup> Kirk, *A History of Montana Power*, volume II, Chapter 9, pp. 1-18; McCraw, *TVA and the Power Fight*, pp. 86-90.

<sup>32</sup> Patrick Judge, *Montana's Power Trip: Electric Deregulation, Consumers, and the Environment*, Missoula, 2000, Master's Thesis.

reflected attitudes forged in the early era of *Electrifying America*. However, outsider observers wondered why this rich company constructed a nice ball field in the middle of nowhere. Unfortunately for the Butte utility, “Moonlight” Wilson never showed up.

## CHAPTER 2

EDISON AND THE WAR OF ELECTRIC CURRENTS

Montana Power formally came into existence on December 12, 1912 (12/12/12). The General Electric executives, the investment bankers, the top managers from the new utility and the representatives of ACM would have undoubtedly enjoyed celebrating the event with an elaborate bash at the Delmonico's at 44<sup>th</sup> Street and Fifth Avenue in New York City. This gem of the Gilded Age still glimmered. Having previously hosted the financial creator of GE, J.P. Morgan and the legendary electrical genius, Nikola Tesla, not to mention Theodore Roosevelt, this sumptuous restaurant would have been the ideal place for the businessmen associated with the 12/12/12.

Ensnconced on one of the private rooms on the second floor, these industrial and financial luminaries could have sampled Delmonico's signature nineteenth-century creation, Lobster Newburg, along with the famous Delmonico steak and tenderloin. Fresh vegetables with delicate sauces rarely found west of the three star restaurants of Paris, Bordeaux and Burgundy flanked these delectable meats. A wine cellar that often exceeded 16,000 bottles supplied Chateau Margeau and other highly touted *grand crus* to these exemplars of corporate America. Unfortunately, these busy men resided not only in New York, but also in Butte, Boston, and Schenectady making such a feast unrealistic. Local festivities had to suffice. Each group, however, had much to celebrate.<sup>33</sup>

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<sup>33</sup> Kirk, *A History of Montana Power*, volume I, pp. 39-50, 56-59; volume II, chapter 9, pp. 1-5; Leighton, *Corporate History of the Montana Power Company*, pp. 1,4. Leighton draws from his review of a Federal Power Commission investigation in the mid 1940's into the founding of the Butte firm to characterize some of the motivation of participants. Culinary insights provided at <http://wwwsteakpefection.com/delmonico/History.html>.

For the General Electric (GE) group, the formation of the Montana utility signaled another impressive transfer of the pioneering technology of Edison and subsequent massive improvements of that technology to a location in the remote Rocky Mountains. GE President Charles Coffin, as well as other senior executives, had not only invested heavily in the utility, but also sat on the board of directors and had even occupied senior management positions in this promising firm in Butte.

Wall Street had participated in the creation of Montana Power and many other utilities. Firms such as Lee, Higginson and W.S Seligman had floated bonds for Butte Electric and the new firm as well as many other utilities and tram concerns. The Butte enterprise's plans for acquisitions, additional dams and an increasing array of long distance transmission lines presaged profitable future underwritings.

Though perceived as an uncouth and brawling mining town in the Eastern part of the country, Butte now served as the home office of a well-managed and forward-looking utility. The small management team undoubtedly took pride in the growing company. Company men like Max Hebgen and John Monrony, looked to build more dams and push the edge of transmission technology in order to create even more hydroelectric power for their chief client-the Anaconda Copper Mining Company (ACM).

John D. Ryan represented the Rockefeller-controlled copper mining concern, as well as a core group of investors that had followed him in the profitable business of creating this new power company. ACM did not formally own the utility. However, the immense electricity consumption generated by the underground excavation and

processing of ore by Anaconda created enormous leverage with newly-minted power firm. For starters, the mineral company consumed anywhere from two-thirds to three-quarters of the utility's electricity output. Ryan also served jointly as president of both companies.<sup>34</sup>

This chapter considers the events that the participants would have toasted at the fictive New York gathering. It focuses on the war of currency and the rapid electrification of the United States from the 1880's to the pre-World War I period. These events shaped the development of the electrical power supply and utility industries in Montana as well as throughout the United States.

Thomas Hughes and David Nye outlined the development of electrical industry. Edison founded the early business, which started the drive to electrify America. The system sprouted up, first as tiny power stations and then morphed into ever larger systems that covered cities or whole areas of states. Conflict marked this explosive growth as various players struggled to shape and control the evolution of electricity. Key actors such as Edison, Westinghouse and finally JP Morgan used the tools described by Nye: technological superiority, enormous financial clout, patent law and the political system to eventually carve out a powerful duopoly. These same processes played out in a similar way for electric power in Montana.<sup>35</sup>

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<sup>34</sup> Kirk, *A History of Montana Power*, volume II, chapter 9, volume II, chapter 9, 1-5; Leighton, *Corporate History*, Corporate Evolution Chart, in MHS collection. Note: Due to legal considerations, firms at the times often utilized numerous corporate identities. To avoid confusion, one moniker will be utilized for all subsidiaries within a given ownership group. Also note that senior MPC executives-Max Hebgen and John Morony had dams named after them.

<sup>35</sup> Hughes, *Networks of Power*; Nye, *Electrifying America*.

In the electrical energy world, all roads lead to Thomas Alva Edison. He emerges as the key personality in the establishment of the electrical power industry. Hughes and Nye both agree on the seminal importance of Edison's discovery of the incandescent light bulb and his initial development of the power technology that manifested in the construction of the original Pearl Street station. After agreeing at this beginning point, the two authors offer slightly different analyses, with Hughes developing a systems perspective and Nye emphasizing the structural processes (social construction) that shaped this new industry. However, both Hughes and Nye recognized that the highly inventive electrical industry required vast infusions of investment. The endless need for cash infusions drove the new industry into the clutches of the American financial community. These banks directed the industry on the path to short-term profits. The rolling out of the new electricity system in the country did not occur seamlessly. Edison soon found himself at loggerheads with George Westinghouse over whether Alternating Current (AC) transmission would triumph over Direct Current (DC) in a conflict dubbed "the current wars." This massive battle continued as JP Morgan rolled the Edison Electric Company into the new General Electric (GE). The victory of AC and the truce between GE and Westinghouse had profound implications for the nation and Montana in particular.

Alternating Current occurs when the flow of an electric charge undergoes a periodic reversal of direction. In the typical American house line, this happens sixty times every second. Conversely, with Direct Current, electric charges move only in one

direction in a wire. The key difference for our purposes lays in the fact that AC, unlike DC, can be transmitted cheaply over great distances.

The expansion of the electric industry caused an enormous need for copper. The large reserves of the ore in the territory led to an acceleration of mining and smelting activities- industrial processes that improved markedly with the introduction of electric power. Copper digging and refining increasingly benefited from electrical power and the new AC transmission system assured that electricity created at dams could readily and inexpensively be ferried to mining sites. The East and Midwest's need for copper and that industry's desire for indigenous energy production placed Montana on the road to a colonial relationship with these other regions. The developed seaboard areas lent their expertise, financial muscle and technology to the Territory. Montana supplied the natural resources.

This new technology enabled the power industry in the state to expand beyond small DC generators in towns and at mine locations. Two firms with powerful financial backing emerged: Butte Electric and the Missouri River Power Company (MRPC). In order to produce cheap electricity, they engaged in a "dam race" to harness hydropower. The denouement of this event came as the mighty waters of the Missouri swept away MRPC's major dam, soon bankrupting that firm. During the financial panic that insured from the 1908 dam breakage, Ryan and a handful of associates bought out the power interests of James J. Hill, as well as MRPC. Armed with an exclusive contract to provide power to ACM, Ryan stood poised to operate a large firm to compete with Butte Electric. GE saw the wisdom of consolidating the firms to prevent competition and paid the Ryan

group a princely sum for their assets. Ryan's sale to the GE group created the new trust: Montana Power.<sup>36</sup>

In Hughes' view, Edison's invention of the incandescent light bulb, while very important, did not constitute the inventor's greatest achievement. That accomplishment consisted of bringing together all the necessary elements—light, wires, and dynamo—to create an economic illumination system. Edison served not only as an inventor, but also as an agent of technological innovation and transfer, manager and financier. This approach, while eminently successful, consumed vast amounts of cash that Edison did not personally possess. Almost from the beginning, Edison needed a well-heeled patron.<sup>37</sup>

By the mid 1880's, a number of spectacular inventions by this electrical genius caused the emergence of Edison as the "Wizard of Menlo Park". His work attracted the attention of J. P. Morgan, the most influential financier in the country. Morgan and his associates backed Edison from about 1880. In 1887 this group funded the Edison Electric Light Company (EEL) as Edison's major commercial enterprise. Morgan's privileged access to his bank's capital and its connections proved indispensable to Edison.<sup>38</sup>

However, the highly talented inventor's constant need for cash turned his relationship with Morgan to that of a virtual employee. When Edison opened the first operational power station on Pearl Street in New York City in 1882, he personally appeared at 23 Wall Street, the headquarters of Drexel, Morgan, to make sure that

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<sup>36</sup> Samuel Hauser and a number of investors owned and operated the Missouri River Power Company, which was one of six firms operated by this group. For simplicity, these companies are identified under the MRPC banner. Henry Rogers and William Rockefeller of Standard Oil invested in this firm. At one time, Rockefeller owned more than 20% of the stock.

<sup>37</sup> Hughes, *Networks of Power*, pp. 18-23; Jill Jonnes, *Empires of Light: Edison, Tesla, Westinghouse and the Race to Electrify the World* (New York, 2005), pp. 52-55, 101.

<sup>38</sup> Jonnes, *Empires of Light*, pp. 3-11, 83-84.

“Jupiter” Morgan’s lights worked. A little later, he performed a similar task in making sure the generating apparatus at the banker’s Murray Hill home functioned properly.<sup>39</sup>

Morgan recognized the enormous opportunities for very profitable investment that this new technology augured. Competition did not interest this powerful banker. He preferred investments in monopolies or highly concentrated industries. He made certain that Edison moved in this direction.

A network of crucial patents theoretically protected Edison’s system from poaching by rivals, creating the requisite conditions for monopoly. Hence, the inventor faced constant pressure from Morgan and the other investors to use his patents to generate short term dividends for investors rather than for reinvestment in business development. Edison championed the more expensive central plant approach to power generation. Morgan’s investment group favored the more profitable and quick sales of single unit systems to private operators (like the one at the Alice Mine near Butte). Edison soon discovered the costs involved in crossing the great financier.<sup>40</sup>

The Pearl Street power plant proved revolutionary. However, the operational range of this station could not exceed a one-half mile radius around the facility. After this point had been reached, an unacceptable power loss in current transmission occurred. Attempts to overcome this transmission deficiency required increasingly large amounts of very expensive copper wiring. At this level of technology, moving power beyond the half-mile marker proved completely unrealistic.<sup>41</sup>

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<sup>39</sup> Ibid, pp. 3-11, 65, 84. Morgan foes nicknamed the banker “Jupiter” Morgan after the Roman deity.

<sup>40</sup> Ibid, p. 57.

<sup>41</sup> Ibid, pp. 3-11, 65, 84.

Since the initial DC current power stations provided superior illumination to gas lights and cost about the same, DC central power systems still spread rapidly in the mid and latter 1880's. However, others saw enormous possibilities in the use of Alternating Current, in lieu of DC.<sup>42</sup>

AC transmission avoided the distance and load limitations inherent in DC. However, the transmission of AC required a very high voltage current that could easily kill or maim humans that came in contact with the wiring. Also, this type of current operated at too high a voltage level for most of the then current electrical uses even if primitive transmission systems could ferry the electricity.<sup>43</sup>

Pittsburgh industrialist George Westinghouse, founder of an industrial airbrake company and a keen student of the new electricity game, quickly realized the possibilities inherent in the AC approach. He founded the Westinghouse Electric Company (WEC) to harness this new scientific know-how. This company quickly improved the new current technology, and challenged both Edison Electric and the DC system. In the mid-1880's William Stanley, another celebrated electrical inventor, teamed up with the Westinghouse staff to modify the Gaillard-Gibbs transformer. This improved device allowed for stepping down AC currents from a transmission high voltage to a consistently usable 100 volts. Later, Nikola Tesla joined Westinghouse to complete the developments in current technology that he had started at Edison's labs. In Pittsburgh, Tesla created a polyphase approach to AC that expanded the performance of this technology well beyond that of DC central plants.<sup>44</sup>

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<sup>42</sup> Ibid, pp. 3-11, 83-84.

<sup>43</sup> Ibid, p. 57.

<sup>44</sup> Jonnes, *Empires of Light*, pp. 118-123, 131-136; McDonald, *Let There Be Light*, pp. 24-28.

After the introduction of a working polyphase transformer, WEC sales heavily outpaced the sales of Edison's company. The decline of generating unit sales placed the company in a highly vulnerable position. Under the founder's guidance, the Menlo Park manufacturer remained committed to DC technology. His concerns over the safety prevented the inventor from embracing the general use of AC equipment. More poignantly, the famous inventor also faced enormous write-offs on his substantial investments in increasingly obsolescent DC equipment.

Rather than adapting to the new technology, Edison fought back. To defend his profitable niche, the author of the Pearl Street station commenced the "War of the Electric Currents." This battle took place over a wide range of areas. The conflict raged in the national political arena, the courts and financial markets. The foray by Westinghouse into the electrical generator business started a long period of corporate strife with Edison that served to shape the industry and caused Edison to lose his prominent place in it.<sup>45</sup>

Edison pursued one major strategy in opposition to Westinghouse. He attempted to have AC power transmission deemed lethal and unsafe. State legislatures could then legally proscribe this annoying transmission technology. The inventor launched this sally against WEC during the bidding and preparation period prior to the Chicago Exposition of 1893.<sup>46</sup>

Edison's assault on the Pittsburgh industrialist's current of choice almost succeeded and merits recounting. The struggle between these two industrial titans clearly

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<sup>45</sup> Jonnes, *Empires of Light*, pp. 106-107.

<sup>46</sup> *Ibid*, pp.15, 150-153, 175-179.

demonstrated the socially constructed nature of this industry. These men and their associates clearly shaped the direction of the business to suit their personal desires. The technology, while important, did not irresistibly lead to any preordained outcomes in the utility industry. Edison struck quickly. Through a number of agents, he worked to portray AC as a lethal technology that posed too many dangers for safe use.

Harold Brown, an engineer and former Edison employee, launched a one man campaign against Westinghouse. As Brown's campaign gathered steam, Edison quietly backed him with financial and technical support. In 1888, Brown sought to convince the New York City's Board of Electrical Control of the terminal propensities of AC by a live demonstration on a dog. He gave this demonstration of the effects of low voltage current on a bound black retriever in front of a stunned press corps. After showing that the animal did not die at the lower, DC voltages, he raised the voltage into the AC range. Brown hoped for a quick death of the animal, but the game canine weathered several heavy shocks before literally being cooked to death by the powerful current. Unfortunately for Brown and Edison, this singular display only served to energize the ASPCA, while appalling the public and the New York City Board of Electrical Control.<sup>47</sup>

Undaunted, Brown and the inventor from Menlo Park tried another tack. At this moment, the New York's penal system conducted a search for a more humane alternative to hanging. This effort by New York prison officials offered the two DC proponents a novel way to display the lethal nature of the other current. Brown convinced the New York prison authorities that electrocution, by a high voltage AC current would instantly

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<sup>47</sup> Ibid, pp. 165-174.

and humanely kill a human. The state prepared to conduct an execution at the Auburn Prison in upstate New York at the first opportune moment. From Edison's point of view, the swift execution of convicted murderers by high voltage current would make a clear statement on the perils of AC power to the public. The lethal impact on a prisoner along with Edison's enormous public prestige as an inventor might tip the scales against Westinghouse in the political process.<sup>48</sup>

The candidate for the first electrocution, William Kemmler, had confessed to brutally murdering his girlfriend in Buffalo. His imminent execution at the hands of officials at Auburn Prison seemed a foregone conclusion. Since Mr. Kemmler confessed and possessed no financial resources, the legal process appeared at an end. However, the esteemed W. Bourke Cochran, a dean of the New York State Bar, protested the proposed electrocution. Cochran contended that death by electrocution constituted cruel and unusual punishment and commenced a series of appeals on Kemmler's behalf. In the background, Westinghouse picked up the fees for the miscreant's extensive legal bills.

Cochran and other attorneys lost all the appeals right up to the state appellate court. Jill Jonnes, historian of electrical power development, felt that the extensive testimony of Edison, at this appellate level, as an expert witness on electricity swayed the court to uphold the verdict that death by electrocution did not constitute cruel and unusual punishment. Kemmler's demise resembled that of the black retriever. The executioner needed to apply several shocks to accomplish the state's grim work.<sup>49</sup>

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<sup>48</sup> Ibid, pp. 178, 185, 190.

<sup>49</sup> Ibid, pp. 185-198, 208-213.

Fortune then seemed to smile again on the two Westinghouse foes. Close on the heels of the execution of the hapless Kemmler, another death by electrocution occurred to bolster the drive to criminalize AC. John Feeks, a lineman in New York City, died as a result of touching a high voltage line. Subsequently, crowds watched as Feeks lifeless corpse literally fried in a maze of electric wires suspended over the city street. Needless to say, this incident roused public indignation. The legislative bodies of both the state and city of New York almost banned AC power transmission. Only the complete opposition of businesses using the newly prominent high voltage arc lights barely carried the day for Westinghouse. The same pro-AC coalition narrowly rebuffed a similar effort by Edison in Virginia.<sup>50</sup>

Again, these bizarre episodes put the battle in the electric complex in perspective. Legal and political processes superseded solely technological considerations on this crucial issue. Powerful actors, such as Edison, Morgan and Westinghouse, worked diligently to shape the evolution of the electric technology in a desired direction for their business interests. Technological developments served as putty in the hands of these men. The epic confrontation of currents had a major impact on the electric power companies that preceded Montana Power. AC transmission permitted the long distance movement of electric power. This opened the state of Montana to hydroelectric exploitation. Montana contained not only extensive river systems that could be dammed, but many water sources that picked up enormous power running down from steep mountains. Utility investors dubbed hydroelectric power “white coal.”<sup>51</sup>

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<sup>50</sup> Ibid, pp. 198-201, 204.

<sup>51</sup> Fletcher, *Sinews That Serve*, p. 5; McDonald, *Let There Be Light*, p. 111.

Most of Western Montana brimmed with potential “white coal.” The state’s rushing rivers could serve to generate cheap power- if electricity could be sent for long distances. As we shall see later, this quest for hydroelectric power led to the construction of a massive system of dams and reservoirs. If DC power had prevailed, electric power in Montana would have been largely limited to steam generated power at mine sites and in cities. Legal restrictions and suspicion of AC power development in England substantially delayed implementation of the system. A similar outcome in the United States might have delayed or nullified the creation of the Butte firm. The Missouri and Flathead River systems might have faced very different futures. However, the high powered current did win, with immediate consequences for Edison.<sup>52</sup>

### The Emergence of GE

By the time of the Chicago Fair, the “war of electric currents” had ended and Westinghouse faced a major new opponent. The corporate combat leading up to the 1893 fair in Chicago brought matters to a head between Edison and Morgan. Henry Villard, railroad magnate and close associate of Edison, tried to get the master trust builder to finance the acquisition of an important competitor, the Thomson-Houston Company (TH) of Boston, by the investor’s firm. Villard’s plan envisioned a larger, more powerful Edison Electric Light, however, in current parlance, in bringing this transaction to Morgan, Villard inadvertently put EEL “in play.”

A combination of the inventor’s firm with the well-regarded Boston firm intrigued the dealmaker. Unfortunately for Edison and Villard, Charles Coffin, president

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<sup>52</sup> Hughes, *Networks of Power*, pp. 227-238; McDonald, *Let There Be Light*, p. 111.

of Thomson-Houston, instead convinced Morgan that the New England firm's management could generate better returns for investors than Edison's firm. Coffin's possession of an operational line of AC products may have also tipped the balance against Edison Electric. The new enterprise, founded in Morgan's office, sported the deliberately nondescript moniker of General Electric as both Edison and his famous name found themselves outside the new GE. Morgan did not deign to inform Edison of the move. The famed builder of electrical systems had, in the argot of the day, just experienced "trustification" or more precisely had been "Morganized". The most powerful banker in the United States anointed Coffin as the first president of the newly created General Electric Company.<sup>53</sup>

Formed by two Philadelphia high school science teachers, Elihu Thomson and Edwin Houston, the Thomson-Houston Company supplied transformers and other equipment to the small, new power plants that sprang up like spring wildflowers throughout America after 1882. The Boston manufacturer set up Silverbow Electric in Butte (the earliest name for Butte Electric) and sent the power plant facilities to Butte from New England in 1889. Coffin's firm took bonds and stock from the Butte firm as payment for its machinery. Hence, the new GE started as a major investor in a predecessor company of the Butte utility.<sup>54</sup>

Even with the superiority of AC established, Westinghouse still faced mortal combat with the minions of Morgan's empire. GE did everything possible to edge the Pittsburgh firm out of the festivities in the Windy City. Fortunately for Westinghouse, the

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<sup>53</sup> Jonnes, *Empires of Light*, pp. 225, 234, 240-242; McDonald, *Insull*, p. 50; McDonald, *Let There Be Light*, pp. 18-19, 28-29.

<sup>54</sup> Kirk, *A History of Montana Power*, volume II.

gaudy Chicago Exhibition served to vindicate him and foreshadowed the evolution of the electrical complex.

At that time, Westinghouse simply provided more lighting for less money. His engineers bested GE with a low bid of some \$480,000 to GE's \$577,000. Westinghouse's pioneering scientists created a giant AC generating facility. Utilizing twelve giant 1000 horse power, 75 ton engines wedded to an enormous 2,000 horse power motor, the system could generate 15,000 horse power of electricity to run the almost 100,000 lights and numerous machines that produced the "White City." Using electricity, the Westinghouse employees built moving sidewalks, railways and elaborate water fountain. Throughout the United States, an extensive expansion of the urban use of railcars or trams followed closely on the heels of the fair.<sup>55</sup>

Behind the scenes, the Westinghouse crews also extensively utilized electrical power in constructing the fair. Electric currents animated saw mills, hoists, pumps, fans and painting machines. Much of this equipment quickly found a place in the mining industry. Other major industries started to introduce these machines into production processes.<sup>56</sup>

Fireworks continued in areas other than Lake Michigan. The feud between Morgan's progeny and Westinghouse continued on other fronts with bare knuckled intensity. The companies attacked each other over patent rights and in financial markets.

One of the key tools for large companies to shape the business environment involved the enforcement of United States patents. Theoretically, patents rights seemed

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<sup>55</sup> Jonnes, *Empires of Power*, pp. 251-254.

<sup>56</sup> *Ibid*, pp. 261-264.

straight forward. These laws existed to protect the creators of inventions or industrial processes from having others pirate their work. Operationally, enforcement of these laws proved ambiguous. Subjected to legal review, courts deemed much of the anticipated product or process protection as too fuzzy or overlapping. Some swashbuckling manufacturers chose to ignore patent restrictions altogether or, like GE, engaged in industrial espionage to obtain key designs from competitors. To succeed in this endeavor required very deep pockets. Thus the corporate recourse to civil law process served the largest corporations with the deepest legal resources.<sup>57</sup>

Litigation emerged as a powerful weapon of business warfare. In the early 1890's, GE and Westinghouse filed over three hundred lawsuits against each other. Companies such as GE could have alleged patent infringement by a competitor and thereby shuttered a competitor down with a restraining order to cease production for using the patent in question. America's often highly politicized and corrupt judiciary of the time added to the uncertainty of the legal process.

Similarly, legitimate patent rights holders often needed to sue to enforce their rights. Edison brought suit against a number of firms to protect the crucial patent for the incandescent light bulb. While GE ultimately won this suit, competitors functionally ignored the patent during the years of extensive, often merit-less appeals. Only the enormous resources of the Boston firm allowed the company to persevere. In fact, the Massachusetts-based manufacturer almost shut down Westinghouse's bid for the Chicago Columbian Exposition charging that the Pittsburgh firm's "stopper lights" breached the

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<sup>57</sup> Ibid, pp. 296-297; Nye, *Electrifying America*, pp. 171, 262.

special light bulb patents. Smaller competitors such as Tesla Electric (when Tesla went on his own) simply could not protect their work from larcenous rivals.<sup>58</sup>

The Boston and Pittsburgh based giants also savaged each other in financial markets with so-called “bear raids” on each others stock. In 1894, agents for GE caused a large decline in Westinghouse shares by spreading rumors in the New York, Philadelphia and Boston exchanges questioning the solvency of the Westinghouse firm. This assault on the Pittsburgh enterprise served as a prelude to an attempted hostile takeover of the company by GE forces. In response, Westinghouse commissioned Thomas Lawton, the famed distributor of watered Anaconda shares, to retaliate in kind against the gentlemen from Massachusetts. Large declines in the share price of GE appeared after this author and financier commenced his efforts. The bloodied Boston manufacturer chose to back off. Needless to say, all the tactics employed by both sides violated almost all modern securities laws.<sup>59</sup>

Access to Morgan funds accorded GE one major asset not duplicated by Westinghouse-superior acquisition financing for utility customer. When it came to doing business, particularly in the capital-starved West, GE provided capital to utility customers. Utilities needed to make large purchases to set up their generation, plant and transmission facilities. Power companies buying this equipment could make partial payment with their own securities to pay for these purchases. This Morgan creation pumped over \$59,000,000 into the shares of electric power and traction companies in this era.<sup>60</sup>

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<sup>58</sup> Jonnes, *Empires of Light*, p. 309; McDonald, *Let There Be Light*, p. 30.

<sup>59</sup> Jonnes, *Empires of Light*, pp. 309-310; Lawton, *Frenzied Finance*, pp. 90-91.

<sup>60</sup> Nye, *Electrifying America*, pp. 171-172.

Once GE obtained a partial ownership of these electric power companies, they could easily exclude competition for future business. The conglomerate cemented relationships with these new companies by providing extensive consulting services for electric utilities. Some of these newer utilities experienced substantial operating problems and the manufacturer needed to intervene to preserve the share prices of the stock they had taken for their products. Overtime, Coffin's firm placed these shares into the Electric Bond and Share Company (EBS).<sup>61</sup>

Other capital, not tied to magnates like Morgan, became available at irregular intervals. Westinghouse worked intensely for years to get capital outside the Morgan circle. He ultimately received funds from August Belmont and others.<sup>62</sup>

However, investing in *de novo* utilities proved very risky. The aftermath of the Panic of 1893 injured both firms, since both of them owned securities of new power and traction companies. However, GE's much larger exposure to these risky utility stocks caused a major liquidity crisis that almost broke the company. Morgan needed to put together a financial rescue package to save the overextended firm. Exhausted from their Darwinian struggles, both companies entertained the thought of a truce.

In 1895, after years of bitter conflict in the courts, the formerly warring adversaries pooled their patents. Competitors found themselves excluded from many processes and often had to pay hefty licensing fees to the two participants in order to use these protected technologies. Smaller competitors vanished or took on the role of remoras

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<sup>61</sup> Ibid, pp. 170-174.

<sup>62</sup> Jonnes, *Empires of Light*, pp. 217-225, 339-342.

to these two pelagic behemoths. By the turn of the century, the duopoly had achieved industrial rationalization.<sup>63</sup>

The national electrical supply industry had come to fit Nye's model for a highly concentrated electrical complex. GE and Westinghouse stood atop the electrical plant and supply business. These firms had kept innovating, creating more and more industrial uses for electric machinery and current. These newer technologies also substantially affected the copper mining industry and subsequently Montana. Demand for this highly conductive mineral increased significantly.<sup>64</sup>

#### Copper, Electricity and Montana

Copper mining initially proved very profitable. In turn of the century America, the expanding need for electricity in urban areas drove the demand for copper upwards, enhancing the prospects for miners of the mineral in Montana. The developments in electrical technology not only made Montana copper mining more profitable, but as the need for electrical wiring grew in North America, the industry reaped even greater profits.

Moreover, the creation of these new electrically powered tools and lights opened up new horizons for underground, hard rock mining. From the time of the Fugger family in sixteenth century Germany, mines often produced fabulous wealth for their owners. However, operation of these primitive hard-rock operations often proved perilous. Disasters such as flooding, gas explosion and collapse haunted dig sites. Ever-deepening

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<sup>63</sup> Nye, *Electrifying America*, pp. 170-174.

<sup>64</sup> *Ibid*, p. 170.

forays into the subterranean world of precious minerals killed or maimed many workers. Electric technology helped lower these risks.<sup>65</sup>

As indicated previously, the first major breakthrough occurred with the introduction of the powerful arc light by the Brush Electric Company. Use of these lights immediately enhanced production and safety in and around the mines. Other electrical products soon materialized in the mines. John Ryan personally rhapsodized about the introduction of fans in the Anaconda mines. Prior to these fans, the mine operators often lost control of fires that broke out in shafts. Walling the corridor off usually contained a conflagration, but this meant the loss of that wing of the mine for a substantial period of time, if not forever. Large loss of life often occurred and well as profit. The fans often could help suffocate these potentially ruinous blazes. Additionally, mines well below the surface flooded from time to time. Unwanted seepage often closed valuable tunnels. Electric pumps proved much more flexible and powerful than the steam or mechanically powered varieties, saving prime veins from abandonment to subterranean waters.<sup>66</sup>

As technology advanced, more sophisticated equipment came into use. Electric locomotives proved very useful. Few mines could handle steam powered locomotives safely. Increased productivity occurred with the introduction of electric powered drills. Also, powerful hoists made the movement of men, machinery and ore much more efficient.<sup>67</sup>

Hence, mine owners such as those in Anaconda desired more electrical power, generated as cheaply as possible as well. Mining operations initially generated all their

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<sup>65</sup> Ibid, pp.186; Mumford, *Technics and Civilization*, pp. 68-76.

<sup>66</sup> Ibid, volume I, pp. 32-33, 37, 49, 112,117, 139-140.

<sup>67</sup> Nye, *Electrifying America*, pp. 146, 204-206.

own power. However, as applications for power expanded, they found themselves running major steam plants. These operations proved inefficient as they required substantial boilers as well as enormous amounts of expensive coal or wood stocks on hand. The copper miners needed a cheaper and more convenient source of power.<sup>68</sup>

This evolving need for electrical power created a space for nascent electric power purveyors in Butte. Mining, even without using electricity directly in the mines, initially caused substantial growth in the general Butte economy. An expanding city and local business desired electrical illumination also. William Clark, one of the “copper kings” and some local business associates made the first attempt at power generation in Butte.<sup>69</sup>

In late 1882, Clark commenced building a primitive plant in Butte under a license with the Brush Electric Light and Power Company. Similar developments occurred in the other developed areas of Montana at this time or very shortly thereafter. Clark’s modest facility could supposedly handle up to eighty lights and initial tests seemed successful. All appeared well until an unforgiving December cold snap froze the pipes running to the boiler. A thaw produced no resumption of power and the apparatus never functioned again.<sup>70</sup>

Clark persevered. By 1884, he had another plant working. This facility actually functioned, eventually morphing into the Butte Electric Light Company. This small company had the Butte market to themselves until Thomson-Houston successfully petitioned the City of Butte for an electrical generation franchise in 1889. Butte city

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<sup>68</sup> Kirk, *A History of Montana Power*, volume I, pp. 37, 98.

<sup>69</sup> *Ibid*, p. 90.

<sup>70</sup> Kirk, *A History of Montana Power*, volume I, pp. 33, 134; Leighton, *Corporate History of the Montana Power Company*, pp. 7-8.

councilmen had complained of high power rates from Clark's company and quickly affirmed TH's request. Titled the Silverbow Electric Light Company, this new company, with state of the art production facilities, quickly dominated the market.<sup>71</sup>

Clark's company bought equipment from Westinghouse, but received no substantial financial support from the Pittsburgh firm. After the merger of TH into the new GE, Clark saw the writing on the wall and commenced negotiations to sell out to Silverbow, recently renamed Butte GE. Clark later took his new found electrical business expertise to Missoula, where he proved a key factor in developing power generation in that Western Montana city.<sup>72</sup>

GE not only continued to invest heavily in the Butte operation, but as previously stated, supplied a number of key executives to both the board of the company as well as the operations. GE vice president Henry Byllesby owned a large share of Silver Bow and ran the company until relieved over operational problems relating to dam construction. Another GE executive, Harry Turner, became President of Butte GE. When problems arose later, GE President Charles Coffin briefly assumed command to reorganize the operation. Later, Stanley Z. Mitchell, of the GE affiliate, Electric Bond and Share Company, served in some executive capacities at Butte Electric as well as a director.<sup>73</sup>

Critically, experts that evaluated GE at this time praised the emerging giant's expertise and business savvy. Albert Chandler Jr., an eminent business historian, in his book, *The Visible Hand: The Managerial Revolution in American Business*, touted GE's managerial know-how as some of the best in America. The manufacturer therefore

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<sup>71</sup> Ibid, pp. 37-39. MHS predecessor archive, box 14, folder 5.

<sup>72</sup> Leighton, *Corporate History of the Montana Power Company*, pp. 8, 10.

<sup>73</sup> Kirk, *A History of Montana Power*, volume I, p. 33.

contributed significantly to the managerial, technical and financial expertise that developed at Butte Electric and later at Montana Power.<sup>74</sup>

Byllesby and Mitchell received special mention. Historian Forest McDonald named these two executives as among the four key executives in the electrical complex in this era in the United States. Byllesby held senior positions at GE, WEC and TH before joining Butte Electric. Upon leaving Butte, he set up a consulting engineering firm that eventually turned into a utility holding company, for his consultancy took securities in lieu of cash for services rendered. Byllesby helped develop utilities around the United States, particularly the Northern States Power Company. By the 1920's, his holding company owned PG & E.<sup>75</sup>

Mitchell, in his post as President of Electric Bond & Share, funded utility investments all over the country. He earned his spurs at GE by structuring the Morgan rescue for the manufacturer after the Panic of 1893. After the manufacturer spun EBS off in 1925, the former financing arm of GE grew into the nation's preeminent utility trust.<sup>76</sup>

Unfortunately for Butte Electric, new power company entrants kept emerging in the city of the copper kings. In 1894, another small competitor, Phoenix Electric, surfaced in the city, quickly followed by the Butte Gas Power and Fuel Company. Both proved competitive with Butte Electric for a time, but these two firms could not keep pace with BE. Phoenix Electric sold out around 1901. The gas company cashed out to the emerging juggernaut in 1905.<sup>77</sup>

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<sup>74</sup> Albert D. Chandler Jr., *The Visible Hand: The Managerial Revolution American Business* (Cambridge, 1977), pp. 411, 426-433.

<sup>75</sup> McDonald, *Let There Be Light*, 187,199; Pinchot, *The Power Monopoly*, pp. 5, 124.

<sup>76</sup> Stanley Z. Mitchell, *S.Z. Mitchell and the Electrical Industry* (New York, 1960), pp. 55-56, 61, 132.

Developments in AC power transmission soon caused Butte Electric to face a current war of its own. At the turn of the century, a strong competitor emerged to contest the Butte firm for dominance in the supplying of electric power to the burgeoning mines in Butte and Anaconda. Samuel T. Hauser, former Territorial governor and a leading Helena area banker established the Missouri River Power Company. Hauser received support not only from Helena interests, but also from three of the most powerful copper magnates in Montana. Standard Oil's Henry Rogers, William Rockefeller and Butte's William Clark saw the growing need for electrical power in their mining ventures. In an age of trusts and monopoly, relying exclusively on Butte Electric seemed unwise, particularly to Rockefeller interests. Therefore, these captains of industry hedged their electricity bets and invested heavily in the MRPC. Adding insult to injury for GE, Westinghouse supplied the generation facilities for Canyon Ferry as well as other MRPC properties.<sup>78</sup>

The opening shot in this conflict occurred when the MRPC started building a dam at Canyon Ferry on the Missouri River in 1896. Hauser's company completed the dam in 1898 and strung an 11,000 volt line to the capital. More ominously for Butte Electric, in 1902 the MRPC started transmitting cheap electricity to Butte via a 50,000 volt of transmission line from the new power station at Canyon Ferry.<sup>79</sup>

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<sup>77</sup> Kirk, *A History of Montana Power*, volume I, pp. 43, 46, 59, 62; Leighton, *Corporate History*, p. 9; MHS predecessor archive, box 14, folder 5.

<sup>78</sup> Burke Video.; Leighton, *Corporate History*, p. 8; Kirk, *A History of Montana Power*, volume I, pp. 15-16, 61. MHS predecessor archive, box 156, folder2. Evidence exists that George Westinghouse may have personally invested in the Hauser company. However, stock registries in the MHS archives do not support this claim.

<sup>79</sup> Fletcher, *Sinews That Serve*, pp. 6-7; Leighton, *Corporate History*, p. 16; Kirk, *A History of Montana Power*, volume I, pp. 84-88.

MRPC gained a leg up on Butte Electric as a supplier of large amounts of wholesale electricity to the mines and larger businesses in the Butte area. To put this in perspective, around this time, one expert estimated a full-blown hydroelectric generating facility could produce one horse power per year at \$66. More flexible, smaller plants that allowed for less than constant operation cost \$150 per HP year. The average cost for steam generation came in at \$90 per HP year. The newer hydroelectric plants transmitted power over vast distances and cost \$50 per HP year initially. To stay in the game, Butte Electric needed to get into the dam building business and quickly did so.

The Butte management raced the Hauser group to gain access to quality dam sites. It should be noted that not any just river sufficed. Generating plants on smaller rivers or with shallow dams on bigger rivers got shut down in the winter by ice ridges that cut off water flow to turbines. Conversely, summer droughts also reduced rivers to mere trickles, also making continuous power generation precarious. Adequate water flow required placement of dams on select river sites that accommodated large reservoirs behind the dam.<sup>80</sup>

BE and MRPC rushed to quickly exploit these choice sites. However, these pioneer builders underestimated the problem that spring run-off on the larger rivers posed to weakly built structures. Melting mountain snows swelled Montana's rivers to several times their annual volume almost every spring. Due to the expense and time required for cement construction, both these dam builders substituted on wood or steel when erecting these early structures. These attempts to build dams on the cheap resulted in three dam

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<sup>80</sup> Kirk, *A History of Montana Power*, volume I, p. 95. Burke in his video used slightly different metrics, however, both approaches indicate that early hydroelectric power cost about half as much steam during this period in Montana.

accidents in a period of less than a decade. All three collapses caused significant problems, but the last accident wreaked havoc on the western utility industry and bankrupted the Hauser group. This incident inadvertently set the stage for the consolidation of Montana utilities into Montana Power.<sup>81</sup>

### Collapsing Dams

Through a subsidiary, Butte Electric commenced to build dams on the Big Hole and the North Branch of the Wise River in Southwest Montana. Initially, electric power operators attempted to construct dams quickly and on the cheap. Montana's powerful rivers and extreme weather quickly got in the way. Both dams relied on a high timber crib and rock-fill construction approach. Spring run-off soon claimed the structure on the Big Hole River during the runoff of 1901. Heavy waters then pushed the dam on the North Fork of the Wise River several hundred yards from the original base. Both of the accidents occurred in relatively remote areas and caused little damage.

Meanwhile, back in Boston, "moving" or collapsing dams did not work for senior management. An alarmed Coffin sacked Byllesby and replaced him with Charles Wetmore. At this time, Butte Electric also developed two dam sites on the Madison River. Well constructed, these facilities did not collapse.<sup>82</sup>

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<sup>81</sup> Ibid, p. 52.

<sup>82</sup> Leighton, *Corporate History*, p. 21; Kirk, *A History of Montana Power*, volume I, pp. 50-52, 90, 100. Charles Wetmore came from the North American Company, a utility holding company allied with German investors. They did not support him in Butte and he made a substantial investment in his own funds. He remained president of Butte Electric and served as the very first Montana Power president, resigning very shortly after the creation of the firm in 1912.

Hauser attempted to steal a march on BE. The Helena-based entrepreneur installed a steel dam a little bit upstream from the current Hauser Dam site on the Missouri. New transmission lines ran downstream to Canyon Ferry, where the power could be ferried to the key Butte-Anaconda area. Hauser inked substantial contracts to deliver power to the Anaconda Company at aggressive prices that reflected lower hydroelectric rates.<sup>83</sup>

The bitter rate war between the two companies raged on. However, on the morning of April 14, 1908, MRPC's steel dam suffered a three hundred foot breach. The powerful Missouri River current had simply undermined the foundation anchoring the dam to the river floor, causing the steel panels to peel way. Unlike the first two dam accidents, this time substantial damage occurred down stream. This accident shook the Western utility industry and soon bankrupted the Helena competitor.

The accident at the dam dealt a substantial blow to the Helena firm. First of all, the MRPC spent over \$260,000 to reimburse farmers, railroads, and other property holders damaged by the tumultuous flood waters. Further, MRPC's guaranteed delivery of power to ACM depended on low hydroelectric rates. The dam breach forced them to substitute with higher cost steam powered electricity. In this way, the fallout from the loss of the dam generated additional financial pressures for Helena utility.<sup>84</sup>

Moreover, the accident forced the replacement of the defunct steel dam with a much stronger and expensive concrete structure. The pressure of paying for the

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<sup>83</sup> Leighton, *Corporate History*, p. 43; Kirk, *A History of Montana Power*, volume I, p. 66. The current Canyon Ferry Lake covers the site of the original Canyon Ferry Dam and power station.

<sup>84</sup> MHS predecessor archive, box 156, folder2, 6/10/08 description of damage. An adjustment for inflation would indicate a current value of this loss at many millions. Hauser had no insurance coverage for this incident.

reconstruction of the Hauser Dam, as well as continuing construction of the firm's other dam project at Wolf Creek caused Butte Electric's nemesis to run out of cash in 1911.<sup>85</sup>

The collapse of Hauser Dam finally demonstrated that Montana hydroelectric generation required the construction of very sturdy dams. Anchoring dams in order to resist the strong spring currents of rivers like the Big Hole, Madison or Missouri required elaborate and very expensive preparation. Again, small companies with limited capital simply could not participate in these projects.<sup>86</sup>

During this period of heavy competitive conflict with the MRPC, Butte Electric acquired some of these small local power companies east of Butte. At the onset of power development in Montana, almost all facilities for electric power generation were owned by independent power companies or mines. For example, the relatively small town of Bozeman sported two diminutive power companies: Gallatin Light and Railway Company (which also operated a streetcar line until 1920) and the People's Power Company. The Livingston Water Power Company supplied electricity to some portions of that tiny town.<sup>87</sup>

The generation of hydroelectric power gave larger Montana electric power companies an enormous advantage over smaller rivals. Small companies, such as those in Bozeman and Livingston had very limited access to capital, either locally or nationally. Rather than fight, they sold to Butte Electric, with the Bozeman group cashing out in 1906 and Livingston the next year. Ultimately, the Butte firm would keep buying small companies until 1939.

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<sup>85</sup> Kirk, *A History of Montana Power*, volume I, pp. 97-100.

<sup>86</sup> *Ibid*, 100.

<sup>87</sup> Leighton, *Corporate History*, pp. 23-26; Kirk, *A History of Montana Power*, volume I, pp. 65-66.

The Hauser Dam disaster also caused the market for western utility shares to virtually collapse for a number of years. Optimism about harnessing “white coal” from the large rivers of the American West temporarily evaporated. The decline of share prices had two major effects that sped the creation of the Montana Power Company. First, money for electric power companies in the West almost completely dried up. This sealed the doom of the MRPC, depriving the utility of monies that might have restored the company’s finances. Second, the battered market for utility shares in Montana created a space for someone willing gamble on the state’s future to get into the utility game at rock bottom prices. John Ryan stepped forward and commenced accumulating the stock necessary to put together the Montana Power Company.<sup>88</sup>

Ryan proved a man for his times. Square-jawed, confident and aggressive, he emblemized the businessmen and financiers of the Gilded Age. Spending much of his time in New York City, he likely did patronize Delmonico’s and similar watering holes that catered to America’s movers and shakers. Although he presented a tempting target to progressives of the time, Woodrow Wilson later tapped him as an Assistant Secretary of War during the First World War.

Ryan came to Montana as a traveling salesman for a Midwestern firm. Before his rise to prominence at ACM, he joined and quickly rose to prominence in copper king Marcus Daly’s bank in Butte. The connections made at this bank along with Ryan’s importance at the Rockefeller owned copper giant uniquely positioned him to raise speculative capital. For instance, the widow of copper king Marcus Daley, strongly (and very profitably) supported Ryan’s utility gambles. As an initial foray into the world of

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<sup>88</sup> Leighton, *Corporate History*, p. 39.

utility investment, Ryan and a pool of speculators purchased the Boston and Great Falls Power Company in 1903. By 1906 the Ryan group had trebled their initial money in a sale to Butte Electric for cash and securities.<sup>89</sup>

Ryan believed that the Hauser Dam accident problem would prove to be only a temporary blip on the road to a bright future for power in the state. The panic-filled atmosphere that devastated Western utility share prices after the Hauser dam incident enabled him to cheaply assemble the key parts to create MPC.

In 1908, Ryan's group purchased a large block of James J. Hill's interest in the Great Falls Water Power and Townsite Company. Hill, the railroad magnate, had accumulated vast tracks of land in Montana from the building of the Northern Pacific Rail Road. Shortly thereafter, Ryan formed another group of associates and obtained a one and a half million dollar loan from banks in New York City to fully buy out Hill. The railroad magnate rid himself of the power company assets to focus on the development of his Montana real estate interests. The fabled founder of the northern transcontinental railroad took a shine to the energetic Ryan and also sold him a prime dam site near Thompson Falls.<sup>90</sup>

Ryan commenced building a dam and a substantial power plant at the Rainbow site (not far from Great Falls) on the Missouri River. In 1910, Ryan's new utility, the Great Falls Power Company, constructed two 100,000 volt lines that bypassed the MRPC station at Canyon Ferry to bring cheap hydroelectric power to Butte. Given Ryan's inside

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<sup>89</sup> Leighton, *Corporate History*, pp. 32-33; Kirk, *A History of Montana Power*, volume I, pp. 15, 62, 106-107, 120.

<sup>90</sup> Leighton, *Corporate History* pp. 34-38, 45-47; Kirk, *A History of Montana Power*, volume I, pp. 118-122, 126.

position at Anaconda, the potential power market for the Hauser's company diminished significantly.<sup>91</sup>

Ryan received another key break. Like other investors, the Standard Oil interests behind the Anaconda Company temporarily lost faith in "white coal." Hence, ACM did not want to invest any more in electric power generation right after the shredding of the Hauser steel structure. Henry Rogers of Standard Oil (thereby a large stakeholder in ACM) found himself stuck with a substantial portfolio exposure to MRPC investments. Because of problems with Hauser's company, the \$1,000,000 of securities of that Rockefeller interests held could fetch little in financial markets.

However, Rogers, in return for Ryan group's purchase of these troubled securities at a very high price, agreed to give Ryan a guaranteed contract for large purchases of electric power from the copper miner. Roger's commitment gifted Ryan with the instant ability to sell power to the strongest buyer in the state and made obtaining financing for dam construction much easier.<sup>92</sup>

The accumulation of bankrupt MRPC securities by Ryan continued. The investment bank of W.S. Seligman & Co also held a million dollar block of these devalued securities. A pool of buyers led by Ryan purchased these bonds and stocks.<sup>93</sup>

As the market for utility securities rebounded after 1911, Ryan found himself in the catbird's seat in the world of electric power in Montana. He controlled three dams: the Rainbow, the rebuilt Hauser structure and the Canyon Ferry facility. Further, the future president of the Butte firm also owned key hydroelectric power sites, including

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<sup>91</sup> Leighton, *Corporate History*, p. 49; Kirk, *A History of Montana Power*, volume I, pp. 98, 123-132.

<sup>92</sup> Leighton, *Corporate History*, pp. 19-20, 41.

<sup>93</sup> *Ibid*, p. 75.

those at Holter, the Great Falls of the Missouri and Thompson Falls. Ryan also apparently took advantage of his membership on the Board of the Milwaukee Railroad. Prior to the formation of MPC, he inked a potentially very lucrative contract to electrify that railroad in Montana. This contract greatly increased the immediate value of the Thompson Falls site. Lastly, as president of ACM, he clearly possessed unrivaled access to the largest electricity customer in the state.<sup>94</sup>

Wetmore, Coffin and Mitchell worked assiduously to get him to join forces with Butte Electric to bring a larger holding company to life. The potential of Ryan's group replacing MRPC as an even more formidable competitor certainly occurred to the BE management. Fortunately for them, Ryan had worked closely with them during his acquisition and disposition of utility properties. Further, he and his associates still owned a large block of Butte Electric securities. Significantly, he also still owed the large loan New York bankers that he used to amass his utility holdings. These Wall Street financiers expected speedy repayment of these borrowings. During early 1912, the senior management in Butte appealed to the better angel's of Ryan's nature, while meeting his demand for a \$22.5 million dollar price for his group's holdings.<sup>95</sup>

Appropriately, MPC incorporated as a New Jersey corporation with its home office ensconced at 25 Broadway in New York City. Anaconda resided at the same address with the Standard Oil Company conveniently located next door at 26 Broadway. GE interests owned around half the stock.<sup>96</sup>

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<sup>94</sup> Ibid. pp. 57-60, 86-87; Kirk, *A History of Montana Power*, volume II, chapter 9, p.3.

<sup>95</sup> The price paid Ryan and his associates will be revisited again in Chapter III. During World War II the Federal Power Commission found the price paid to the Ryan group for Great Falls Power and the other assets much too high. Implicitly, GE granted a very large price premium to the Ryan group in order to create its monopoly.

General Electric or its predecessor firm had accomplished a great deal in helping to introduce hydroelectric power production to the state. The Boston firm transferred the knowledge, resources and technology necessary to commence the electrical industry in Montana. They had triumphantly mastered the terrain of the Rocky Mountains, harnessing Montana's great rivers to send power to mine, purify and bend copper. They used their corporate powers to grow the system and then start to rationalize its pieces into a larger whole. The Boston manufacturer set up a trust that was positioned to grow and absorb the remaining small utilities in the state.

Their success enabled natural resource giants such as ACM to expand mining and smelting capacity in the state. The Northern Pacific Railroad profited greatly from the shipments of copper and brass from the state, although grain, lumber and cattle also plentifully filled its freight cars. This powerful group founded a troika that gave colonial underpinnings to Montana's politics until the early 1970's.

After the fictive dinner at Delmonico's, the party of bankers and businessmen would have ended the evening with cigars (from Havana, of course) and brandy. They could savor this triumph. Times had been good and they stood poised to get a whole lot better. The reflections of from the electric lights as they swirled their drinks dimly mirrored the martial fires being stoked in Europe. The impending conflagration would be copper's war.

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<sup>96</sup> Chandler, *The Visible Hand*, p. 423; Leighton, Frank, *Corporate History*, p. 77; MHS predecessor archive, box 14, folder 5.

## CHAPTER 3

ERA OF THE INDUSTRIAL COWBOYS

Electricity premiered as a major factor in warfare during the First World War, playing a key role in the conflict. The battlefield saw the introduction of electric communication equipment on a wholesale basis. Illumination provided by current also appeared, but of course, paled by comparison to the hellish artillery barrages that so dominated the war in Belgium and Northern France from 1914-1918. Copper and brass made these massive onslaughts possible, as electrified smelting and mass production supplied the metal needed to encase literally billions of rounds of munitions from the single bullet to the heavy cannon shell. This four-year conflagration put an end to four major dynasties that had survived until the electrical era.

The war created a different environment in Montana. The gay lights of prosperity lit up the small cities of Big Sky country. No artillery starbursts illuminated the starry night, only the occasional flickering rays from smelters that worked extended shifts to meet the incredible demand for copper, zinc and brass. Electricity powered the new machines that supplied the refined metal products necessary to pursue modern war. However, some clouds beckoned on the horizon. As 1917 wore on, a good number of Montana's young men were drafted to fight "over there." Inflation started to eat into worker's purses as piece rates and wages lagged prices. Silently, the industrial moonscapes that surrounded the mining and metals industry spread, particularly in Butte and Anaconda.

This chapter considers Montana Power from its inception just prior to World War I through the first pangs of the Depression. The Butte enterprise used this time to consolidate and build an empire, not to tear one down. For this utility and most of its brethren in the United States, the Gilded Age still lived and sparkled. Montana saw the creation of a generation of “industrial cowboys” who ranged freely in Montana conducting business as they saw fit. John D. Ryan, company president from 1912-1933, dominated the scene.

The ever-increasing demand for electrical power and the rich profits that flowed from its generation greatly expanded electrical networks in Montana, as well as the rest of the country. Engineers constructed ever-larger dams and transmission grids throughout the state. Montana Power, like other large producers of power continued to absorb smaller companies into this growing network. These events did not occur by accident, as powerful business interests continued the “trustification” of the electricity business. In Montana, General Electric and some close associates utilized the economic, financial, political and technological resources at their disposal to dominate the development of energy.

The Board of Directors of the utility worked hand in hand with Ryan to drastically expand the reach of the Butte energy concern. A veritable clutch of colonial overseers, these businessmen came from large financial, industrial and mining interests from the Eastern part of the country. A mere roster of personnel does not convey the reality of class and power these men represented. They backed an expansive drive to acquire almost every other power firm within the firm’s self-defined borders. This acquisition

frenzy culminated in Montana Power itself being absorbed into the giant GE-controlled American Power and Light Company (APL) in 1928. The phenomenal growth of the underlying business also dictated a major campaign to construct hydroelectric production facilities and the transmission infrastructure to move the “juice” to market. The firm also expanded into natural gas and petroleum exploration, drilling, refining and distribution.

The Great Depression put a swift end to this generation of industrial cowboys, as the bottom fell out of the market for copper, causing a major cut in the demand for electricity. Montana Power survived, but the firm needed to retrench its electrical operations. The heady days of easy expansion ended. They would not return. The New Deal would quickly change the nature of the power game in the West. The impact of this period on the economy, politics and environment of the state proved profound. Cheap hydroelectric electricity attracted natural resource based industries that used massive amounts of power. Montana Power worked hard to bring such firms to the state. The company acquired existing urban and small business electricity networks, but did little to proactively develop retail or rural user bases. Politically, these natural resource industries and the railroads combined with large Montana stockmen to exercise a stranglehold on state politics. As we examine thoroughly in Chapter IV, even the state’s first constitution faithfully reflected the desires of these powerful corporations.

Montana Power also affected the physical environment of the state in three important ways. First, the Butte firm named many of the state’s major artifacts, such as dams, reservoirs and power plants after officials of the firm. Second, the Butte firm constructed a vast infrastructure in the state of dams, power lines, sub-stations, reservoirs,

natural gas distribution systems and even gasoline stations throughout the firm's business area. Third, the power from this infrastructure made possible the rapid development of timber and mineral reserves. This development often impacted the state in ways much more negatively than those of the utility alone. Aggressive mining and smelting left behind major toxic sites. In varying degrees, these activities poisoned the air, streams and ground.

### Back to Delmonico's: The Powers Behind the Power Company

The fictive dinner at Delmonico's depicted previously would have provided some obvious clues about the nature and direction of the new company. At a prime table, one particular group, the board of directors, would have merited special notice. Of those assembled, we have already met Ryan, Coffin and Mitchell. These three individuals would have focused on protecting the ownership interests of Ryan (and implicitly ACM) and GE. The remaining directors would have represented other important business constituencies involved in the new power firm.

The power firm never existed as a simple tool of the Rockefellers and ACM, as some Montana folklore would have it. Instead, the ownership of the firm reflected other powerful financial and industrial entities. By 1928, utility critic Gifford Pinchot described Montana's newly assembled electricity conglomerate as one of the 41 largest utility holding companies in the United States. In his breakdown of utility trust ownership, Pinchot identified ownership interests in the utility as those of Ryan, GE, Nicholas Brady

as well as those of Drexel, Morgan. All these interests supported Ryan's planned expansion of the utility by acquisition and organic growth.<sup>97</sup>

Frankly, the names of these business titans were almost irrelevant. The institutional power these men represented gave them their importance. These senior business leaders hailed from the mining industry (not just ACM), very powerful Wall Street banks, utility trusts and elite corporate law firms. Almost all of them lived and worked around New York City or Boston. This location proved very convenient given that Montana Power's corporate offices shared the same location as ACM, 25 Broadway in New York City. Though he would have been too young to attend, the late Columbia University professor C. Wright Mills would have readily identified them as members of the American power elite. This board dramatized the colonial nature of large Montana resource industry participants. The interests and agendas of these financial movers and shakers differed profoundly from the population of Montana at the cusp of the First World War. A comparison of the board with the broad populace of Montana will demonstrate this.<sup>98</sup>

Laborers, small farmers and ranchers, a handful of small town shop owners, and Native peoples constituted the majority of the state residents at the time. Miners comprised the bulk of workers, usually paid at piece work rates. To miners, ACM and its corporate associates operated as robber barons that worked them hard and often recklessly while paying them as little as possible. Small farmers and business owners instinctively distrusted the elites represented at this fine restaurant. Undoubtedly barred

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<sup>97</sup> Pinchot, *The Power Monopoly*, pp. 5, 123, 208; Leighton, *Corporate History of Montana Power*, pp. 79-80.

<sup>98</sup> C. Wright Mills, *The Power Elite* (New York, 1956).

from this sumptuous gathering, Native groups such as the Crow, Sioux and Blackfoot, viewed our assemblage as the “white chiefs” that stole Indian land and resources. Back in Montana, other mine proprietors, like the remaining copper kings, and owners of big cattle spreads probably looked on the directors with some favor, but they were clearly few in number, though not importance.

Thus the new 1912 MPC board of directors reflected the company’s very strong connection with eastern business and finance and continued to do so until 1935. The board veritably bristled with important bankers. Frederick Strauss and Henry Seligman, both senior partners in the investment bank of J.N W. Seligman & Co as well as other power financial professionals such as Frederic Allen and N. Penrose Hallowell had provided key support in the sale of company securities in key eastern cities. Charles Sabin of the Guaranty Trust of New York and Albert Wiggins, president of the Chase National Bank represented Morgan and Rockefeller interests respectively. Wiggins turned into something of an embarrassment. After the Great Crash, his actions forced him to resign in disgrace from that powerful bank. During that period of market turmoil, he secretly shorted his own bank’s stock, while publicly leading efforts to support the stock market.<sup>99</sup>

A panoply of key figures from industry, mining and corporate law also had long stints in this elite group. Nicholas Brady, president of Brooklyn Edison jointly owned a significant chunk of the borough of Brooklyn’s power company as well as two other New

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<sup>99</sup> Robert Sobel, *The Great Bull Market: Wall Street in the 1920’s* (New York, 1968), pp. 135,153. “Shorting a stock” utilizes a technique to sell a stock in anticipation of a price decline. Wiggins bet that his efforts to stabilize markets would fail and he attempted to personally gain from that failure and the subsequent lower share price of his firm.

York State utilities with John Ryan. William Corey, president of United States Steel, William D. Thornton, head of Inspiration Mining(copper), Alfred Jantzki, (Sullivan & Cromwell law firm), New York corporate attorney George Canfield, Charles Groesbeck, president of APL and Sidney Inch, a senior executive of EBS rounded out this latter collection of business luminaries.<sup>100</sup>

The APL purchase of most of the outstanding shares of Montana Power in 1928 did not fundamentally change the board. From the perspective of the owners of the Company, APL served as a mutual fund that allowed Ryan and friends to liquidate substantial portion of their stock ownership, but not control of the firm, at a price close to the highs of the late 1920's overheated market in utility shares. The public directly purchased shares of power and light trusts, such as APL. Sale of MPC, Helena Power and Missoula Public Service to the trust transferred a significant majority of the ownership of these utilities to the public, just in time to take the ferocious losses in utility share prices that occurred after the Great Crash. One can only meditate on the exquisite and fortuitous timing of these sales.

These board members circulated in the most sophisticated business information flows in the country. These powerful financiers and businessmen sat on interlocking boards that covered many firms, including many utility trusts. The policies of the utility echoed those of the rest of the power industry. The business actions of the power company in Montana faithfully reflected national trends in utility development.<sup>101</sup>

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<sup>100</sup> Leighton, *Corporate History of Montana Power*, pp. 79-80; Kirk, *A History of Montana Power*, volume II, chapter 9, p. 5. See chapter 14 appendices, roster of company directors.

<sup>101</sup> Leighton, *Corporate History of Montana Power*, pp. 79-80; Kirk, *A History of Montana Power*, volume II, chapter 9, 5. See chapter 14 appendices, roster of company directors.

### Growth by Acquisition

Prior to the war, major trusts expanded their regional networks as they acquired the smaller power companies in their areas. This process accelerated as profits surged during the conflict. In this period of high growth in electrical power use, existing franchises also experienced substantially increased business. Impressive new industrial developments based on the exploitation of large amounts of low cost electricity arose throughout the country. Utilities also moved into hydrocarbon businesses. Bankers invested heavily in these firms. Over time, these captains of finance employed massive leverage, creating gigantic multi-tiered networks of electricity trusts that served to greatly consolidate the national power industry. GE likewise used their increased financial muscle to pyramid utility companies and fund the entrance of these holding companies into other energy related businesses. GE used both Electric Bond & Share and APL to gain control over 10% of the national market.<sup>102</sup>

Ryan's acquisition binge reflected the national experience of other large power companies. Major power companies expanded in two ways: by gobbling up local competitors and buying utilities in contiguous areas. Some firms, like Detroit Edison limited themselves to absorbing only a small number of acquisitions. On the other hand, five hundred and forty separate entities comprised the Pacific Gas and Electric Company. The Butte firm's acquisition of local power companies appeared about average.<sup>103</sup>

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<sup>102</sup> Pinchot, *The Power Monopoly*, pp. 1-13,123; McDonald, *Insull*; McCraw, *The TVA and the Power Fight*, p. 12; Kirk, *A History of Montana Power*, volume I, p. 42; Fletcher, *Sinews That Serve*, pp. 39-40.

<sup>103</sup> McDonald, *There be Light*; Nelson, *KPL in Kansas*; Coleman, *PG & E of California*; Mills, *The Force of Energy*; Meyer, *Builders of the Northern States Power Company*; Weaver, *The Hartford Electric Light Company*; McDonald, *Insull*.

Montana Power purchased the Lewistown Light and Power Company during the gestation year of 1912. Thereafter Ryan's company absorbed almost thirty other utilities (see Appendix A). The key acquisitions occurred in 1928-29, as APL bought the ownership interest in Missoula Public Service and Helena Power, the two remaining major independent power companies in the state.

In effect, the Butte firm allowed local entrepreneurs to do the hard work to develop electric power in smaller towns, then bought them out after the business had been established. This acquisition program did not appear coercive *per se*. As discussed previously, these small firms lacked capital necessary to expand their plants. Montana Power helped these small entrepreneurs to profitably recoup their investments. Since the Company usually brought in cheaper hydroelectric power, customers often received rate cuts and better service.

However, the firm's acquisition model represented only one potential approach to expanding power networks. Either GE or the Butte firm could have instead provided financing for the growth of these small companies. Ryan and some members of the senior management of the power company briefly explored the possibility of existing as a pure wholesaler of electricity to these small firms. Obviously they preferred to purchase complete control of these companies and continued to absorb these firms. Hence the power company's buying spree represented a *choice*, not a necessity. Undoubtedly GE preferred the control and enhanced profit opportunities offered by developing a monopoly. As we have seen, the Boston firm worked diligently to achieve industrial advantage and as much business concentration as practical.

Merging with small Montana power companies accounted for only a portion of the revenue increases experienced by MPC during this era. Economic growth in Montana and the rest of the United States created huge opportunities for the Company to sell large amounts of power. The rapid expansion of mines, smelters, railroads and petroleum facilities in Montana depended on the easy access to vast quantities of cheap electricity.<sup>104</sup>

### The War Boom

As we have seen in the first chapter, the world's fair held in Chicago showcased the rapid evolution of the electrical complex. The Pan American Exposition of 1915 in San Francisco performed a similar task. This fair, occurring during the second year of the Great War, drove home the increasing omnipresence and sophistication of electrical systems. In an almost surreal counterpoint to the carnage in the trenches, the Exposition presented carefully crafted artificial sunsets and an aurora borealis that closely mimicked the real thing. Electricity had arrived, creating a world that experienced rapid increases in electrical usage for home illumination, advertising, street cars and most importantly, industrial machinery. General Electric and Westinghouse both participated with exhibits that extolled the emerging non-military wonders of electricity.<sup>105</sup>

Strong economic performance marked the United States prior to World War I. As Europe entered the Great War, growth of the entire electrical complex in the United States increased spectacularly from the already robust pre-war levels. Uninterrupted by

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<sup>104</sup> Kirk, *A History of Montana Power*, volume II, chapter 8, pp. 4-12.

<sup>105</sup> Nye, *Electrifying America*, pp. 63-65.

war and fueling the needs of the Allied Powers for material and food stuffs, the American economy boomed. As Debi and Irwin Unger pointed out, the war seemed copper-plated. Needless to say, Montana's economy also exploded. Mining, ore processing, railroads, timber and petroleum (after the war) positively impacted Ryan's power company.<sup>106</sup>

Copper, lead and zinc mining expanded enormously. Nationally copper production, for example, expanded from 130,000 tons in 1890 to 1,400,000 tons in 1914. Copper ore cost a great deal of money to transport. Hence miners invested heavily in local processing of ore. After 1910, ACM installed a new generation of efficient electric smelters in Butte and Anaconda. The Anaconda Company also obtained a new technology that allowed the use of electrolysis on zinc ore. This development enabled ACM to construct elaborate zinc ferro-manganese smelting furnaces in Great Falls in 1915. By 1916, this facility alone processed one hundred tons of mineral laden rock. Other firms located smelters and related facilities in Great Falls and Helena. The Rockefeller dominated mining concern constructed a similar complex in Anaconda in 1916. Taking advantage of limited transportation costs and cheap electricity, related industries such as wire and cable manufacture likewise located in these areas of Montana. Other subsidiary industries, particularly railroads, benefited as well from this heady economic mix.<sup>107</sup>

Montana served as the northern transcontinental corridor to the West Coast.

Railroads needed wood, coal and electricity to operate. The Chicago, Milwaukee and

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<sup>106</sup> McDonald, *Let There Be Light*, pp. 181, 186; Debi Unger and Irwin Unger, *The Guggenheims: A Family History* (New York, 2006), pp. 127, 131-136; McCraw, *TVA and the Power Fight*, p. 9. McCraw points out that electrical usage in the United States rose from 21 billion KWH in 1917 to 75 billion KWH in 1930.

<sup>107</sup> Kirk, *A History of Montana Power*, volume II, chapter 9, p. 19; Fletcher, *Sinews That Serve*, p. 37; Burke Video.

St. Paul Railroad started electrification of its Montana operations in 1915. The rail line of ACM, The Butte, Anaconda and Pacific, also converted to electrical power after 1912 (coincidentally Ryan sat on both railroad boards). Collectively these two lines needed large amounts of electrical power, providing the impetus for dam building in Western Montana. The transcontinental railroad also inspired other businesses in the state.

The Northern Pacific Railroad cut through the northern part of the state. Since the rail line did not electrify, James J. Hill's company bought a local supply and developed the coal seams at Colstrip. The extensive lignite veins discovered on this site one hundred miles east of Billings figured significantly in the story of the utility and will be considered at length in the Colstrip chapter. In 1924, Ryan supplied power to this facility by constructing lines to Hardin and then Colstrip.<sup>108</sup>

Railways further contributed to the growth of both the state's resource industries and the power company. Business agents of the Northern searched for commodities to fill eastern bound freight trains after they had been unloaded in Seattle. Timber proved a viable product. Hill worked assiduously to harvest the region's lush forests. Logging required local processing of the trees. Saw mills blossomed in the state to process the felled trees. The establishment of related forest product enterprises also occurred. Paper companies, in particular, consumed large amounts of electricity, creating another robust market for the utility.<sup>109</sup>

Residents of the state did not dub Montana the Treasure State for naught. Starting about 1920, wildcatters in the arid eastern part of started discovering significant amounts

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<sup>108</sup> Kirk, *A History of Montana Power*, volume I, chapter 5, pp. 30, 31; Kirk, *A History of Montana Power*, volume II, chapter 14, p. 5.

<sup>109</sup> Michael Malone, *James J. Hill, Empire Builder of the Northwest* (Norman, 1996), p. 153.

of crude oil. Initially, refinery operations commenced near the oil wells scattered throughout eastern Montana sites. As we have seen with mining and electric power, New York and Boston financial interests commenced purchasing these oil fields and refineries. Major petroleum companies started consolidating refining operations around Billings and Laurel. These new refineries and related business required substantial amounts of electricity for optimal operation. The petroleum processing activity in the Billings area allowed for further electricity sales and network expansion to the eastern part of the state by the Butte firm. Billings took on the character of a diminutive Denver or Houston.<sup>110</sup>

### The Dam Boom

The tremendous growth in electrical usage necessitated another, even larger expansion of the company's hydroelectric generating capacity. Five significant hydroelectric facilities on the Madison and Missouri, as well as a slew of smaller hydroelectric and steam driven generation facilities scattered about the state (see Appendix B) generated power at the formal inception of the company in 1912. In order to meet increased demand, Ryan continued dam and power plant construction. Collectively, these five new dams supplied more current than the entire previous network of the firm. The newly generated power needed to be moved to the firm's ever increasing customer base. This sparked the laying of extensive power grids to ferry the "juice."

The Company constructed the large Volta Dam (later renamed the Ryan) on the Missouri in 1915. The utility completed another Missouri River dam in 1918, on the old

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<sup>110</sup> Kirk, *A History of Montana Power*, volume I, chapter 5, pp. 32-34.

Holter site of the defunct MRPC. Large reservoirs formed behind these structures and the new power stations poured their electricity into the expanding grid. In 1930, the Morony Dam (named after another deceased executive, John Morony) commenced operation in the Great Falls area of the Missouri River.

These dams, as well as some of the existing facilities, faced a common problem. The river flows on the Madison and downstream on the Missouri often fluctuated a great deal. The spring featured raging waters, while currents retreated to trickles in the summer and fall. Even with the adjacent reservoirs, low water threatened to leave hydroelectric generators literally high and dry. To counter these inadequate river levels, Ryan's men started erecting a reserve dam on the Madison in 1913 to control water levels on these two rivers. Completed in 1915, this dam generated no power. Named the Hebgen Dam, for another company executive, Max Hebgen, this stoppage on the Madison created a 20 mile long reservoir. This facility proved adequate until the 1930's when, as we shall see in the next chapter, even this reservoir could not maintain adequate flows. The loss of power generation from the Company's dams on the Missouri led to a substantial conflict with ACM in 1937.

Electricity from these hydroelectric dams rarely exactly matched demand for the power. The firm's facilities either generated too little or too much electricity. No provision existed for inventorying electrical power. Unsold current drained away, leaving no profit. The construction of transmission media to quickly move current to market consequently attained a key place in the Butte firm's expanding power network.

Ryan's construction crews raised gargantuan silver towers that slashed across the wild Montana terrain. These transmission grids and allied systems played three crucial roles for the firm. First, they ferried power to existing cities and industries and allowed for growth in these markets. Second, they carried the "juice" to new users and markets in Montana. Last, these lines turned into the sinews of a regional network that we shall see come into play in a major way during the Second World War. The electrification of the Milwaukee, the expansion of power to the growing city of Billings and the first transmission of power from Montana to the West Coast showed how this worked in practice.

The electrification of the Milwaukee required that the Butte firm supply current to railway lines that spanned a stretch of over 440 miles from Harlowtown, Montana to Avery, Idaho. This project easily exceeded the distance of any other transmission grid in operation in America at the time. The Butte firm utilized a 100,000 volt transmission line with eight substations that stepped the AC power down to 3,000 direct current volts for the locomotives.

The Thompson Falls Dam provided only part of the needed power. Ryan's firm constructed lines from the new Ryan dam to both Morel and Two Dot to serve the Milwaukee. While taking care of the railroad's power needs, the Company also hooked up the Anaconda area via the same Morel creating a power network from Great Falls to Idaho.<sup>111</sup>

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<sup>111</sup> Kirk, *A History of Montana Power*, volume I, chapter 4, pp. 143-144, 147; Kirk, *A History of Montana Power*, volume II, chapter 9, p. 9; Fletcher, *Sinews That Serve*, pp. 12, 17.

Early economic growth in and around Billings (before the discovery of petroleum in the area) created another significant market for surplus power from facilities on the Missouri River. In 1912, the utility built transmission lines from the Rainbow Dam plant to carry current to Havre, Lewistown, Cascade and related communities. The firm soon extended the Two Dot line to Lewistown and, eventually Billings and Roundup. Hence, the power company also created a grid to the eastern part of the state.<sup>112</sup>

By the early 1920's, the Company created a power system that covered much of the state. This network enabled the utility to participate in the early long distance transmission of current in the Pacific North West. When a drought on the West Coast during the 1925 season caused a severe power shortage in Seattle and Tacoma, Ryan's firm sold electricity to the Puget Sound area via an interconnection with Washington Water Power in Idaho.<sup>113</sup>

The initial sales to Washington Water Power proved important. Montana Power developed co-operative relationships with power trusts in other states. None of these regional energy companies trespassed on the business domain of these potential competitors. While no formal agreements existed, large utilities implicitly recognized each other's territories. The Butte firm went so far as to sell its Idaho operation to Washington Water Power. The utilities later took advantage of state regulation to lock-in their monopoly positions with so-called territoriality laws. Moreover, new transmission

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<sup>112</sup> Kirk, *A History of Montana Power*, volume I, chapter 4, pp. 144-147, chapter pp. 5, 22. Kirk, *A History of Montana Power*, volume II, chapter 14 (statistical recap), p. 5; Fletcher, *Sinews that Serve*, p. 37. Roundup served as a significant source of coal at this time.

<sup>113</sup> Fletcher, *Sinews That Serve*, p. 38.

networks allowed for the easy transmission of excess power among the Western states, cementing friendly ties among these power companies.

Utilities desired the ability to move power to needed locations. Inside Montana, the enterprise moved inexpensive power from the Company's hydroelectric facilities to locations where railroads and natural resource-based industries could readily use it. As networks increased in range and complexity, electric companies looked to sell excess power to any company that had a shortage. As we shall see in the World War II period, regional trading later emerged as important, because the different time zones and economic configurations in the region created exploitable market niches for power sellers. With an enormous array of dams and a new power grid, the utility often had cheap hydroelectric power available for sale. However, the Great Depression postponed the utilization of regional power networks until the Second World War.<sup>114</sup>

### The Development of Oil and Natural Gas

The third leg of the firm's expansion of energy networks occurred in the development of hydrocarbon products. With APL's resources, the utility expanded the company's energy network into natural gas and oil. The subsequent generation of large amounts of natural gas mandated the construction of a network of transmission pipes and facilities to market this natural gas throughout much of the state.<sup>115</sup>

Ryan's firm purchased the Dry Creek gas field from the Ohio Corporation in 1931. Near Roberts, Montana, this active field already provided gas to Bozeman and

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<sup>114</sup> Fletcher, *Sinews That Serve*, pp. 38-39.

<sup>115</sup> Kirk, *A History of Montana Power*, volume II, chapter 10, pp. 1-8; Fletcher, *Sinews That Serve*, p. 38.

Billings. When piping the gas from Billings to Bozeman, the company took the opportunity to supply gas to Red Lodge, Absaroka, Roberts, Columbus and Big Timber.<sup>116</sup>

Ryan and one of his executives, Harry Cochrane, had seriously considered exploring for any developing new gas fields near Shelby as early as 1916. Predecessor companies of the Butte firm manufactured limited amounts of bottled gas for use in some of the larger cities in Montana. After World War II, the enterprise increased investment in natural gas and coal, turning the Butte firm into a broad based energy company.

In 1929, Louis “Tip” O’Neill discovered desirable oil and gas pockets near Cutbank. The Depression wiped out O’Neill’s access to financing and he sold out to the power company. Development of the Cutbank site led to the discovery of significant reserves of gas and oil. Ryan’s men commenced drilling and also built a refinery near the wells to process the gas and petroleum. By 1931, the company piped this gas to Great Falls, Helena, East Helena, Butte, and Anaconda. Natural gas proved a financial winner, even in very difficult environment of Depression era Montana. These two projects only initiated the gas network of the Butte firm. By 1947, the Company had 65,000 acres of proven reserves, 89 operating gas wells as well as 116 miles of pipeline to transport the gas.<sup>117</sup>

The Cutbank oil wells quickly produced a several thousand barrels of oil a day. The firm refined this oil into gasoline for automobiles. The electric utility set up a chain of gas stations around Montana that sold this gas-marketed under the name Power

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<sup>116</sup> Kirk, *A History of Montana Power*, volume II, chapter 10, pp. 1-8; Fletcher, *Sinews That Serve*, p. 38.

<sup>117</sup> Kirk, *A History of Montana Power*, volume I, chapter 5, 38; Kirk, *A History of Montana Power*, volume II, chapter 9, pp. 8, volume II, chapter 10, pp. 1-4; Fletcher, *Sinews That Serve*, p. 22.

Gasoline. MPC owned these stations until 1950. The passage of the 1935 Public Utility Holding Company Act forced the Butte enterprise to sell off the oil operations.

Revenues from the new natural gas business provided one of the few bright spots for the firm in the early 1930's.<sup>118</sup>

In this free-wheeling era, Montana Power impacted Montana in a number of other ways. Three key areas come to mind. First, the firm demonstrated its dominance by naming its most spectacular projects after its own executives, including some of whom were still alive at the time. Second, the utility built hard infrastructure spread throughout large areas of the state. Last, the big customers of the power company caused significant environmental damage in some areas.

The ability to name significant objects represented an exercise of power in a society. Nineteenth-century European imperialists quickly renamed places they took over in Asia and Africa. After the end of colonial rule, the liberated populaces quickly restored indigenous variants. For example, India changed the name of Bombay to Mumbai and the majority black population used the moniker Zimbabwe to replace the colonial name of Rhodesia. In the fashion of the Europeans, the company named four dams after executives during this period; Ryan, Monrony, Hebgen and Kerr. Later, under the Corette administration, the company named its two giant steam plants in Billings after company presidents and its last dame on the Missouri, the Cochrane, after an important engineer of the firm. The names remain unchanged to this date. For reasons unknown, the practice

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<sup>118</sup> Fletcher, *Sinews That Serve*, pp. 21, 23; Kirk, *A History of Montana Power*, volume II, chapter 10, pp. 4-13; Burke Video.

ended with the Colstrip project, which giant turbines were merely numbered and not named.

Large dams, by their very nature, intruded heavily on the land. These vast structures changed the country, breaking natural rivers and covering large areas of terrain with reservoirs. Montana Power did this on the Madison, Missouri and Flathead Rivers. Power transmission and natural gas piping cut through large areas of previously untouched forest and prairie land. The firm's oil refinery and gas stations seriously impacted the microenvironments that they were in. During this "cowboy" period, the firm faced no serious opposition to these activities. The development at Colstrip would change that, but it did not happen until the 1970's.

The raging demand for copper and other metals along with the low rates for power in Montana combined to create an ideal environment for the heavy use of smelters. These enterprises produced great amounts of air water and soil pollution that persist to this day in the form of the numerous Super Fund sites at Silver Bow Creek, Anaconda, Basin, East Helena, upper Ten Mile Creek area and the Milltown reservoir near Missoula. The Berkeley Pit in Butte came to serve as an example of other, non-Superfund repositories of highly toxic substances. Cheap electricity also encouraged heavy logging, paper and pulp production as well as some chemical operations. These operations created super fund sites in Bozeman and Lockwood, along with many miles of clear-cut forests.<sup>119</sup>

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<sup>119</sup> Super fund web-sites: [www.epa.gov/superfund/sites/npl/mt.htm](http://www.epa.gov/superfund/sites/npl/mt.htm); [www.deq.mt.gov/fedsuperfund/feds.asp](http://www.deq.mt.gov/fedsuperfund/feds.asp).

### Hard Times in Big Sky Country: The Depression

By the end of the 1920's, Ryan utility conglomerate had grown and obtained the powerful forward momentum postulated by Hughes. The company subsequently experienced what Hughes characterized as a major reverse salient; an earth-shattering financial and economic dislocation that traumatized the entire national utility industry. The Great Depression knocked the stuffing out of the copper industry, plunging Montana into a deep economic contraction that last until 1936. At that time, Soviet economic growth and the rearmament of Japan, Italy and Germany renewed global demand for basic metals.<sup>120</sup>

The Great Depression also hammered the Anaconda Company and the economy of Montana. ACM almost ceased operations in the state. The loss of power sales rattled the Montana Power Company and left the firm's major hydroelectric development on the Flathead River on the rocks. Revenues for MPC fell over 25% from the peak year of 1929 to 1934, even with the infusion of new gas revenues. The utility closed some plants and ran some others at greatly reduced levels. Substantial staff cuts occurred. The surviving employees suffered a 10% salary reduction. Unionized workers found their work day and pay reduced by a quarter.<sup>121</sup>

The new gas revenues bolstered the finances of the Butte firm and profits from this investment grew throughout the Depression. In addition, MPC started aggressively marketing to the retail electric customer. The company annual reports lauded the sales of household appliances. Toasters started to edge ut smelters.<sup>122</sup>

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<sup>120</sup> Hughes, *Networks of Power*, pp. 14-17.

<sup>121</sup> Annual Reports of the Montanan Power Company, 1933-1939. MHS archives.

This episode of the toasters served as one of the few times that the firm specifically focused on retail customers. The Butte firm always preferred to develop the big ticket, wholesale customer. The company never denigrated retail business. The utility's small customer base always received first rate service. Montana Power maintained system integrity in appalling climate conditions. Winters often created Arctic conditions that bedeviled power systems for weeks at a time, yet the utility maintained current deliveries. Unlike Detroit Edison, however, the firm never pursued consumer business with any zeal. We will see this again in the structuring of the Colstrip project as a largely wholesale enterprise. Intriguingly the firm followed this pattern into the 1990's. Montana Power could have easily utilized its substantial customer base to create a regional long distance phone or cable television network. The firm intuitively sought out larger customers for telecom development.<sup>123</sup>

On the other end of the state, the massive outflow from Flathead Lake had long fascinated engineers at the Company. In the late twenties, they planned a large dam on the Flathead. Called the Kerr Dam, after the man who would succeed Ryan as president, engineers designed the plant to generate 55,000 volts. That capacity ranked this power plant as the second most powerful in the firm's inventory after the 60,000 volts coming from the flagship Ryan Dam. Building commenced in 1929. Deeply committed to the project named after him, Kerr hesitated to suspend construction in spite of the firm's

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<sup>122</sup> Fletcher, *Sinews That Serve* pp. 38-39; Annual Reports of the Montana Power Company, 1933-1938. MHS. Gas customers and revenue are highlighted, as well as all sorts of appliances.

<sup>123</sup> Raymond Mills, *The Force of Energy*. During the Depression, DE had the only woman in senior management of all the firms covered. She spearheaded that enterprises deep commitment to the retail customer. Interestingly, the firm made few acquisitions.

mounting idle capacity. However, as the extent and potential length of the Great Depression sank in, the staggering utility ceased construction in 1931.<sup>124</sup>

As the templates provided by Nye and Hughes suggested, the Ryan Era saw the purposeful creation of a true statewide energy network by the Montana Power Company. Acquisitions eliminated competition and expanded business. New and existing customers created large opportunities for incremental hydroelectric power generation. The utility then commenced the production and distribution of oil, gasoline and natural gas. Right up to the Depression, the ownership of Montana's premier energy enterprise triumphed in linking to ever expanding energy networks.

All this occurred without any meaningful interference in the utility's operations by private or public entities. The Butte firm managed to buy out potential instate rivals. Out of state power trusts respected the utility's Montana domain. The state of Montana created the Public Service Commission in 1920, but it and city governments proved only minor "nuisances" to the power company. This milieu changed quickly with the advent of the Depression. This devastating event brought forth a powerful challenger- the Federal Government.

The New Deal transfigured energy policy and fought to grasp significantly more control of electrical networks in the United States. Congress and the new Roosevelt administration looked to break up utility trusts and induce a major expansion of public power generation. Due to the state's important river systems, Montana loomed large in the national government's plans for altering the networks of power that APL had so diligently constructed.

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<sup>124</sup> Kirk, *A History of Montana Power*, volume II, chapter 12, p. 47.

## CHAPTER 4

## MONTANA POWER CONFRONTS THE NEW DEAL

Ryan passed away during the tumultuous year of 1933. In the spring, President Herbert Hoover, after three bitterly unsuccessful years of attempting to stem the Depression, vacated office along with much of the conservative Republican ruling coalition that had dominated the country since the election of 1920. A self-made millionaire from the mining industry, Hoover would have fit in with the old crowd at Delmonico's. Unfortunately, the absence of the establishment's normal complement of high end spirits brought about by Prohibition had shuttered the restaurant in the early 1920's.<sup>125</sup>

Hoover's successor, Franklin Delano Roosevelt, would not have been comfortable with the financial movers and shakers that put together Montana Power and the Anaconda Company. A scion of New York's patrician Dutch landholders from the Hudson Valley, the new president rarely associated with stock jobbers and businessmen. William Z. Ripley, one of FDR's favorite instructor's at Harvard described the men who ran and financed the utility trusts in such terms as "double-shifting, money juggling, horns wagging." The new President and his supporters accused the industry of extortion. As a masterful politician, Roosevelt also found that the utility trusts made desirable enemies and scapegoats.<sup>126</sup>

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<sup>125</sup> Joan Hoff, *Herbert Hoover: The Forgotten Progressive* (New York, 1975).

<sup>126</sup> Thomas McCraw, *The TVA and the Power Fight, 1933-1939* (New York, 1971), pp. 22, 27, 33; Pinchot, *The Power Monopolies*, p. 1.

The Roosevelt Administration and a new Congress strode into Washington with a hostile agenda toward the utility trusts. The public viewed the intense financial maneuvering of the trusts during the roaring twenties as one of the causes of the Depression. These ‘malefactors of great wealth’ needed and deserved punishment. In addition, key members of the New Deal envisioned a massive expansion of electrical power. These men worked under the assumption that abundant and cheap electrical power could foster economic growth that might master the forces of the Depression. The electricity conglomerates could not avoid the blame placed on them by the public nor rise to the challenge of providing bountiful and inexpensive energy to all.

The Depression bankrupted the most over-extended of these electric power trusts and scattered losses among the rest. American price levels fell in unison with the deflation unleashed by the severe economic downturn. However, power prices remained elevated as these companies needed to keep rates high enough to service immense levels of debt that they added to their balance sheets in the twenties. The shattered economy and financial condition of private utilities precluded the expansion of electrical capacity in the United States to help create economic prosperity.<sup>127</sup>

The failure of investor owned utilities to lower consumer prices and increase electricity supply created a large space for proponents of completely different agendas for the expansion of electricity networks. Public power exponents arrived in the Capital championing the idea that cheap public power would revitalize the moribund economy. Joining these apostles of cheap electricity came another group of New Dealers with a completely different concept of networks. This group viewed America’s great river

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<sup>127</sup> McCraw, *The TVA and the Power Fight*, pp. 7-8.

basins, such as the Columbia and the Missouri, as inter-related systems. These officials possessed a penchant for ‘reclamation’ of these river systems. From their perches in various Federal agencies, they advanced the view that the economic development of these basins demanded enhanced flood control, better navigation, increased irrigation, improved recreational opportunities, as well as cheap electrical power.<sup>128</sup>

These champions of public power quickly occupied important leadership positions at the advent of the New Deal. They instituted a wide range of governmental policies that deeply affected the fortunes of the Montana Power Company. The national government under FDR, supported by the Montana Congressional delegation, quickly moved to destroy private utility holding companies, build public power generation facilities, foster rural electrification, broaden employment, and create recreational opportunities. They also tightened Washington’s regulatory grip on private utilities. The Butte firm found itself at ground zero in this attack by the New Deal on the trusts previously unchallenged dominance of the growing power networks.<sup>129</sup>

A bill of particulars showed the scope of the New Deal attack on the Butte firm. First, the Public Utility Holding Company Act of 1935, which required the dissolution of trusts, squarely assaulted the enterprise and its parent American Power and Light (APL). Importantly, Washington, through the Bureau of Reclamation and the Army Corps of Engineers, commenced a program of building very large dams in the Columbia and Missouri River basins. These efforts eventually generated vast amounts of power in the region. These same dam-building agencies also severely constrained the Montana firm’s

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<sup>128</sup> Ibid, p. 17; David P. Billington and Donald Jackson, *Big Dams of the New Deal Era: A Confluence of Engineering and Politics*, (Norman, 2006), pp. 6-7.

<sup>129</sup> Nelson, *KPL in Kansas*, pp. 178-180.

ability to add hydroelectric capacity. The Rural Electrification Act of 1936 created the infrastructure for rural power cooperatives to form commencing an enormous increase in rustic electrification. During World War II, the Federal Power Commission, following the dictates of the 1935 FPC Act, came after the utility on two fronts. In their first sally, Federal investigators commenced an investigation into the accounting practices of the Butte firm. Adverse commission findings forced the Butte firm remove so-called “watered assets” and abruptly lower rates to consumers. In addition, the FPC moved to increase agency control over Missouri and Madison River dams of the Butte firm.

The reaction of Montana Power to these new thrusts from Washington dominated the history of Montana Power during the lengthy period of the Depression through the creation of the Colstrip project. Prior to the New Deal, the firm possessed a great deal of flexibility. The Butte enterprise could build dams, acquire smaller competitors, and invest in other energy businesses with only a limited concern about interference from Washington. The era of the industrial cowboy ended as the actions of the New Deal placed the utility on the defensive. The firm and other utility trusts fought back, but their political resources proved insufficient to halt the forces of change. At best, litigation enabled the electric power conglomerates to slow down or sideline a few Washington initiatives.<sup>130</sup>

In fact, the hostility to private power along with the new public power programs radiating out of Washington almost swamped the utility. Absent the dramatic break of

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<sup>130</sup> McCraw, *The TVA and the Power Fight*, pp. 21-27, 34, 58, 92, 109-110; Nelson, *KPL in Kansas*, p. 178; Pinchot, *The Power Monopolies*, pp. 12-13. The industry’s aggressive trade group, The National Electric Light Association disbanded in 1933 after the FTC investigated the group’s advocacy practices. The trade groups distributed gifts to reporters, editors, politicians and *professors*.

the Second World War, Montana Power might well have faded away or been absorbed by a regional power authority or the Army Corps of Engineers. Auspiciously for the Butte firm, overwhelming World War II defense needs absorbed all the electrical production in the region. A lack of coherence among about power policy among different New Deal factions also blunted the federal blitz.

Indeed, by the late 1960's, the utility had emerged as a strong energy company that had survived, and even thrived, in spite of New Deal efforts to marginalize private utilities. Yet, the events from period had four significant effects on the Company. First, the enterprise emerged from these trials with a strong president, a narrow corporate worldview, and a weak board. Second, unlike the Ryan years, the Butte firm did not produce all the power it sold, but bought a good deal of it from federal agencies. Third, Roosevelt Administration actions sowed the seeds of distrust in the firm's management regarding the national government as well as the oversight and regulation that accompanied public intervention into the power business in Montana. Fourth, this hostility to state control kept pushing the enterprise into unregulated business; initially gas and coal and eventually telecommunications. To understand the pressures that Washington exerted on the Butte firm, this chapter examines the thinking of the firm's foes, the defenders of public power networks.

### The Rise of Public Power

Public power advocates held the belief that cheap and ubiquitous electric power would cure many of society's problems. Access to cut-rate electricity, either from the

“White Coal” or via gargantuan coal fired plants, seemed to promise ongoing prosperity. Increasingly capable transmission grids assured the ability to transfer current over huge distances.<sup>131</sup>

Basin development advocates also believed that a publicly run network of dams, not private ones, would optimize societal benefits, including expanded navigation, irrigation, river navigation and recreational activities. Large hydroelectric operations held a critical place in basin development, as revenues from electrical sales financed all of these activities. Containing the headwaters of two of the country’s major river basins, the Columbia and the Missouri, Montana naturally played a significant part in the plans of these New Dealers.<sup>132</sup>

Morris Cooke (later head of the REA for FDR), an assistant to Pennsylvania governor Gifford Pinchot in the mid-1920’s, represented the thinking of many future New Dealers concerning the direction of electrical networks. On the state level, he pushed the concept of a Pennsylvania owned and run “giant” power company to supply massive amounts of bargain priced electricity throughout the Keystone state and related areas. Private utilities defeated the efforts of Cooke and Pinchot in Harrisburg, but Cooke continued to advocate these ideas in the New Deal.<sup>133</sup>

In spite of the ascendancy of the massive utility trusts during the roaring twenties, some building blocks for citizen-based power existed in the United States. Many municipalities ran power plants. Washington still owned the Wilson Dam on the Tennessee River in Alabama. President Wilson ordered construction of the dam at the

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<sup>131</sup> Hughes, *Networks of Power*, pp. 295-296.

<sup>132</sup> Billington, and Jackson, *Big Dams of the New Deal Era*, pp. 7-8.

<sup>133</sup> McCraw, *The TVA and the Power Fight*, p. 15; Hughes, *Networks of Power*, pp. 296-308.

end of WWI to supply electricity for the production of nitrate fertilizers. After the War, private utilities lobbied heavily to have the government sell the dam to private interests. However, utility trust foes in Congress succeeded in keeping the facility on the government books. At the onset of the New Deal, this particular dam anchored the development of the TVA.<sup>134</sup>

In order to bring needed electrical power to booming Southern California, even the pro-private utility Hoover administration backed the construction of a major hydroelectric power facility in the remote Black Canyon in Nevada. The immense expanse of concrete bore both the names of Hoover and Boulder Dam. The Roosevelt Administration worked hard to create many facilities like the Boulder Dam.<sup>135</sup>

Supporters of national electrical networks believed that electrical power essentially represented a public good, like roads, bridges or other municipal services. Unsurprisingly, they backed governmental or cooperative ownership of these facilities. Private utility advocates demurred, always stressing the supposed efficiency of these private systems. However, the collapse of the utility holding companies at the onset of the Depression destroyed the public credibility of the industry for many years.<sup>136</sup>

An aggressive, pro-public power stance made enormous sense for Western legislators, particularly those from Montana. The major costs of hydroelectric power consisted of the dam, power station and main transmission lines. National development of the state's hydroelectric resources meant the Federal government absorbed the heavy start-up associated with hydroelectric infrastructure. Ongoing costs for plant operation

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<sup>134</sup> Ibid, pp. 12-20; Hughes, *Networks of Power*, pp. 295-296.

<sup>135</sup> Billington and Jackson, *Big Dams of the New Deal Era*, pp. 124, 143-144, 148.

<sup>136</sup> McCraw, *The TVA and the Power Fight*, p. 97.

remained slight, ensuring the low marginal rates to Montanans. The Missouri River may have flowed through Montana, but the state drained taxes from New York, Ohio and Pennsylvania. The BPA and Corps of Engineer Power hydroelectric works provided Western state politicians with the proverbial free lunch.<sup>137</sup>

The Montana Senatorial delegation almost always opposed the company. Burton K. Wheeler worked on an early utility trust-busting bill, the Wheeler-Rayburn Act. Over the objections of the Butte firm, he also fought for electrical production from the proposed Ft. Peck facility. Thomas Walsh pressed utility trusts with investigations in the late 1920's. He worked to pass the 1935 FPC Act which subjected the Butte firm to Federal investigative scrutiny. As we will see below, James Murray ardently backed the creation of a Missouri Valley Authority (MVA) in the 1940's. In the 1960's, Lee Metcalf investigated utility rates on a national level, co-authoring a book on the topic. The illustrious Mike Mansfield even horse-traded votes with Lyndon Johnson on civil rights legislation in order to favorably move forward on public power issues.<sup>138</sup>

In fact, both sides in the public power versus private power debate put forward arguments laden with spin. FDR stated that the creation of government generated power provided a yard stick to measure the validity of private rates. However, the cost structures of trusts and the agencies varied considerably. The BPA and the Corps of Engineers did not need to finance their projects and thereby always had much lower costs than

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<sup>137</sup> Ibid, pp. 39-47; McDonald, *Let There Be Light*, p. 312; Nelson, *KPL in Kansas*, pp. 156-158; Russell L. Doty Jr., *Poles Apart: The Politics of Opposing Montana Power's Rate Increase of 1969* (Missoula, 1974), p. 15; Lee Metcalf and Vic Reinema, *Overcharge* (New York, 1966).

<sup>138</sup> Ibid, p. 41; Robert A. Caro, *The Years of Lyndon Johnson: Master of the Senate* (New York, 2002), pp. 904-906; Dennis L. Swibold, *The Copper Chorus: Mining, Politics and the Montana Press, 1889-1959* (Helena, 2006), p. 266; Howard, *High Wide and Handsome*, p. 256.

private entities. This proved especially true for the highly watered trusts that needed to pay enormous interest costs. The company argued vociferously that public power threatened the solvency of the state and counties in Montana that received various tariffs from the utility. State and local budgets did depend on these levies. However, these imposts came out of the very prices that Montana Power customers paid. In actuality, state residents had to balance low power rates and higher taxes against higher power prices and lower taxes.<sup>139</sup>

### Divestiture Rears Its Head

At the start of the New Deal, the company braced itself for an assault on its ownership. Senator Wheeler's original bill to control trusts failed, but by 1935, drastic Congressional action to break up power trusts appeared certain. As the 1935 Act matriculated through the United States Congress, this legislation presented American Power and Light with two major problems. First, the Act directed the Securities and Exchange Commission (SEC) to force the divestiture of the subsidiaries of interstate utility trusts. Unless the SEC, now loaded with New Dealers unexpectedly gutted the Act, APL would be forced to sell off the trust's Montana electricity assets and shares into the disastrous mid-thirties stock market.

Second, the 1935 Act potentially presented another conundrum to the utility. While the proposed statute clearly forbade multi-state trusts, the Act might conceivably

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<sup>139</sup> McCraw, *TVA and the Power Fight*, pp. 30, 137. McCraw noted that FDR's approach to public power didn't create any yardstick for coal fired plants; Corette Speeches. File of copies of speeches delivered by Jack Corette in MHS archives on Montana Power. Almost all of his talks to civic associations in Montana contain estimates of tax losses to Montana governments caused by untaxed Federal power activity.

forbid intrastate trust ownership. With Great Falls Power, Missoula Public Service, Butte Electric, Helena Power and other subsidiaries legally treated as separate power companies, Montana Power's own structure might not pass muster either. Moreover, as we have seen, the Butte firm's board of directors consisted of a veritable all-star team of eastern mining, financial and utility holding company interests. Many of these business titans sat on the boards of other utility trusts making the Montana entity appear as just another holding company. If the SEC chose to view the Company as an impermissible trust, the Federal regulators might also move to breakup Montana Power into the original component companies, subsequently undoing the magic of Ryan and GE in putting together this lucrative monopoly.

Ownership reacted quickly. First, just as PG & E had done in San Francisco, the Butte firm consolidated as much of its corporate activity as practicable into the parent company. With this action, APL hoped to make the Montana entity to appear seamless. At the same time, almost the entire board turned over. The power elite directors decamped immediately, replaced by Montanans. From now on, the board of directors drew membership largely from the state.<sup>140</sup>

Events quickly bore out APL's instincts. After the 1935 Act passed, and the SEC rapidly ordered the trust to sell off Montana Power. The New York based holding company entered into what would prove to be a protracted series of appeals. The Butte firm remained formally connected to APL until 1949. Fortuitously for the utility, the SEC left the intrastate structure of the firm intact.

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<sup>140</sup> Coleman, *PG & E of California*, p. 314; Corette Video at MHS; Burke Video.

These move produced significant long term effects. The ties to the Anaconda Company, as well as APL, began weaken. The power of the board, now normally appointed by and beholden to the president of the firm waned as the prestige and power of the power company's chief executive rose. Henceforth the board showed little influence on the course of the firm. A position on the board conveyed social prominence in the state, not power. The board quickly rubber-stamped the actions of strong CEOs like Corette and Gannon. Montana Power inexorably moved to being a Montana-centered company.

The death of Ryan weakened the linkage to the ACM. While none of the newly appointed Montana board members roved hostile in any way to the copper mining giant, they did not have the close relationships that the previous board did. After Ryan's demise, a career utility insider, Frank Kerr, replaced him. With a sale pending during APL's extended legal action, Kerr focused on the needs of Montana Power during the tumultuous Depression era. The utility even came into conflict with the copper concern. The 1930's saw two substantial altercations over major business issues. In the 1950's Corette severed the remaining informal controls of the Anaconda management over the utility, and altered the business relationship in the favor of the power enterprise.

Two major events occurred between the "Twins" during the Depression. First of all, the implosion of the copper market created a major liquidity crisis for Anaconda. Revenues collapsed to the point that the Butte copper firm simply could not pay the power bill in 1936. The utility demanded payment and took the mining concern to court. In payment for past electrical consumption, ACM surrendered the power plant it still

owned on Georgetown Lake. One of the last remaining independent electrical power generation facilities in the state, the generators supplied current to Anaconda and Stevensville.

Anaconda had the opportunity to sue back the next year. The Butte firm's contract with ACM included a clause that required the power firm to provide a minimum level of power to the works in Great Falls. Despite the Butte firm's array of dams, the ferocious drought of 1937 lowered the Missouri to levels that significantly reduced the ability of the firm's plants to supply power to Great Falls. After some legal wrangling, Kerr settled for a \$500,000 payment to Anaconda in 1940. Prudently, the utility rewrote the contract to delete absolute deliver or pay clauses.<sup>141</sup>

The ascension of Corette to the leadership of the Butte firm in 1952 continued this process of de-coupling from the copper concern. In one of the holdover practices from the Ryan administration, the mining conglomerate still supplied the company with legal advice and services. Corette quickly set up his own legal department in Butte to replace the ACM team. Significantly, he quickly found the rate structure for copper and zinc facilities with Ryan's old mining company unacceptable. Anaconda refused to renegotiate a pact highly favorable to its own interests. Unabashed, the new Montana Power president took the matter up with the Public Service Commission. This process resulted in a substantial modification of the old copper and zinc contracts in the favor of the utility.<sup>142</sup>

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<sup>141</sup> Kirk, *A History of the Montana Power Company*, Book II, supplement 9; Howard, *High, Wide and Handsome*, p. 255.

<sup>142</sup> Burke Video and Burke interview of August, 2005. In a final denouement, MPC moved its corporate headquarters to Butte from the East in 1961.

### Big Dams of the New Deal

Initially utilizing parts of plans from the Bureau's and the Corps' proposals to the Hoover administration the New Deal rapidly moved to commence constructing of major hydroelectric projects. These endeavors aimed to increase radically the size and scale of electric networks in the Northwest. While built for multiple uses, these generated as much as five times the power as the Kerr or Ryan Dams. Dam construction over the next quarter century in Montana, Oregon and Washington State dwarfed the previous efforts of privately owned power companies.

Vast federal land holdings in the West made site acquisition for major projects much easier than it would have been in the developed East. The Bureau and the Corps constructed four major dams in Montana: Ft. Peck, Hungry Horse, Canyon Ferry and Yellowtail. In Washington state and Oregon, these agencies quickly started massive projects at Grand Coulee and Bonneville. The expanded transmission networks first used in the 1920's meant that all this new capacity had, at least in theory, entered the Montana market. The Butte power company now faced an opponent potentially much more deadly than Sam Hauser's old Missouri River Power Company.

The initial assault by the government occurred in a remote location in eastern Montana. The Army Corps of Engineers commenced building a giant dam at Ft. Peck. The proposal for this enterprise started under the Hoover administration as part of a broad effort at navigation and flood control enhancement on the upper Missouri River. New Dealers introduced a significant electricity production component to the mix. In a nightmare scenario for the company, the Army Corps had even proposed to Congress

that the agency construct up to fifteen power dams on the Missouri in Montana. Fortunately for the Butte firm, Congress only authorized the Ft. Peck facility in Montana.<sup>143</sup>

Unlike the high head dams in the mountains, massive levels of dirt composed the Ft. Peck Dam. The unusual earth fill design of the dam necessitated 126,000 million cubic yards of fill. By 1938, the plant generated 165,000 KW. FDR and many Montanans supported the dam because of the large labor pool needed to construct the dam in economically ravaged Montana. The famed Montana author, Ivan Doig, penned a novel, *Bucking the Sun*, in tribute to the project and the workers who built this immense structure, a rare honor for any dam.<sup>144</sup>

Ft. Peck also served as a key symbol of the Roosevelt Administration's commitment to economic relief efforts in the Northwest. In 1936, the first issue of the soon to be famous *Look Magazine* featured the cement spillways of the Ft. Peck Dam on the initial front cover. Senator Murray joined FDR for a visit to the site to celebrate the construction of the dam. The Corps of Engineers quickly rebuilt the dam after a partial collapse in 1938.<sup>145</sup>

As the massive earthen structure came to fruition, a crucial game of cat and mouse ensued. The power company bid for the right to construct the transmission line that would run current from the Ft. Peck generating establishment to Shelby. The Corps

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<sup>143</sup> Billington, and Jackson, *Big Dams of the New Deal Era*, p. 8; Howard, *High, Wide and Handsome*, p. 258.

<sup>144</sup> Fletcher, *Sinews That Serve*, p. 30; Kirk, *History of the Montana Power Company*, II, chapter 12, pp. 48-52.

<sup>145</sup> Billington, and Jackson, *Big Dams of the New Deal Era*, pp. 7, 207, 218-219.

spurned this offer, purportedly based on price. The rate issue masked the real battle: control of distribution networks.<sup>146</sup>

Decision makers in the Army Corps and the New Deal did not want to create power for the convenience of private power companies. Moreover, while the country had not committed to a de facto nationalization of electric power networks, Federal possession of major power lines gave public power agencies the tangible ability to rapidly implement a Washington-owned or controlled power system. For the Butte firm, any Bureau or Corps transmission lines came fraught with the potential of unbeatable rate competition.

As agency ventures came on line, the company continued to low ball bids on transmission lines, basically carrying current at or near cost. The utility viewed efforts by the national government in any form as a Trojan Horse, concealing potentially deadly encroachment on the enterprise's turf. New Federal dam building elsewhere in the Northwest, however, presented the power firm with additional challenges.

In the early 1930's, the Army Corps of Engineers started building the Bonneville Dam near Portland on the Columbia River. The immense project not only generated electricity, but even had a lock for ship passage. Further upstream in Washington State, the Bureau of Reclamation erected a major dam and irrigation facility at the Grand Coulee site. Bureau managers looked to electricity sales from the power plant to finance large scale irrigation projects in Washington State.<sup>147</sup>

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<sup>146</sup> McCraw, *TVA and the Power Fight*, p. 122. Unlike Wendell Wilkie, (future Republican candidate for President against FDR in 1940) President of Commonwealth & Southern utility, the utility always bid on Federal power. C & S wouldn't buy TVA power.

<sup>147</sup> Billington, and Jackson, *Big Dams of the New Deal*, pp. 152-188.

Tight finances in Washington, DC initially created a tense competition between these two immense endeavors. As the dams came on line, each developed different philosophies on setting rates. The Bonneville managers looked to price power as low as possible to make cheap power available widely affordable. The Bureau engineers hoped to have higher rates to subsidize their irrigation endeavors. In the corridors of power in the nation's capital, private utilities pushed even higher rates for agency electricity to reduce this competitive threat. During the New Deal era, important political leaders largely ignored these private industry concerns.<sup>148</sup>

The conflict between the agencies led to the creation of The Bonneville Power Authority (BPA). The BPA acted as a sales arm for both of these electricity producers and ultimately for many others as well. They chose a price near the middle of the proffered price ranges and gave a rebate to the Bureau to subsidize irrigation projects. As we shall see with the MVA, these tensions between, Congress the agencies and the states worked to constrain the expansion of public power. Significant pressure existed to attempt to set up a Columbia Valley Authority that mimicked the TVA on this great Northwestern River. However, tussling over turf and mission among interested parties prevented the creation of the authority.<sup>149</sup>

The very existence of an operational BPA presented some frightening possibilities for Montana Power. While aimed at enabling development in Washington State and Oregon, the large new dams ensured that these new facilities would provide power on the West Coast that Montana Power might have sent west from the firm's new

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<sup>148</sup> Ibid, p. 192.

<sup>149</sup> Billington, and Jackson, *Big Dams of the New Deal*, pp. 189-190; Swibold, *The Copper Chorus*, pp. 266, 298.

Kerr Dam. More importantly, this increasingly potent electrical network carried current both ways. The BPA could sell excess electricity in Montana at rock bottom rates. As the BPA had authority to expand upstream on the Columbia, the agency could and eventually did enter Montana. In 1953, the BPA opened the immense Hungry Horse Reservoir in Northwest Montana, bring dirt-cheap electricity right into the utility's backyard.

The model of the TVA incited enthusiasm among progressive forces in the state of Montana. Murray spent considerable time and effort to create a Missouri River Authority (MVA) that would replicate Federal efforts in the Tennessee River Valley. Murray, a fervent FDR supporter, got the President to back a MVA initiative in 1944. Despite this support, conflicts ensued. States on the Missouri disagreed over policy priorities. Upstream states, like Montana, wanted an emphasis on irrigation, while downstream states focused on flood control and navigation issues. Congress and the Corps of Engineers wished to wrest control the Missouri system for themselves. These disagreements stymied the passage of enabling legislation. Even so, Harry Truman continued to support the MVA during his Presidency.<sup>150</sup>

A Missouri Valley Authority, particularly the one envisioned by Murray, would have encompassed most of the Butte firm's hydroelectric generating capacity. At best, this would have left the utility as a shrunken shell, if the enterprise continued to exist at all. The Company did not possess the power stop the creation of this behemoth. Fortunately for Montana Power, the squabbling of other parties doomed the potential threat.<sup>151</sup>

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<sup>150</sup> Ibid, pp. 233-239.

<sup>151</sup> Kirk, *The History of the Montana Power*, II, supplement #21.

Even without the MVA, large Bureau hydroelectric plants blossomed in Montana. With the efforts to transform the Columbia and Missouri basins into giant systems held in abeyance, Congress passed the Sloan-Pick Flood Act of 1944. This Act focused more narrowly on flood control concerns and started the Missouri Basin Project. The Bureau picked two Montana sites for dam development; Canyon Ferry on the Missouri and the Yellowtail on the Big Horn River.<sup>152</sup>

Starting in 1949, the Bureau built the Canyon Ferry Dam and powerhouse. The generation capacity of this facility ran around 50,000 KW, equaling the company's giants, the Ryan and the Kerr. However, this plant created far less electricity than any of the other agency dams. The dam supplied not only power but also flood control, along with enhanced irrigation as well as superior recreational opportunities (the almost sixty miles long lake harbors world-class trout and walleye fishing). Ironically, the massive lake created by the dam covered the original Canyon Ferry Dam that had been part of the Montana Power dam network in 1912. Supporters of public power had to love the symbolism of a Bureau dam inundating a private power site.<sup>153</sup>

In 1961, the Bureau constructed another Sloan-Pick Act dam on the Big Horn River at the Montana-Wyoming border. The giant hydroelectric facility came on line in 1966, capable of generating 250,000 KW. Again, this plant created a giant reservoir for flow control, agricultural uses and top quality fishing.<sup>154</sup>

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<sup>152</sup> Bureau of Reclamation Website. <http://www.usbr.gov/power/data/sites/canyonfe/canyonfe>.

<sup>153</sup> Ibid. Montana Power closed Canyon Ferry in 1939.

<sup>154</sup> Bureau of Reclamation Website. <http://www.usbr.gov/html/yellowtail>; Swibold, *The Copper Chorus*, p. 296.

Agency dam builders also kept busy west of the continental divide. In 1948, in spite of the objections of the Company, the Bureau commenced construction of a large dam on the South Fork of the Flathead River. Completed in 1953, the Hungry Horse plant produced 285,000 KW of power. This project fit into the Federal plan for power generation, flood control and agricultural uses on the upper tributaries of the Columbia River. The enormous amounts power generated by Hungry Horse soon drew the interest of aluminum producers.<sup>155</sup>

With all the agency power plant construction, the pool of cheap hydroelectric power increased enormously, while the Company's efforts to expand the production of "White Coal" faced mounting resistance. After the onset of the Depression, the Butte firm completed only two more hydroelectric stations. As electricity needs expanded, this lack of new company-owned hydro production left Corette's firm at the mercy of agency electricity sales.

The utility did not continue work on the Kerr Dam after 1931 and therefore failed to meet the required August, 1934 date for completing the facility. In 1936 the Federal government informed the company that if it did not finish construction that the facility would not be re-licensed in the future. The New Dealers looked at the site as an excellent opportunity to increase employment on the company's checkbook. The Federal government also amended the license to give more favorable treatment to the Native American population that saw some of their reservation lands covered by the dam's lake. Jack Corette, future Montana Power president handled relations with the tribes. When first approached by Federal officials, the utility protested that the power was

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<sup>155</sup> Bureau of Reclamation Website. <http://www.usbr.gov/dataweb/html/hhorse>.

not needed, but lost as the argument as usual. The forced building of the Kerr dam proved a true blessing in disguise. By the time the Kerr production units came on line in 1939, war related demand for power sky-rocketed, allowing the Butte firm to sell all the output of this new station.<sup>156</sup>

The pre-emption of prime power generation sites by agencies of the national government crippled the aspirations of the Company's to increase its own hydroelectric power capacity. After the completion of the Kerr project (commenced before the onset of the New Deal), the utility only commissioned one more dam; the Cochrane on the Missouri in 1955 (again, the Cochrane Dam bore the name of a deceased executive of the Butte firm). The utility worked on three major hydroelectric projects. All ended in frustration.<sup>157</sup>

In the late 1950's, under Corette's direction, the power company bid to construct and run the proposed Yellowtail project. The government rejected the firm's application, proceeding to build the project under the auspices of the Bureau of Reclamation. Again, Montana Power purchased the electricity allocated to Montana.<sup>158</sup>

The Butte firm also had two potential dam locations on the Flathead River, the Buffalo Rapids sites. The Buffalo Rapids Two and Four sites represented the last quality sites in the Butte firm's inventory. The resistance of the resident tribes, Corette's fears

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<sup>156</sup> Corette Video; Kirk, *The History of the Montana Power Company*, II Supplement #6; Swibold, *The Copper Chorus*, p. 296.

<sup>157</sup> Corette Video; Fletcher, *Sinews That Serve*, pp. 40-41; Cochrane came on-line in 1956; Kirk, *The History of the Montana Power Company*, II, chapter 12, pp. 56-61.

<sup>158</sup> Ibid; Fletcher, *Sinews That Serve*, pp. 33.

over potential high costs and low profitability as well as the now expected Federal resistance kept the Buffalo Rapids plans on the drawing board.<sup>159</sup>

The Butte firm joined its Northwest grid partners in the early 1960's in an attempt to place a dam and power stations on the Sheep Mountain site on the Snake River in Idaho. A Bonneville-sized facility, this power plant would have supplied power throughout the Northwest. The Bureau of Reclamation and other agencies preferred to keep these massive undertakings under Federal control. This rejection dashed any realistic hopes on the part of Montana Power for any more dams.<sup>160</sup>

The inability to procure its own hydroelectric supplies affected the company in two ways. First, executives in Butte worked tirelessly to lure intensive users of electricity to Montana to absorb the current generated by governmental entities. Huge surpluses of agency power could easily lower electricity prices in Montana to ruinous levels for the utility. Second, the lure of non hydroelectric energy businesses proved irresistible to senior management. The drive to develop gas and coal resources and even non-energy businesses accelerated. The dawning of the world war worked to the power firm's advantage.

The rearmament effort eclipsed the struggle over control of regional power grids. Even though the United States recovered from the Depression more slowly than most of Europe, copper and zinc demand started to rise after 1936. Just as in War I, military production caused Butte, Anaconda and Great Falls to boom, reinvigorating the utility's

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<sup>159</sup> Ibid; Fletcher, *Sinews That Serve*, pp. 33-34. Kirk, *The History of the Montana Power Company*, volume II, chapter 12, pp. 52-61.

<sup>160</sup> Ibid; Fletcher, *Sinews That Serve*, pp. 25, 39.

coffers. Later, as military efforts intensified, Northwest defense plants easily absorbed all the new power produced by the giant turbines at agency dams.

The BPA became enmeshed in supplying electricity to the new aluminum industry. The United States produced upwards of 96,000 planes a year during the war and most of these craft contained substantial amounts of this light, flexible and strong metal. The Columbia River area came to be known as “aluminum alley.” During this period the Northwest power grid came fully to life, ferrying electricity throughout the region to keep up with the frenetic pace of arms manufacture. Profits for Montana Power soared.<sup>161</sup>

During this season of international conflict, the Northwest Power Grid came fully to life, using an army of giant silver transmission towers to convey the valuable current throughout the region. Both agencies and private utilities used the network to even out electrical loads; readily selling excess power off, while buying power at peak times. Significantly, these practices created an attitude of co-operation between the national government and the private utilities on an operational level.

When hostilities ended in 1945, many feared that peace might signal an economic downturn and a potential return of the Depression. Instead, pent-up domestic demand and the need for goods in war-ravaged Europe and Asia caused a post-war boom. The demand for electricity in the Northwest went up, not down.

This economic expansion proved life saving for the company. The firm needed to put agency current to work in Montana. Jack Corette proved up to the test. During

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<sup>161</sup> Maurice Baumont, *La Faillite De La Paix, 1918-1939* (Paris, 1967), pp. 400-401; Norman Davies, *No Simple Victory: World War II in Europe, 1939-194*, (New York, 2006), p. 35; Gerald D. Nash, *World War II in the West* (Lincoln, 1990), pp. 91-121; Corette Speeches. Corette discussed the firm’s postwar prospects with New York security dealers in 1949. He instructed these Wall Street men to ignore WWII profits as too high to be sustainable.

Corette's twenty-two year reign (1952-1974), he helped attract large electricity users to the Big Sky country, serving as a veritable one-man economic development department for the state.<sup>162</sup>

The movement of some large, energy-hungry companies into Montana demonstrated Corette's showed the success of his efforts to increase business. Without exciting much notice, the retail demand for electricity and gas by consumers and small business rose steadily, even during the Depression. During the pioneering period of the Butte firm, Montana proved too rural to generate much retail demand. However, helped by the Butte firm's aggressive sales posture in the 1930's, substantial invention and innovation in home appliances, rural electrification and general economic trends, this source of business grew steadily.<sup>163</sup>

The War and the large expansion of resource industries after the conflict powered the Montana economy into the top three in the United States on a per capita basis. This robust economy often surprises current observers who note the rather sluggish performance of the state's economy from the 1970's on. The key to understanding this major economic change centered on the changing economic fate of Montana's major mining firm. Quite simply, the robust economy masked the steady decline of ACM.<sup>164</sup>

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<sup>162</sup> Corette Speeches. Interestingly, in Corette's talks to civic groups, he endlessly attacked public power. The Butte firm had also testified against the building of all agency dams in Montana. However, he never let these views get in the way of pragmatically using agency power to benefit the company.

<sup>163</sup> Kirk, *History of the Montana Power Company*, II, chapter 10, p. 21, III chapter 14, p. 109. Website of Columbia Falls Aluminum Company (current plant owner), [http://www.cfaluminum.com/cfac\\_history](http://www.cfaluminum.com/cfac_history). Harvey could not get financing for this electricity intensive project and the Anaconda Company took the firm over. The plant opened in August of 1955. A roster of other firms that Corette wooed to Montana in the 1950's and 1960's included: Victor Chemical, U.S. Gypsum, Ideal Cement, Kaiser Permanente, the Waldorf-Hoerner Paper Co., Van Edwards Plywood, Sierra Talc and several major saw mills.

<sup>164</sup> Corette Speeches. In a 1/21/47 talk, Corette stated that 13 billion pounds of copper had been lifted from the Butte diggings in the previous fifty years.

The process had started in the 1920's. Even at that early day, the fabled hill of copper in Butte had seen better days. By the mid 1920's, leadership at the mining giant acquired richer and more prolific copper properties, particularly in Chile. The massive production of WWII further exhausted what remained of most profitable Butte veins and significantly degraded the smelters and other facilities. ACM preferred investing new capital in Chile with that South American country's treasure trove of copper ore, pliable government and very low wages proved the most profitable in the resource giant's portfolio of assets. The mining enterprise also diversified into non-mining businesses, acquiring the Harvey aluminum property in 1952.<sup>165</sup>

Increasingly poor ore quality reduced the profitability of below ground, hard rock mining. ACM moved to open pit mining in the firm's Butte property in the early fifties. This signaled an end of labor intensive, underground digging. The once brash and bawdy Copper City commenced a prolonged decline. A new generation of modern smelters appeared in Chile, not in Silverbow County.<sup>166</sup>

Further calamity followed the old Rockefeller firm. ACM's Chilean copper properties disappeared after the Salvatore Allende government in Chile nationalized them in 1971. Although a military junta led by Augusto Pinochet destroyed Allende's leftist regime, the unaccommodating generals refused to return the copper mines to the conglomerate. ACM went into rapid decline, selling out to the Atlantic Richfield Company (ARCO) in 1977. ARCO made a brief attempt to resurrect the Butte and

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<sup>165</sup> Swibold, *The Copper Chorus*, pp. 280, 296, 341.

<sup>166</sup> Ibid. In a 1950 speech to New York Securities analysts, Corette stated the ACM accounted for 27% of Montana Power revenues. For relative comparisons, it should be noted that ACM composed as much as three quarters of business in the very early years and perhaps 10% at the end.

Anaconda operations, but shuttered the operation shortly thereafter. Low profits combined with a rapidly increasing exposure to environment costs made the old copper and zinc operations a sure loser for the Los Angeles-based petroleum giant.<sup>167</sup>

### The Expansion into Gas and Coal

Oil and gas investments played an important role at the power company. The utility operated largely as a regulated entity and the PSC set rates for electricity and many natural gas customers. This setup literally guaranteed the Butte firm a decent profit. However, the regulatory scheme capped the rate of return the firm could expect to make on its capital, As Montana Power added customers outside of the purview of PSC control, the Company could earn a higher yield on the funds put to work outside of the state-mandated price structures.<sup>168</sup>

The initial investments in gas by APL provided a critical revenue source during the Depression. Corette spearheaded this drive to expand in the natural gas industry. In 1950, the Butte firm made a large purchase of natural gas properties in Alberta. The deal started almost accidentally, as Corette looked to sell the group of gas stations that he had inherited and had no further place in the firm's plans. Union Oil turned up as a willing buyer. Union Oil paid approximately ten million dollars for these stations. As a relationship flowered with Union, Corette questioned them about some of their natural gas properties. The executives discussed the oil firm's holdings in Alberta. When negotiating the price of this transaction, Union Oil supposedly said to simply return the

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<sup>167</sup> *The Missoulian*, 10/24/2003, From article entitled "Generations of Power: A Corporate Giant Rewires," p. 2.

<sup>168</sup> Corette Video.

ten million dollars that Montana Power had received for the sale of the gas stations. In effect, the president of the Butte enterprise swapped the service stations for promising gas fields. This transaction roughly doubled reserves. The utility kept acquiring other, smaller gas properties.<sup>169</sup>

In the early 1950's, no one had any idea of the level of hydrocarbons buried in the soil and sands of the western Canadian province. Corette's company initially struggled with the provincial government to get permission to pipe more than a modest amount of gas out of Alberta. The Lake Pakowki properties, like the rest of the province, yielded surprising amounts of gas. Once the vast scope of these resources became known, the Canadian government became willing sellers. Over the years, this Corette purchase proved an enormous coup. Initial forecasts of known gas pockets indicated that supplies would last twenty years. These wells still supplied gas as of 2005.<sup>170</sup>

The amount of gas produced at this property easily exceeded the demand in Montana. The firm's gas network expanded, as the utility entered into a large contract with Pacific Gas and Electric in 1957 to pump the Canadian gas to California. The Butte firm's line ran from the Alberta gas fields to Antioch, spanning over 1,300 miles with piping up to three feet in diameter.<sup>171</sup>

In 1959, Corette purchased the coal reserves of the Northern Pacific Railroad at Colstrip, Montana. Even Hill's old railway eventually had to convert to diesel operations, leaving the Northern with a very large, apparently useless coalfield. A member of the board of directors for the Northern Pacific (NP), Corette occasionally played golf with

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<sup>169</sup> Burke Interview; Corette Video; Kirk, *History of the Montanan Power Company*, II, chapter 10, p. 15.

<sup>170</sup> Burke Interview; Kirk, *History of the Montanan Power Company*, II, chapter 10, pp. 15, 20.

<sup>171</sup> Kirk, *History of the Montanan Power Company*, II, chapter 10, p. 22.

NP president Bob McFarland and struck up a deal with him after one of these sessions. Corette's long term plans, at the time involved the possible sale of this coal to other power companies, such as Commonwealth Edison or Northern States Power in the Midwest. However, as the prospects of constructing new hydroelectric capacity vaporized, Corette started considering the possibility of using this fuel to create steam for electrical generation. Next to hydroelectric power, steam turbine generated electricity appeared the most cost effective generation method available to the utility. The Rosebud coal could provide fuel for steam turbines in Eastern Montana.<sup>172</sup>

The deposit consisted of two veins, the huge Rosebud and the smaller McVey vein. The ore stored at the Colstrip site consisted of highly valuable low sulfur content coal. The coal did not have the energy equivalent power (BTU's) of higher sulfur content grades back East. The fuel had lower energy but burned much cleaner and with less pollution than the heavy sulfured grades. Interestingly, nearby Wyoming coal, while also low sulfur, possessed a higher BTU rating. When the demand for low sulfur fuel stocks recovered in the sixties, the acquisition of the Colstrip properties appeared inspired.<sup>173</sup>

Within ten years, as addressed below, the company created a major coal-fired power plant in Billings to utilize some of underground wealth from the Colstrip. This facility, eventually dubbed the Corette Plant, allowed for the local provision of power to the ever growing metropolitan Billings area and any excess could be profitably sold on

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<sup>172</sup> Corette Video; Doty, *Poles Apart*, p. 84; Kirk, *History of the Montanan Power Company*, II, supplement #26.

<sup>173</sup> Kirk, *History of the Montanan Power Company*, II, chapter 11, pp. 3-4.

the Northwest Grid. A fuller accounting of this resource will take place in the next chapter.<sup>174</sup>

### Electricity Goes Country

As noted earlier, the power company traditionally ignored the potential electricity needs of the rural residents of the state. Company executives feared that the expenses incurred in garnering rural customers would not produce a positive return. Some fortunate farmers and ranchers received power if they were lucky enough to live near one of the transmission lines that started to dot the state. These customers usually had to bear all the incremental expenses incurred to connect to the main system. The utility probably served about a ten per cent coverage rate for frontier or wilderness area customers, about average for private utilities at the time. The Rural Electrification Act of 1936 changed this for the better.<sup>175</sup>

FDR created the Rural Electrification Administration by executive order in 1935. The new agency, after the enabling provisions of the 1936 Act, provided substantial support for individuals in rustic areas to aggregate into power cooperatives. These REA sponsored co-operatives could then connect directly with private utilities.<sup>176</sup>

To compensate for the natural disadvantages facing rural power users, the 1936 Act created heavy incentives for co-operative development: flexible, low rate loans, complete income tax relief, a special, lower property tax designation, and exemption from rate regulation, free legal, administration and consulting services, subsidized postal

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<sup>174</sup> Ibid I, chapter 5, p. 49. Note naming of key facility after a company executive.

<sup>175</sup> McCraw, *TVA and the Power Fight*, p. 87.

<sup>176</sup> Kirk, *History of the Montanan Power Company*, II, chapter 11, pp. 4-5.

service and access to cheap federally generated power. REA sponsored cooperatives quickly bloomed in Montana. In 1937 alone, the Clark Fork, Missoula, Ravelli, Vigilante, Sun River and Yellowstone cooperatives organized and quickly commenced developing their perspective rural user bases. These cooperatives bought the firm's electricity.<sup>177</sup>

The utility supported these REA co-ops. Two very good reasons drove the Butte firm's agreeable behavior. First, the REA co-operatives provided Montana Power with easy and ready business. The government fronted all the upfront costs for the development of rural power groups. The power company merely needed to run wires to the central REA co-op station. This incremental business proved a blessing in the harsh business environment of the Depression.

The second reason proved strategic. REA co-ops in Glasgow and Wolf Point received power directly from the government's Ft. Peck plant. The Butte firm, acting as a conduit for the Corps, "wheeled" a prescribed amount of electricity to other REA coops at less than market prices. In industry parlance, "wheeling" constituted taking electricity from a specific generating point and moving the flow to another location at a special rate. If the utility had not done so, public power advocates in the Bureau of Reclamation or the Army Corps of Engineers would have eagerly put down their own transmission lines to these cooperative hook-ups. Again, these transmission lines could then serve as a skeletal transmission grid for public power in the state, one able to by-pass Montana Power. The utility worked diligently to prevent any agency high tension lines from entering the enterprise's business area.<sup>178</sup>

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<sup>177</sup> Corette Speeches. In a September 1947 address Corette noted that over 100,000 customers were served in rural areas.

<sup>178</sup> Kirk, *History of the Montanan Power Company*, II, chapter 11, pp 12, 18-19.

These fears of encroachment led to conflicts with some REA co-operatives in the fifties and sixties. The REA program proved quite successful. Several co-operatives grew sufficiently enough that the utility felt these organizations had gone beyond the business activities permitted in the 1936 Act, thereby encroaching on Montana Power's territory. The company took a number of these groups to court and won the cases, restraining the growth of these potential competitors. As always, REA infrastructure might serve as a bridge for additional government encroachment into Montana electricity business.<sup>179</sup>

The REA had a profound effect on agrarian Montana. Ranch and farm work before the aid of electric appliances often proved brutal and physically debilitating. The pre-electrification era produced many photos of farmers in their thirties who looked in their sixties after a decade of work on Montana's hardscrabble farms. Lighting, milking and washing machines and a myriad of other machines and appliances transformed rural life for the better.

### The FPC Intrudes

Montana Power's interactions with the Federal Power Commission form an obscure but important part of the conflict that the enterprise encountered with Washington, DC. The issues raised appeared as dry as dust and of little import. In reality, this conflict between the company and Washington over accounting and licensing rules revolved around important issues of power-political and economic, not electrical. These

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<sup>179</sup> Corette Letters.

disputes summed up the main argument of this chapter: the intrusion of the Federal authorities into the previously unfettered range of Ryan's power firm.

In Thomas Walsh's Senate hearings in the late 1920's he argued that the electric trusts had "watered" or over-stated their assets by at least one and a half billion dollars. The FPC started hearings to review the accounting bases that utility trusts had used to construct their regulatory balance sheets. Utilities could earn a legally approved rate of return on power assets that they have placed into to service. Hence, when these entities constructed their accounting statements, they had an incentive to "write-up" their assets wherever possible. Simply, higher asset values meant higher rates to customers. A cut in the regulatory asset base meant lower charges to consumers.<sup>180</sup>

The FPC commenced an investigation in 1941 led to hearings in Washington, DC. This hearing sought to determine the validity of the Butte firm's books. The investigation went back to the beginning of the firm in 1912. The FPC utilized an accounting standard based on the "original acquisition" cost of acquiring plant and equipment. The accounting formulation surely sounded simple enough.

However, one factor complicated this apparently straightforward procedure, Ryan sold his electricity businesses to a company he had almost one-half ownership interest in. For example, Ryan purchased properties in Great Falls from James J. Hill, for \$750,000. Ryan received credit for \$22,500,000 five years later this property when he transferred

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<sup>180</sup> Sidney Z. Mitchell, *SZ Mitchell and the Electric Power Industry* (New York, 1960), p. 153; Kirk, *History of the Montana Power Company*, III, chapter 12, p. 68; Doty, *Poles Apart*, p. 15.

the property to Montana Power. This created \$21,750,000 in water according to the FPC. The Commission alleged almost \$60,000,000 of these sorts of irregularities.<sup>181</sup>

Montana Power asserted that FPC approach presented a deeply misleading presentation of these transactions. They had a point. Ryan accumulated these shares in the nadir of the utility market after the collapse of the Hauser Dam in 1908. The plucky speculator assembled a pool of cheaply acquired assets and had the ACM and Milwaukee Railroad power contracts in hand at the time of the sale to Montana Power. Ryan could have easily set up a company to compete more than favorably with Butte Electric in the much better economic environment of 1912. He had GE in an awkward position and they paid up. Prices for these assets in 1912 represented economic realities of the time and probably reflected the terms of a completely arm's length transaction.

Ryan's legendary trading abilities and business acumen did not impress the FPC in the post Wall Street crash era. The commission did agree with the power company's position that these transactions had been arms length. However, the regulators pointed out that all the arms in question belonged to one John D. Ryan. In conjunction with the state Public Service Commission in 1944, the FPC ordered Montana Power to write off a little more than twenty million dollars from their regulatory accounts. The PSC immediately implemented lower electricity rates for Montana residents.<sup>182</sup>

A second and even more contentious battle occurred between the Butte firm and the FPC. The Washington regulators declared that all the dams on the Madison and Missouri Rivers had been built on navigable waters and needed FPC licenses to operate.

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<sup>181</sup> Doty, *Poles Apart*, pp. 12-15.

<sup>182</sup> Burke Video.

The New Deal officials could only regulate the Madison and upper Missouri if these waters were considered navigable from the Mississippi. Almost no human being had taken a boat far upstream from Ft. Benton (downstream from Great Falls) and lived to tell about it without substantial portaging around the falls and rapids in the river. Hence, Montanans did not take this ruling seriously.<sup>183</sup>

The Butte firm therefore felt that it stood on solid ground and vociferously protested the decision. In a counter-intuitive ruling, the courts sustained the regulatory finding on the basis that the Missouri *theoretically* could be made navigable. Pure political power in Washington triumphed over the facts on the ground. These dams would be regulated in Washington.<sup>184</sup>

However, Montana Power faced not only licensing the dams, but also the proposed licenses granted the national government an option to purchase any or all the power plants on the Madison and Missouri at the end of the thirty year licensing period. The Butte management faced the possibility that after that time period they might be left with a worthless sliver of a company.

The utility lost the case and subsequent appeals in the Federal regulatory process. Corette campaigned extensively against the FPC, castigating the regulators as socialists who desired to cripple the free enterprise economy. Montana Power eventually gave in, but Corette successfully negotiated a modified license that extended the purchase option much further into the future.<sup>185</sup>

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<sup>183</sup> Fletcher, *Sinews That Serve*, p. 39; Kirk, *History of the Montana Power Company*, III, chapter 12, pp. 69-70.

<sup>184</sup> Corette Speeches.

<sup>185</sup> *Ibid.*

One critic of Montana Power, Russell Doty, made an interesting observation about the whole FPC proceedings. He noted that the Montana Public Service Commission did not attend the Washington proceedings because the agency did not have budget resources to do so. Like most regulatory commissions for utilities, the department simply did not have the funds to challenge the utility effectively at this time. The state did lower electricity rates eight times and gas rates twice from 1914 to 1970. However, the PSC followed the Company's lead in cutting rates in response to lower marginal costs or deflationary economic conditions. While constantly harassed in Washington, the Butte enterprise still held sway in the state regulatory arena. In the next chapter, we shall see that the Colstrip project changed this.<sup>186</sup>

### Loose Ends

The captive press or “copper chorus” in the state helped Montana Power to continue dominance of politics and regulation in Helena. As Denis Swibold noted, due to the ownership of the major state newspapers by the Anaconda Company, Montanans received little negative news about the “Twins”. The Butte firm did work closely with the Anaconda Company to shape legislation in the state capital. The control of state newspapers helped ACM and Montana Power to set the agenda in the state capital. In a fascinating aside, Swibold pointed out that the representatives of the “Twins” had press passes and did not have to conform to the strictures that other lobbyists did. The utility largely kept unfavorable rate and regulation off the legislative table. An enormous

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<sup>186</sup> Doty, *Poles Apart*, p. 2; McCraw, *TVA and the Power Fight*, pp. 14-15; Swibold, *The Copper Chorus*, pp. 267-268.

state with a very small population, reform efforts in Montana died from the lack of the oxygen supplied by a critical press. The Anaconda Company waged a ferocious war against numerous campaigns to set up a meaningful workmen's compensation system. The copper mining giant realized that the financial exposure they faced from silicosis and the various ailments contracted by workers toiling in the firm's highly toxic mining and smelting operations might ruin them.<sup>187</sup>

When it came to labor relations, the differences between the "Twins" proved enormous. ACM's interest in Chile, with that country's pliant government, lack of unions, Third World wages and working conditions, as well as lack of environmental protections said everything that needed to be said about that Rockefeller-created enterprise. Montana Power, on the other hand, mirrored its parent, GE, in having a highly skilled, technically savvy work force. The work environment emphasized professionalism and paternalism. The Butte firm experienced one short and non-violent strike in 1962. As a regulated utility the firm could pass wage increases on to the ratepayers. These sentiments of trust and loyalty among the employees turned feelings of betrayal at the sale of the power operations in 1997.<sup>188</sup>

With all the activities of Montana Power and the Federal government in vastly expanding electrical networks in the Northwest, it might be appropriate to stop and perform a brief environmental assessment. In the heady days of playing electrical cowboy, the firm's dam and grid programs impacted the environment and facilitated even more development of resources by others. This continued, albeit at a

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<sup>187</sup> Swibold, *The Copper Chorus*, pp. 267-278, 271, 282, 288.

<sup>188</sup> Kirk, *History of the Montana Power Company*, III, chapter 13, p. 100; Interview with Patrick Nees, a union representative of Montana Power employees in Billings, July, 2005 interview.

slower pace, after the Depression. Aerial pollution commenced with the opening of the Corette coal-fired steam turbine plant in Billings. However, in this era the Company played second fiddle to Washington. The colossal infrastructure work by the Bureau and the Corps profoundly changed the region.

Hydroelectric and basin reclamation undertakings transformed the Northwest's two major rivers and some tributaries. A couple of examples may suffice. The new electric networks allowed for a large increase in the industrial and resource-based economic growth previously described. Large reservoirs, roads factories, mills, buildings of all sorts, roads and highways to mention a few of the artifacts of civilization followed in the wake of the New Deal endeavors. In addition, vastly expanded irrigation works opened up whole new areas to intensive farming, particularly in Washington east of the Cascades and Montana. The rural nature of these frontier areas receded to a certain extent as the Bureau and the Corps brought civilization for both good and ill.

### Conclusion

While Montana Power still reigned as a significant force in the state, the government in Washington gradually came to dominate electric power networks in the Northwest. The New Dealers split up the big trusts, including APL, and these combinations have not been re-assembled, even in this de-regulated era. The dams of the New Deal Era transformed the region economically, largely achieving Cooke's dream of "giant power". Huge amounts of electricity coursed through the Northwest Grid, ready to energize everything from homes to gargantuan aluminum plants. Farmers and ranchers

experienced not only the benefits of electric energy but also better irrigation and increased flood control.

The public power adherents got much of what they desired, but did not triumph completely. As McCraw pointed out, FDR and his associates put forward a somewhat piecemeal agenda and never could reconcile conflicting points of view. Those who championed public electrical networks and basin development tried to create more entities like the TVA, but the CVA and MVA never materialized. This dénouement proved propitious for the Butte firm. Overtime, an increasing agency comfort level with private firms and prosperity took the edge off the drive for Federal energy preeminence. The era profoundly affected the firm and particularly the management in Butte.

Ryan's little conglomerate had survived the onslaught of the public power and basin development enthusiasts in the nation's capital. However, by the 1970's new hydroelectric power had ceased to be an option. The Butte firm wholesaled large amounts of agency electricity. Economic activity slowed with the impending demise of ACM and the flattening of retail demand. Management also remained uneasy about regulated businesses. These factors pushed the Company into other coal, gas and other ventures. Unregulated business with out-of-state customers drew the attention of management. The technical sophistication of the Butte firm remained high as always, but the senior management, firmly ensconced in Butte, became increasingly parochial and narrow at the top. The very success of Corette's deal-making and leadership served to marginalize the board and stifle creative strategic thinking in the firm. In this milieu, the Butte firm started pondering the extremely interesting idea of utilizing its Eastern Montana coal

reserves to power steam turbine plants to be located near the mines. Mr. Ryan's heirs could then sell the lion's share of the current into Seattle and Portland while reserving a small portion to meet the firm's own future needs. The Colstrip venture seemed like such a sure thing.<sup>189</sup>

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<sup>189</sup> Doty, *Poles Apart*, p. 26. Chart shows Montana Power's rate of return in the upper 3% for all major utilities in the 1960's.

## CHAPTER 5

## THE COLSTRIP PROJECT AND ITS LEGACY

Gas prices surge past \$135 per barrel, leading some analysts to project prices escalating to the \$200 range. The dollar loses much of its value as commodities and food prices head higher. Inflation, long dormant, seems ready to blossom in full glory. A semi-colonial war drags on in the Middle East. Headlines shout tales of foreboding, clouding prospects for the future. Popular discontent rides high and the economy stumbles. These events reflect today's world. Yet these disquieting tidings seem all too familiar.

Two generations ago, a similar scenario played itself out. In 1973, after the Arab-Israeli War, Saudi Arabia led OPEC in successfully constricting the supply of oil, causing the price of all hydrocarbon products to rise precipitously. Combined with easy money and the cost of the seemingly endless war in Vietnam, inflation in the United States started raging and would do so for the next decade. The stock market swooned and fell substantially. The burgeoning US economy of the 1950's and 1960's sputtered. Frustrated drivers queued for gas as an energy crisis loomed.<sup>190</sup>

By the start of the Arab Oil Embargo, a new player in the economic and political world struck a discordant note: environmentalism. Many started questioning the paradigm of industrial progress. Those with a newly heightened sensitivity to pollution viewed economic growth with mounting suspicion. Increasing GNP and energy production seemed to ruin the quality of the air, water and even the look and

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<sup>190</sup> *Wall Street Journal*, March 3, 13, and 14, 2008. Adjusted for inflation, oil prices peaked at 103.76 in 2008 dollars in April of 1980.

feel of nature. Breakneck industrialization must be stopped and perhaps replaced by a wholly different kind of society. As this point of view entered into the political milieu, conflict with the established pro-growth orthodoxy beckoned.

The battle continues to this day. Rapid economic growth in the Third World, particularly in India and China, increases the well-being of hundreds of millions of people. However, this massive spurt of industrialization generates massive emissions of carbon dioxide (CO<sub>2</sub>) and sulfur dioxide (SO<sub>2</sub>). The latter constitutes a potent pollutant and many of today's environmentalists fear that increased atmospheric levels of CO<sub>2</sub> may lead to deleterious climate change. Environmental concerns over planetary warming have caused important groups to call for restraint of pell-mell development and consumerism. Again, energy production takes center stage in the role of a leading villain.

Montana Power found itself in the middle of this emerging conflict between the forces of power network expansion and this newly heightened sensitivity of humanity's relationship with nature. The firm experienced its most disputatious period in the 1970's and 1980's. To understand this era, one needs to take the measure of not only Montana Power and the electrical industry, but also of the formidable environmental movement that opposed the Butte firm. In response to what management perceived as solid long-term trends, the utility looked forward to sating the Northwest's apparently questionable thirst for electrical power. The enterprise sought to utilize the coal acquired from the Northern Pacific at Colstrip to substantially increase power generation capability. The firm envisioned several very large and highly efficient mine-mouth steam turbines generating power to supply not only Montana, but more importantly, the West Coast.

Partnership in this project with the other members of the Northwest Power Grid would lock in these markets and assure financing of this massive venture. Seemingly nothing could go wrong.

Yet almost everything did go wrong. The building of these plants eventually led to a firestorm of opposition. Environmentalists, Native peoples and ranchers led a resistance movement that substantially delayed the completion of this endeavor. These groups aggressively entered the political process both in Helena and Washington, DC. They helped craft a wide array of environmental laws that directly affected the Colstrip endeavor.

Utilizing newly enacted state and federal environmental laws, foes of the Butte firm engaged in a series of hard fought legal and legislative battles. Colstrip-related litigation involved over six hundred lawyers according to one attorney familiar with the complete Colstrip saga. Litigation created delays. These delays, coupled with the political fallout from the Colstrip project in Helena pushed facility costs through the roof. In addition, under the strain of enormous excess capacity, Northwestern energy markets unexpectedly soured.<sup>191</sup>

The result was that Montana Power turbines wound up pushing very expensive energy into the glutted electricity markets of the mid-eighties. A substantial increase in state coal taxes as well as adverse pricing decisions by the Public Service Commission (PSC) materially hurt the firm's bottom line. Instead of earning substantial profits with the other consortium members as planned, Ryan's heirs faced significant losses. These

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<sup>191</sup> Ross speech, 1980 in Billings, p. 4. Copy provided by former counsel for Montana Power, John Peterson.

financial reverses forced the management to demand a substantial rate increase for its Montana customers. After an initial rejection, the PSC eventually granted the firm request. The company also had to sell out its interest in the last giant plant.<sup>192</sup>

The aftermath of the Colstrip experience haunted the utility through the 1980's also laid the ground work for the destruction of the firm in the Touch America fiasco. Three factors set the firm on the road to insolvency. First, the firm soured on regulated business. The utility did not expand energy production in the state after this episode. Second, the resulting loss of confidence in energy markets caused executives of the power company to search for non-regulated enterprises to invest in- such as Telecom. Third, while expending much energy in blaming regulators for the problems that stemmed from steam turbine development, the company did not learn from its own costly strategic errors. Executives in the Colstrip Project prefigured the mistakes that led to the collapse of Touch America.<sup>193</sup>

### High Noon on the Plains

Previous chapters analyzed how the Butte firm aggressively contested the forces of public power over ownership and control of electrical networks. However, both these antagonists consistently viewed the expansion of electrical networks and the concomitant economic growth as beneficial. Many of the opponents of Colstrip rejected the entire concept of Western coal mining and mine-mouth generation of electricity.<sup>194</sup>

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<sup>192</sup> *The Missoulian*, 10/24/2003, pp. 5/11.

<sup>193</sup> Burke Interview; Peterson Interview, 9/27/2008 2007; *The Missoulian*, 10/24/2003, p. 1.

<sup>194</sup> *Plains Truth*, pp. 3-12, Jan. 1974, pp. 13-14.

The conflict over Colstrip represented a stark conflict between two opponents with conflicting worldviews. Michael Parfit, an environmental critic of Colstrip, captured the nature of the contending parties in the title of his work, *Last Stand on Rosebud Creek*. In 1876, Custer and Native peoples struggled over the ownership of these same lands. Each side longed for the other to depart, willingly taking strong actions to make that happen. The Colstrip expansion brought together two similar antagonists, although the battles were waged with writs and court orders rather than carbines. In fact, the Colstrip saga represented a playing out of contemporary intense societal conflict: environmentalists were perceived as long hairs and hippies while the power company employees represented “square” and short-haired views.<sup>195</sup>

While immense on its own merits, the Colstrip development only represented a miniscule amount of projected Western energy development. The Rosebud mine sat on the western edge of the Ft. Union coal formation. This area contained an estimated 1.3 trillion tons of coal in parts of Wyoming, North Dakota, Saskatchewan as well as eastern Montana. Other large basins of bituminous ores lay to the south of Wyoming. All these easily accessible coal reserves opened the opportunity for massive, inexpensive strip mining and the subsequent development of major steam turbines near mine sites to generate power. Coal represented one of the two favored fuels. The use of nuclear reactors to generate electricity also factored heavily into industry power plans. Although no one seriously pondered the use of atomic energy in Montana, the development of this technology elsewhere in the region affected this project in a major fashion.

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<sup>195</sup> Michael Parfit, *Last Stand at Rosebud Creek* (Missoula, 1980), p. 152; David J. Chasan, *The Fall of the House of WPPSS: The 2.25 Billion Dollar Horror Story That Haunts the Nuclear Industry, the Bond Market and the Northwest* (Seattle, 1985), p. 15.

Simultaneously, the BPA, TVA and many private authorities encouraged the massive expansion of nuclear generation. In the state of Washington, this effort coalesced around the Washington Public Power Supply System (WPPSS) and its plan to erect five massive atomic facilities. The TVA ordered seventeen nuclear-driven plants. Across the nation, private utilities also envisioned several hundred coal and nuclear powered plants.<sup>196</sup>

Much of the opposition to the Colstrip generation project occurred in the context of these massive projected increases in electrical power generation capacity. Coal-fueled power generation on the Montana plains required highly invasive strip mining, massive use of the area's water supplies, the laying a two 430 mile long transmission lines across the state, as well as discharging large amounts of SO<sub>2</sub> particulates and other pollutants into the pristine Montana skies. The rural areas of the Ft. Union region faced industrialization, with a potentially massive decline in agriculture and a certain way of Western life. This power boom threatened to turn eastern Montana into "the boiler room of the United States."<sup>197</sup>

A disparate group of opponents to the Colstrip endeavor caught the power company by surprise. A combination of national and homegrown environmentalists (and their omnipresent attorneys), the Northern Cheyenne tribe, eastern Montana ranchers, and significant portions of the state and federal government worked together to thwart the expansion plans of the utility. Unfortunately for the Butte firm, these hostilities over the

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<sup>196</sup> Chasan, *Fall of the House of WPPSS*, pp. 1-4; *The Missoulian*, 10/24/2003, p. 1; Toole, *The Rape of the Great Plains*, p. 13.

<sup>197</sup> *Bozeman Daily Chronicle*, 1/29/75, as quoted in Parfit, Michael, *Last Stand at Rosebud Creek*, (Missoula, 1980), p. 152; Ross K. Toole, *The Rape of the Great Plain*, (Boston, 1976), p. 69.

Colstrip endeavor occurred when its hegemony over energy policy in Montana began to evaporate.<sup>198</sup>

The Company expected few problems in erecting the vision that consultants helped them formulate. These expectations held true through the initial work on the first two plants, Colstrip 1 & Colstrip II, although some opposition formed to block the effort. While the New Deal had tested the Montana enterprise in national politics, the company Ryan had constructed experienced almost clear sailing on the tranquil waters of Montana politics. This changed radically in the mid 1970's. The pro-Montana Power consensus in the state withered. Long-term allies weakened or came to oppose Colstrip. Newly active political forces probed and then overwhelmed the Butte firm's recently weakened position. Environmentalism became a key feature of Montana state politics in the 1970's. New coal development also transformed the Northern Cheyenne tribe from its previous acquiescence to strip mining into opponents of development.

In 1971, the United States Department of the Interior published a document called the North Central Power Study (NCPS). Nineteen utilities, two public utility districts, six power co-ops, eight metropolitan power authorities, and the Department joined forces to envision what would need to happen to meet the growing need for power. Assistant Secretary of the Interior James Smith presented this study to the public. If the plan materialized, Montana could see as many as twenty-one of the recommended plants built on its eastern plains. The industry saw the need for twenty-one other turbine facilities in the West, mostly next door in Wyoming. The publication of the plan

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<sup>198</sup> Ross Speech, p. 2.

produced a firestorm of criticism. The participants in the NCPS backed away from their work, claiming the analysis contained in the report merely represented speculation. The environmental movement continued to view the plan as a likely blueprint for the industrialization of the rural West.<sup>199</sup>

Montana Power entered the mid-1960's in excellent shape. Dreams of new dams dimmed, but other alluring options emerged. A survey conducted for the firm by the Bechtel consulting firm suggested that the utility seriously consider constructing some coal-fueled power plants next to the power company's formidable lignite reserves at Colstrip. The stars, as always, seemed to be aligned for Corette's firm. Electrical consumption growth had slackened somewhat in Montana, but almost all experts predicted 6%-8% growth in power demand for the indefinite future. A 7% growth rate implied a *doubling of use every ten years*. While Montana had not quite hit that growth figure, West Coast demand grew crisply. However, the utility apparently ignored the precipitous decline of its major customer, the Butte and Anaconda copper operations of ACM. The Butte firm's access to the Pacific Northwest Grid gave it confidence that any excess current could be readily sold either to firms on the coast or to the BPA.<sup>200</sup>

These projections of large-scale growth in electricity consumption boded well for utilities in the region. The Northwest region looked to the anticipated 6 to 8% annual growth rate for electricity use. All mainstream economic forecasting, both for

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<sup>199</sup> Parfit, *Last Stand at Rosebud Creek*, pp. 78-81; Toole, *The Rape of the Great Plains*, p. 19.

<sup>200</sup> Burke Interview; Chasan, *The Fall of the House of WPPSS*, pp. 6, 16-20. The 6-8% growth rate appears high, but this had been the experience in the earlier era of development. Industry participants did not perceive that more costly energy would reduce growth rates. This held true in France also. See Gabrielle Hecht, *The Radiance of France: Nuclear Power and National Identity After World War I*, (Cambridge, 1998).

government and the utility industry, validated these expansive hopes. Ominously, brownouts had occurred in the Northeast in the early 1970's. This fear of an impending energy shortage lasted until the early 1980's and dominated the actions of both industry and government participants. Without plant expansion given the projected rate of growth, the region faced an impending power shortage and its own wave of brownouts. This scenario spurred a dramatic increase in facility planning and construction. Inaction would cause electricity shortages in the near future.<sup>201</sup>

These simple statistics implied a need for a rapid expansion in generating capacity. The nation found itself in the same position as Montana; almost all the quality sites for hydroelectric generation had been developed. Coal and nuclear power offered the next logical technological approaches. For coal-poor areas like Washington State, nuclear power seemed the easy way to go. The BPA expended a great deal of effort and applied an enormous amount of pressure to get Washington State's Public Utility Districts (PUDs) to construct what turned into the gigantic WPPSS.

As the 1970's progressed, pressure increased to expand energy production, with a particular emphasis on utilizing Western coal reserves. The aforementioned brownouts started a national conversation on the "energy crisis." After the Arab Oil Embargo, President Richard Nixon responded with a massive energy development he christened "Project Independence." Nixon's initiative aimed to quickly and substantially gin up American energy production. This program encouraged major increases in the leasing of Western coal deposits, strip mining, laying rail lines to carry coal, and heavy construction to build and supply a new generation of gargantuan boilers in the West.

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<sup>201</sup> Toole, *The Rape of the Great Plains*, pp. 7, 19, 21.

Montana, suffering from almost embarrassingly high level of coal deposits topped the list for development.<sup>202</sup>

The gas lines characterizing Carter Presidency further stimulated these developments. President Carter proposed and Congress enacted a synthetic fuels program. The Synthetic Fuels Corporation (SFC), a heavily subsidized government endeavor spearheaded this effort to convert coal and oil sands into gasoline and oil. Carter's approach also relied heavily on Western coal deposits to create gasoline and oil.<sup>203</sup>

This era, however, proved schizophrenic. While massive plans for energy development, particularly coal-driven power were moving forward, environmental legislation emerged in Washington, DC. In 1969, Congress passed the Clean Air Act, which set caps on pollution and created the Environmental Protection Agency to monitor compliance. The Carter administration years continued in this vein, with legislation designed to contain environmental damage from strip mining and require adequate land restoration.

### Colstrip Arises

In the late 1960's and early 1970's, with a projected substantial increase in power growth, Montana Power identified a number of very profitable opportunities. They could, of course, mine and sell some of their low-sulfur coal to utilities in the Midwest. They could also, however, take advantage of the purported economies of producing electricity

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<sup>202</sup> Toole, *The Rape of the Great Plain*, p. 195; Chasan, *The Fall of the House of WPPSS*, p. 20,

<sup>203</sup> *Plains Truth*, 9-3, March, 1980, pp. 1-5. There was even discussion of a Congressional repeal of Montana's Coal Severance Tax.

at the mine-mouth. Management logically believed that transporting coal only a short distance from the digging site should reduce freight costs to a minimum. This electricity could be peddled, either in Montana or on the Northwest Grid.<sup>204</sup>

The utility decided to construct four plants at Colstrip. Essentially, they built the plants two at a time. The Butte firm ordered the first turbine from GE in 1969, as well a giant boiler from Combustion Engineering in the same year. The power company announced the first plant, Colstrip I, in 1971 and the second power station the next year. Compared to other power platforms in the firm's Montana arsenal, these two new generators produced enormous amounts of electrical current. Rated at 350,000 KW, these turbines doubled the capacity of the Corette Plant in Billings. The Kerr and the Ryan Dams produced a mere 56,000 KW each. The mighty hydroelectric facilities constructed by the Bureau of Reclamation and the Army Corps of Engineers during the Depression came on-line at only 250,000 KW.<sup>205</sup>

In 1973, the firm announced plans for Colstrip plants III & IV. Built to create 700,000 KV, these immense turbines doubled the size of the first two Colstrip plants. The combined power of the proposed engines came in at 2,100 KW, easily exceeding the capability of the rest of the Butte firm's existing plant. But the question arose: why so much power and why in eastern Montana?<sup>206</sup>

The Butte management evaluated the endeavor in light of the region's perceived immense thirst for power. Montana Power mirrored the industry practice, building

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<sup>204</sup> Parfit, *Last Stand at Rosebud Creek*, pp. 62, 83-85. Closed since the purchase in 1959, the Rosebud mine reopened in 1968 to supply the Corette Plant in Billings with fuel.

<sup>205</sup> The Forsyth Independent, 8/30/62, 11/13/69, 7/15/78 as quoted in Parfit, *Last Stand at Rosebud Creek*, pp. 58, 73-74. The first mention of the project occurred in the press in 1962.

<sup>206</sup> Parfit, *Last Stand at Rosebud Creek*, p. 103.

massively larger power production platforms. Industry experts touted these huge plants as the most efficient. This did not, however, prove to be accurate. In practice, this gigantism created major construction problems throughout the country, some of which visited the Colstrip project. The balance sheet of the firm, though strong, could not alone have justified financing for this mammoth undertaking. To accomplish the financing the Butte firm put together two consortiums. For plants I & II, the Montana firm partnered with Puget Sound Power. The Seattle-based firm agreed to purchase roughly 60% of the electricity output.<sup>207</sup>

For the gargantuan III & IV mega-plants, the utility recruited Washington Water Power, Portland General Electric, Pacific Power and Light as well as Puget Sound Power to underwrite the endeavor. They agreed to purchase the majority of the electricity produced. Corette's firm needed to install two 500,000 KV transmission lines to carry the current into the mountains of Western Montana to link with the larger Northwestern Grid. This seemingly innocuous decision initiated resistance to Colstrip facility in western Montana.<sup>208</sup>

Some critics of the project claimed that simply selling the coal on the West Coast and burning the fuel at the point of use would cost less than building any of the plants in eastern Montana. Whatever the merits of this argument, the critic's idea failed to grasp Montana Power's agenda. The New Deal left the utility in a position where it had little control over the production of its chief product: electricity. The Butte management wanted to correct this state of affairs.<sup>209</sup>

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<sup>207</sup> Ibid, p. 103; Toole, *The Rape of the Great Plains*, p. 6; Burke Interview; *Plains Truth*, 3-7, July. 1974, p. 90.

<sup>208</sup> Ibid, 103; Chasan, *The Fall of the House of WPPSS*, pp. 5-6.

These plants in the semi-arid scrub southeast of Forsyth would remain under the control of the utility consortium. Montana Power's northwestern partners shared similar concerns as the Butte management. They depended heavily on power from the BPA system and wished to have sources of production away from the control of the Bureau of Reclamation. Moreover, while the enterprise could sell coal and ship the ore elsewhere, the plants' location on the Montana plains granted the utility a quasi-captive market. Initial profit projections, given the rising value of Rosebud lignite, looked stellar.<sup>210</sup>

The firm intended to place their share of the investment in the Colstrip consortium in to the regulatory rate base. The utility received an allowed rate of return on the assets engaged in producing power. Hence, an increase in the size of the base automatically allowed the enterprise to earn a higher level of gross profits. Since the power company looked to finance most of this project with debt and not equity, this use of leverage stood to enhance the return to shareholders. This tactic unfortunately came back to haunt the electricity producer, though when construction costs soared, compelling the Butte management to ask for a hefty rate increase.<sup>211</sup>

Moreover, while the utility never officially mentioned it, the rustic location of the projects out in cattle country presented a number of advantages to all members of the Colstrip group. While the environmental movement had just started percolating, metropolitan areas had already objected to the pollution produced by these lignite-burning plants. The Corette plant, for example, had generated complaints about

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<sup>209</sup> *Plains Truth*, 3-5, May, 1974, p. 58.

<sup>210</sup> Burke Interview. Burke noted that the Colstrip plants did buy coal from Wyoming if the pricing proved favorable.

<sup>211</sup> Parfit, *Last Stand at Rosebud Creek*, p. 60; *Plains Truth*, 7-41, April, 1978, p. 43.

deteriorating air quality in metropolitan Billings. Locating four new sets of stacks in Billings would generate stormy opposition. The other members of the consortium dwelled in even more built-up areas. Another group of West Coast utilities, operating under the rubric of Western Electrical Supply and Transmission (WEST) constructed the first such giant plant, a 2,000,000 KW facility, at the remote Four Corners area on the border of Colorado, New Mexico Arizona and Utah. The plant fed power to Los Angeles, Phoenix and Flagstaff. A few cattle, cowboys and coyotes certainly would not raise much of a fuss over some smoke plumes emanating from the plant's giant stacks.<sup>212</sup>

Western Energy, a subsidiary of Montana Power, conducted the construction of the facility and controlled the Colstrip mining operation. Bob Schmeckel, later president of the Butte firm oversaw the operation. Western had few employees. This subsidiary pretended to exist as an independent and non-regulated company, selling coal both to Montana Power and other utilities at market rates. The Bechtel Corporation and several other outside firms built the four electricity factories. Western also contracted with the Foley Brothers of Billings to perform the required strip mining of the Rosebud property. The utility possessed no full-time construction crew and needed outside contractors to complete the project.<sup>213</sup>

### Environment Groups Oppose Colstrip

The environmental movement spurned the march toward Western strip mining and localized steam turbine production of electricity. Their rejection of this expansion of

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<sup>212</sup> Ibid, p. 60.

<sup>213</sup> Toole, *The Rape of the Great Plains*, p. 100.

electricity networks rested on three major factors. First, they believed that the drive for Western coal represented pure economic opportunism on the part of major corporate interests that hid both an anti-environmental and anti-labor agenda. Second, they advocated enhanced conservation and alternative energy sources as the preferred solution to the energy crisis. Third, they feared that this massive industrial enterprise would irreparably degrade the water, air and majesty of the West.<sup>214</sup>

Advocates of Western Coal and power development argued that the United States should utilize the vast reserves of low sulfur bituminous fuels buried in the Ft. Union formation and lodes farther south. The nation simply needed the power to maintain its industrial lifestyle and the sparsely populated plains of the West would need to sacrifice for the overall good. This approach minimized overall national pollution by distributing it in remote areas. Famed think-tank and pro-development guru Herman Kahn impolitically suggested in a speech that Montana could go to hell; destroying 5% of Montana might be necessary for the good of the whole country.<sup>215</sup>

Environmental proponents dismissed these arguments. In their view, the driving factor in strip mining and power generation in the West arose from the desire of energy corporations to gain access to the cheapest and most profitable coal available. The eastern United States had substantial reserves of low sulfur coal. West Virginia alone claimed 47 billion tons of reserves. However, this coal required underground mining. To harvest a million tons of ore in the Appalachian Mountains required two hundred unionized workers. Mining the same amount of coal in the West required a mere ten employees.

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<sup>214</sup> *Plains Truth*, 3-4, April, 1974, pp. 43, 55.

<sup>215</sup> *Ibid*, August, 1977, p. 48.

Cheaper, usually non-unionized workers constituted the crews for rural strip mining operations. Further, most coal veins in the east lay in private hands, requiring complex and expensive negotiations to obtain access to them. Much of the vast coal tracks in the West belonged to the United States government and might be readily and inexpensively leased.<sup>216</sup>

Montana Power's Colstrip endeavor had plenty of company in eastern Montana. Peabody had a strip mine several miles south of the Rosebud mine that sold coal to Minnesota Power & Light. Mobil, Shell, Utah International and Tenneco either had or planned major operations from Circle down to Decker. Major energy corporations and speculators bid greedily on new leases. The federal government had granted development options on over half the Crow and Northern Cheyenne Tribal lands, opening these areas to exploitation. This regional development of coal resources in the plains significantly stiffened the resistance of both local and national anti-coal groups.

Environmentalists insisted that a focused drive to conserve energy use would lower the projected power needs significantly. They also firmly advocated sun, wind and other alternative power sources. Alternative energy technologies took off only slowly. The 1980's, however, experienced a spike in the investment in conservation methods that materially lowered usage.<sup>217</sup>

In addition, strip-mining, steam plants and gasification factories for synthetic fuels required enormous amounts of water from the surrounding area. In this arid, semi-desert country, water played an indispensable role in everyone's lives. Agriculture

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<sup>216</sup> Ibid, 3-4, April, 1974, pp. 34-35, 3-5, May, 1974, p. 60.

<sup>217</sup> Parfit, *Last Stand at Rosebud Creek*, p. 64; *Plains Truth*, 3-2, Feb. 1974, pp. 15-17.

completely depended on it. The lower Yellowstone River drained this area before heading for the Missouri River. The Powder River and creeks like the Rosebud and Sarpy emptied, often intermittently, into the bigger Yellowstone. Water levels throughout the Yellowstone Basin proved highly volatile and prone to drought in summer.

Yet the total demands of the Colstrip project would claim roughly 2 ½ out of almost nine million acre feet. In dry seasons these levels could fall to as low as four million acre feet of flow. The water needs for the entire Colstrip effort might demand fifty-nine billion gallons of water. The other energy ventures in this locale would also drain huge amounts of water from the Yellowstone Basin. This, of course, created a major problem for farmers and ranchers. With water levels varying enormously, agricultural users could easily find themselves without critical irrigation flows, much like Montana Power did in the 1930's on the Missouri. Arcane water laws often gave miners or power companies preference for water flows.<sup>218</sup>

Strip mining posed further issues for water users. The amounts of water needed to support energy development seemed likely to draw down water tables in a major way. Also, the vibrations produced by dragging immense shovels through earth and coal might well undermine the integrity of nearby underground aquifers. These actions could also lower water tables and perhaps even open currently usable water to contaminants. Unfortunately, most of the water for steam generation could not be recycled. The super-heated water just wafted into the skies.<sup>219</sup>

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<sup>218</sup> Toole, *The Rape of the Great Plains*, p. 163.

<sup>219</sup> *Plains Truth*, 3-2, Feb. 1974, pp. 21-22, 34.

Massive strip mining threatened the quality of life for ranchers, farmers and Native people's in other ways. Buyers and sellers of the mineral rights to coal could actually mine it without the permission of the landowners. Thanks to the earlier efforts of the Copper Kings in Montana, miners had broad legal latitude in using their mineral rights, condemning property and requisitioning water. Montana Power had strong condemnation powers in regards to its activities. Proponents of strip mining invariably explained away problems with the surface mining techniques they deployed by asserting that the digs really only encompassed small amounts of acreage that could be readily reclaimed.<sup>220</sup>

This line of reasoning did not rest well with mine opponents. They contended that the trail produced by the mining shovels, the "spoils," ruined the surrounding land for cattle agriculture. Foes of the endeavor argued that the restoration efforts of Western Energy could not return the land to its original range state. Given Montana's previous experience with the mess created by copper and gold operations and the massive environmental damage left in the wake of coal mining in the Appalachians, the Butte firm faced an uphill battle in convincing the populace about the possibilities of reclamation.

One thing, however, worked in favor of the Butte firm. Mining and power plant construction on the scale of Colstrip created a large number of well-paying, if short term jobs. The semi-nomadic workers employed in these enterprises earned the moniker of "boomers." The very small town of Colstrip quickly turned into a boomer community. Montana Power argued that overall benefits generated by the construction and staffing of these plants would easily pay for any additional social services necessitated by the plants.

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<sup>220</sup> Parfit, *Last Stand at Rosebud Creek*, pp. 70-71.

Cash flows to the area would include: wages paid to laborers, taxes paid by the firm, spillover funds from the construction process spent in the area and salaries of the staff of the power plant. The construction trade unions in the state and many local businessmen in towns like Forsyth bought this logic. Local merchants supported the Colstrip project in more than just words. When the Butte firm needed financial help to buy the anti-pollution equipment, they persuaded Rosebud County to sponsor over \$350,000,000 in industrial revenue bonds.<sup>221</sup>

Ranchers strenuously objected, pointing to an increasing tax rate in the county after the start of construction. The transient population of workers and their families brought an increase in crime, drug and alcohol abuse along with other social ills. Their children needed schooling and other county services. State residents long had felt that ACM generated enormous profits in Butte and transferred the costs to the state and local governments. The firm's operations generated the need for essential government services. The old tax structure allowed them to avoid paying taxes to reimburse the state and local authorities.<sup>222</sup>

Another concern emerged as other parts of the state pondered the giant energy complex emerging on the Rosebud prairie. To move the current from the generation point to connection with the Grid in the west required substantial transmission lines and facilities. The utility had not experienced much opposition to the laying of previous lines

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<sup>221</sup> *Plains Truth*, 3-8, August, 1974, pp. 4-5. The city of Forsyth competed with Rosebud County to sponsor these tax exempt bonds. Rosebud County did get the utility to buy more powerful scrubbers that significantly reduced SO<sub>2</sub> emissions. This financing saved Montana Power a great deal of money. The coupon interest rate on these tax exempt bonds ran at two to three percentage points below commercial rates. This equated to millions of dollars in cost savings for the Butte firm.

<sup>222</sup> Toole, *The Rape of the Great Plains*, pp. 80, 86.

and, in any case, the firm had strong power to condemn property for this purpose. Yet opposition arose in Hamilton in 1971. When the electric company planned a 161,000 volt line to the city, citizens organized to oppose the line that threatened to transgress through the bucolic mountains and forest of that remote area. Many local residents resisted the project. The projected network of towers and lines caused the future neighbors of the transmission to raise three distinct objections.<sup>223</sup>

First, the “locals” did not accept the proposition that their power usage justified the line. They believed that the 161,000 volt line merely served as a proxy for the main, much bigger transmission lines ferrying power from Colstrip. Second, these residents did not wish to have the wild terrain they lived near disrupted by the building and maintenance of a major power line. Third, some feared the possible negative health effects of living near massive transmission lines. In any event, though they could not stop the Butte firm. Montana Power completed these lines eventually, but litigation dogged their efforts. This additional fallout from the Colstrip project also created a crop of political animosity that would soon be harvested.<sup>224</sup>

A more ephemeral factor brought together the opponents of lignite-based energy development: they valued the prairies for the aesthetic reasons. Various environmentalists, ranchers and native peoples rhapsodized over the subtle beauty of this terrain and sky. The management from Butte could understand the allure of Yellowstone or Glacier Parks, but they perceived the Rosebud environs as essentially a

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<sup>223</sup> *Plains Truth*, 3-1, January, 1974; pp. 1-6.: 3-2, Feb. 1974, 19; 3-6 June 1974, p. 83. Transmission line foes unsuccessfully got Congressman Pat Williams to attempt to gain legislation to ban the lines

<sup>224</sup> Ross Speech, p. 12.

wasteland that could be converted into usable and reliable electric power and jobs for Americans.<sup>225</sup>

### Colstrip and the New Montana Politics

Disgruntled citizens desiring to force the utility to pay more taxes and reduce pollution coalesced in Montana to give the utility its first major political setbacks. Misadventures in Helena significantly damaged the utility's profits at Colstrip. New actors emerged on the political stage intent greatly increasing the people's share of the economic bounty produced by strip mining, while imposing stricter regulations on the utility. An epic shift in the state's political structure made this turnaround possible. Sadly for the utility, by the time the legislature focused on Colstrip issues, the firm's grip on state politics had materially weakened.

The utility's political influence had been based on a coalition with ACM, the Northern Pacific Railroad (NP), the state's most prosperous stockman and other business interests. The Anaconda Company, faced with ever-more marginal copper deposits in the old hills around Butte had greatly expanded mining outside of the state. The 1971 seizure of Anaconda's rich Chilean assets by Allende virtually bankrupted the firm. This immense financial setback along with the declining fortunes of the Butte mining operations turned the focus of Rockefeller's old enterprise away from the state. Events also diverted the attention of the NP from the Big Sky country. The railroad had merged into the Great Northern and the combined firm showed little interest in the political doings in Helena. Concern over massive strip mining and the potential industrialization

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<sup>225</sup> Toole, *The Rape of the Great Plains*, pp. 211-214; *The Missoulian*, 10/24/2003, pp. 2/11.

of the Montana prairies tipped many stockmen against the Butte firm. Disturbing scarce water resources and prime grassland did not endear the power firm to ranchers. Ryan's old firm did maintain major business support and construction union backing in the capital. However, the newer trends broke the old spell of dominance.<sup>226</sup>

Much against the wishes of the utility and resource-based industries, Montana held a constitutional convention in 1972 to modernize and democratize the state's old instrument that limited taxation and regulation on resource companies. In an interesting twist, the regulations governing the convention barred participation by lawmakers from the previous legislative session. This feature precluded the participation on the part of many of the state's old political hands. A new cast of non-lawmakers to the 1972 conclave undoubtedly reduced the influence of the state's entrenched interests- particularly Montana Power.<sup>227</sup>

The old document contained a net proceeds provision. Thus the state's original constitution itself limited corporate taxes in Montana to essentially a portion of the net income of a business. On the surface, this sounded fair to many citizens. However, complex corporate accounting arrangements allowed for more than a little wiggle room for resource-based businesses. To a certain extent, the state government had to rely on the work of the teams of private accountants contracted by the firms themselves. Using the net proceeds approach in the 1960's caused ACM to pay barely any taxes to

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<sup>226</sup> Toole, *The Rape of the Great Plains*, pp. 211-214. Toole noted out that ACM's market capitalization had been four billion in 1969. By 1971 it had fallen to one hundred and sixty million.

<sup>227</sup> Ibid, pp. 80, 84. Toole pointed out that Louis Levine, a professor at the university at Missoula had published a treatise entitled "The Taxation of Mines" in 1921. He pointed out the problems with the net proceeds provision. For his efforts, the Anaconda Company successfully pressured the university to fire him..

Silver Bow County. The convention removed the net proceeds provision empowering the legislature to devise whatever tax scheme it saw fit. This opened the way for taxes based on gross revenues, something that made tax avoidance very difficult.<sup>228</sup>

Another sea change occurred in 1972. The election that year swept in a new Democratic governor, Thomas Judge, as well as a Democratic legislature. This new broom swept out much of the old pro-utility men (for a short time anyway) and had a decidedly greenish tint. In the next few years, this group pummeled the Butte firm with new taxes and regulations. The legislature passed a coal severance tax, a plant-siting act, a water use act, a utility property tax, and a strip mining and reclamation law. These laws, along with other environmental regulations and agency findings set the stage for the political battles of the next decade. Each side continually attempted to tilt the legal and legislative process in its preferred direction.<sup>229</sup>

The new coal severance tax passed in 1975 served as an enormous blow to the utility. The state enacted a 30% levy on ore sold in the state. This impost, easily the highest in the country, grabbed 30% from the gross sales amount. This tax payment came right out of the firm's projected bottom line. In addition, the PSC took actions that further cut into the lush projections for the coal garnered by Corette. Western Energy, claiming to be a non-regulated entity, attempted to sell coal back to Montana Power at national prices. The PSC rejected this reasoning and insisted that the coal price used at Colstrip reflect the obviously lower historic acquisition costs.<sup>230</sup>

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<sup>228</sup> Ibid, pp. 83-84.

<sup>229</sup> Ibid, pp. 84-86; *The Missoulian*, 10/24/2003, p. 3/11.

<sup>230</sup> Ibid, pp. 86-92; *The Missoulian*, 10/24/2003, p. 3/11.

The state insisted that the severance tax insured that Montana would recover the costs of development and reclamation from private entrepreneurs. The legislature in Helena created a unique trust fund for half of the tax monies. The governor and legislature did not want to have Montana spend at boom levels and then go broke when the coal ran out. The trust fund served as a giant rainy day fund for when the boom times dissipated.<sup>231</sup>

Unsurprisingly, Montana Power felt greatly abused by this turn of events. The new surcharge, along with the PSC price ruling, made mincemeat out of management forecasts. Given the rock bottom level at which Corette bought the Rosebud mine, if the firm had been allowed to treat Western as a veritable independent entity and price aggressively with the old tax structure, the return to shareholders would have been great. The firm incessantly complained that the severance tax made Montana coal relatively uncompetitive, particularly with neighboring Wyoming. This argument did not faze critics. They hoped the new tax would serve to reduce or even eliminate development. Company foes pointed to brisk bidding for new coal-mining leases after the tax increase as evidence of the spurious nature of the power company's complaints.

Helena lawmakers passed the Major Utility Siting Act of 1973 to deal with the perceived lack of control by the state over Montana Power's building of new power plants and transmission lines. The case of Colstrip #1 undoubtedly created the environment for this law. Shortly after Congress passed the Clean Air Act in 1969, the state of Montana approved a statute to complement the Federal edict. The law

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<sup>231</sup> Ibid, p. 91.

stipulated that a plant like Colstrip #1 would need a permit certifying the plant's compliance from the Montana Department of Health. The firm started preparing the construction site, but did not get the supposedly necessary permit. The Butte firm interpreted the statute as only requiring an application for a permit when the firm was prepared to actually start operating- until then, the stacks emitted no pollution. The utility's position proved very crafty. The plant could be presented to regulators on a take it or leave it basis. The watchdogs could not really make any expensive or annoying recommendations for change.<sup>232</sup>

Montana rancher Wally McRae formed the Northern Plains Resource Council (NPRC) in late 1972. This organization quickly emerged as a determined foe of energy development on the Montana plains. These ranchers and environmentalists opposed the first two Colstrip facilities, suing Montana Power for failure to comply with Montana Clean Air Act. In this first legal foray for this group, a state court judge named Coate essentially ruled in favor of the NPRC. In an absolutely bizarre counterpoint to the legal finding, however, the judge ruled that he could only issue a restraining order to halt construction if the plaintiffs posted a bond in excess of forty million dollars to compensate Montana Power for any losses incurred by the delay. The plaintiffs possessed only limited resources. Construction continued apace.<sup>233</sup>

Foes of the utility came to perceive its management as paranoid, secretive, and willing to cut corners. They frequently referred to the boys from Butte who sought to force their way on every occasion. However, the power firm ultimately won all the

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<sup>232</sup> *The Forsyth Independent*, 8/13/72, in Parfit, *Last Stand at Rosebud Creek*, p. 97.

<sup>233</sup> Parfit, *Last Stand at Rosebud Creek*, pp. 91-92.

Colstrip cases in court. Management charged their legal corps with achieving the shortest path through law and regulation to avoid the additional costs that accompanied delays in construction. The heirs of Ryan paid a heavy political and public relations price for their aggressive pursuit of business interests.<sup>234</sup>

The Siting Act looked to create a one-stop shopping approach for regulatory approvals of major construction projects. The legislation tasked the Bureau of Natural Resources and the Department of Health with providing permits certifying the projects complied with health and environmental standards and were necessary. For Montana Power this bill contained a highly problematic clause, a full six hundred day waiting period prior to construction. In combination with the Clean Air Act, this law caused substantial delays in the construction of Colstrip #3 and will be covered shortly.<sup>235</sup>

The initial part of the Colstrip project process experienced some bumps, but proceeded in a manner favorable to the company. This did not happen in the case of the last two plants. The utility had to comply with both state and Federal approval processes. The state requirements flowed from the 1973 Major Utility Siting Act. Federal decisions rested on the EPA's interpretations of the Clean Air Act. The Butte firm worked on both simultaneously.<sup>236</sup>

The Montana Siting Act mandated two levels of approvals. First, the Bureau of Health and Environmental Sciences needed to certify that the air and water pollution equipment met health mandates. Then the Department of Natural Resources and Conservation (DNRC) needed to review the need and use characteristics of the proposed

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<sup>234</sup> Toole, *Rape of the Great Plains*, p. 180.

<sup>235</sup> Ross Speech.; Parfit, *Last Stand at Rosebud Creek*, p. 97.

<sup>236</sup> Ross Speech.

plants. The DNRC conducted hearings in December of 1974 and prepared the initial Environmental Impact Statement (EIS) for Colstrip III & IV. Foreshadowing a dismal future for the power industry, the agency projected Montana power growth at a surprisingly low 1.1%. This estimate dramatically challenged the much higher company projections of 6 to 8%.

The DNRC stunned the power company in January of 1975 by rejecting its application for the new facilities. The department found that the new project simply did not comply with the 1973 Siting Act. First, keeping the 1.1% growth rate in mind, the DNR discovered no need for the plants projected electric power in the state of Montana. Second, given the minimal needs of the state, agency employees believed that reasonable alternatives existed for the project. Third, the proposed power platforms did not comply with minimum adverse air quality criteria embedded in the state's Clean Air Act. Last, in a comment on the overall tenor of the regional consortium of ownership, the state officials noted that Montana had no obligation to produce power for the entire Northwest.<sup>237</sup>

The Bureau and the DNRC held additional hearings on these matters in April and May. After these hearings, health officials, after reviewing all testimony, granted approval in November of 1975. In mid-June of 1976, the Board of Natural Resources reversed the staff of the DNRC, approving Montana Power's application under the 1973 Siting Act. These decisions, particularly the June one, deeply disappointed foes of the Butte management. They disputed the need for the plants and believed that the project could not help but extensively damage the prairie environment. As we shall see later, the

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<sup>237</sup> *Plains Truth*, 4-1, Jan. 1975, p. 1. The Bureau of Natural Resources was the board of the DNRC.

Board's ruling proved providential to the utility during conflict over a requested rate increase.<sup>238</sup>

The NPRC and other environmental groups not only protested these findings, they pursued all apparent avenues for legal appeal. The Butte firm may have won the preliminary encounters, but it also had to defend itself in agency appeal processes as well as in the state courts. The Federal approval hearings seemed initially positive to the utility, but ultimately caused substantial delays and cost well over a million dollars in legal fees to the power enterprise.<sup>239</sup>

Without grandfathering, plants III and IV needed to comply the Act. This legislation created three classifications, categories I, II and III, establishing the maximum amount of pollution that could be generated by a new facility. Under the Act's rules, the third category covered new facilities in already polluted urban zones. The second category allowed for some environmental degradation by new facilities. Category I covered pristine locations and allowed for very little incremental environmental impact.

Montana Power submitted an application to the EPA in July of 1976. The firm presented the project under category II. In early 1977, the EPA grandfathered the endeavor from the requirements of the Clean Air Act and approved the Butte firm's plans. The green light appeared to blink on.<sup>240</sup>

During the whole approval process, many Natives on the Northern Cheyenne tribe joined in the discontent over the growth of the steam power industry. They expressed

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<sup>238</sup> Ibid, 4-8, Oct. 1975, p. 82.

<sup>239</sup> Ibid, 5-1, Jan. 1976,; -6, July. 1976, p. 53; Ross Speech, p. 12.

<sup>240</sup> *Plains Truth*, 7-2, Feb. 1978, p. 15. Ross Speech, 17. MPC had been assured that plants III & IV would be grandfathered from the provisions of the 1973 Clean Air Act. Following the advice of the EPA, the firm submitted a request for Class II approval under protest..

discontent over both the extensive granting of coal leases on their reservation and the impending pollution from the Colstrip stacks. They did not want the plants near their lands. Political volatility marked this period, as some Cheyenne tribal members started to listen to radicals such as Russell Means and the American Indian Movement (AIM). The tribe unilaterally voided the coal leases on reservation land by the BLM. Before the courts settled the litigation, Secretary of the Interior Rogers Morton honored the Northern Cheyenne's point and voided the leases in question.<sup>241</sup>

Environmental attorney Bruce Terris entered the scene to assist tribal elders in trying to halt work on the last two steam plants. The tribe needed to file a request with the EPA to change the classification of Colstrip from category II to category I. This maneuver, if successful, promised two important results. First, this new ruling would overturn any previous approval that had been granted for a lower classification. Second, a new Montana Power application would need to be filed and would need to clear the much more rigorous criteria embodied in category I.<sup>242</sup>

The Northern Cheyenne submitted the request for reclassification. Despite the protestations of the power company, the EPA granted the tribal request in August of 1977. This caused a suspension of construction at the Colstrip site in October of 1977 due to the lack of the air quality permit- the PSD.<sup>243</sup>

The appeals of the ruling commenced in earnest. The company submitted new data to the EPA. This seemed sufficient when in February of 1978 the EPA indicated that

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<sup>241</sup> Toole, *The Rape of the Great Plains*, pp. 14-15; James R. Allison, III, *A Tribe Divided: Exploring Crow Reaction to 1970's Coal Development in Montana's Powder River Basin*. Master's Thesis, Bozeman, 2006, pp. 16-17.

<sup>242</sup> *Ibid.*; Ross Speech, pp. 14-15,18

<sup>243</sup> *Plains Truth*, 6-5, August, 1978; 6-9, November, 1977, p. 76.

plants III & IV did not violate air quality standards, apparently clearing the way to restart construction. However, in June the agency refused to grant the permits. This denial of authorization lasted until October of 1979, when the utilities' newest plan contained enhanced pollution controls that more than doubled SO<sub>2</sub> removal. The EPA judged SO<sub>2</sub> and particulate emissions within the scope of classification I.<sup>244</sup>

The lengthy Clean Air Act approval process upset the utility people. They felt that that the EPA had not dealt with them fairly. The power company's feared that some of the managers at the EPA opposed Colstrip and either did not help the firm or worked behind the scenes to frustrate the completion of the Colstrip project. The Clean Air Act had been passed in 1969 and amended in 1973. This complex and major legislative initiative had not been tested in the courts. Montana Power had the misfortune to take the shake down cruise. Also, the turnover at this agency proved quite high, destroying another element of stability in the creation and enforcement of administrative rules.<sup>245</sup>

After finally triumphing in the seemingly interminable state and national approval process, the Butte firm renewed construction of both plants. The extensive delay had increased interest costs on borrowed money and spiraling building costs driven by rampant inflation played havoc with the utility's costs. These expenditures easily exceeded the initial projections. We will return to this critical story momentarily. Other major power developments affected the region-WPPSS and the synthetic fuels craze.<sup>246</sup>

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<sup>244</sup> Ibid.; 7-6, July, 1978, p. 59; 8-4, April, 1979, p. 12. The Federal Ninth Circuit court upheld the EPA against appeals by the Northern Cheyenne.

<sup>245</sup> Ross Speech, 9; *The Missoulian*, 10/24/2003, p. 5/11.

<sup>246</sup> *Plains Truth*, 10-6, June-July, 1981. In May, 1981 the Ninth Circuit Court issued the final rulings on the approval process. The court upheld the EPA's reclassification from Class II to Class I and also upheld the granting of the final PSD by the agency.

Colstrip and the Region

The delay in the construction of the third facility proved especially ill-timed. The first portion of the Washington State nuclear platforms had already come online. The new facility entered a Northwest market glutted by excess power capacity from the finished WPPSS plants. Montana Power had ignored the impact of these atomic facilities, figuring that the production would not interfere with their own plans.

In the 1970's a collection of Public Utility Districts (PUDS), mostly in Washington State, grappled with the energy problem. The area had almost no coal resources and no real interest in trucking vast amounts of bituminous ore to spew into the pure air of the Cascades. Harnessing the atom to produce steam for turbines seemed like a simple solution. The WPPSS board eventually agreed to construct five nuclear plants.<sup>247</sup>

As the endeavor moved forward, the project suffered enormous delays and astronomical increases in costs. By early 1980, the financial problems could no longer remain contained. The WPPSS paid for the projects with tax exempt bonds and had placed \$2.25 billion dollars of these securities with the public. WPPSS needed to cancel two of the reactors and default on the debt.

Interestingly, not everyone in Washington State had climbed on board the WPPSS bandwagon. City Light of Seattle hired a non-industry economist, Don Shakow, to examine the project. Derided as a bearded Marxist from New York, with his doctorate in the dismal science, Shakow ran an alternative store. While these were seemingly odd credentials for a utility forecaster, his background certainly provided gave him a different

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<sup>247</sup> Chasan, *The Fall of the House of WPPSS*, pp. 11-18.

perspective than industry prognosticators. He correctly predicted that nuclear power would cost much more than hydroelectric power. Given this projected price rise, he forecast that growth in electricity demand would not materialize. Based on their economist's work, the Seattle utility turned down the offer to join WPPSS. City Light and Shakow faced ostracism in Northwest power circles until the collapse of atomic project.<sup>248</sup>

The closure of these unfinished nuclear plants in Washington State had plenty of company. Nationally, over one hundred plants, mostly nuclear, needed to be shuttered in this period. The TVA had to cancel eight of the seventeen projected nuclear sites. Even with this massive contraction of future generating capacity, many power markets remained flooded.<sup>249</sup>

The WPPSS fiasco quickly affected Montana. Since the BPA had to buy power from the three finished plants, regional power rates surged. Rates in the region remained low by national standards, but went up precipitously due to the inclusion of very dear nuclear electricity charges. Many Montana REA's, particularly those in the western third of the state, bought power from the Bonneville. They received a series of steep increases in their heavily subsidized rates.<sup>250</sup>

At the end of the seventies, energy executives started aggressively pursuing synthetic fuels. Nazi Germany pioneered this production process in the Second World War in order to deal with endemic fuel shortages. The technique involved gasification of

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<sup>248</sup> Ibid, pp. 21-23.

<sup>249</sup> Ibid, pp. 3-4.

<sup>250</sup> Ibid, p. 28; *Plains Truth*, 13-9, Oct, 1984, pp. 7, 15-1, Jan 1985, The paper noted that Federal Energy Regulatory Commission raised rates to thirteen Montana co-operatives a whopping 173% increase in 1985.

coal or oil sands. This approach to supply fuel had been abandoned after the war since the price needed to justify manufacture of this fuel far exceeded the cost of normal petroleum products. The energy crisis and the escalating cost of gasoline created an opening for this largely dormant industry.

The manufacture of synthetic fuels did not directly affect Montana Power or electricity production (although some of these facilities would consume a great deal of electricity from the utility). However, the activities of these operations did indirectly impact the power firm. The increased demand for coal served to stiffen the resolve of company foes to oppose development.

In 1980, the Carter Administration supported the creation of a federally sponsored Synthetic Fuel Corporation (SFC). This entity would partner with private firms to create coal gasification programs. Heavy subsidies drew major interest from energy corporations. As always, Montana figured heavily in these plans. The Department of Energy (DOE) projected that Montana would have needed nine billion tons of coal to create the desired amount of fuel. In order to accomplish this task, the agency projected twenty-six plants for the state.

Several major manufacturers of this product located on the Montana plains. Tenneco built a gasification plant in Wibaux. Washington Energy set up in the Circle East area, while the Burlington Northern located in the Circle West sector. Mobil opened works in Dawson County. Utah International chose to develop a facility in the Powder

River basin. To the east in North Dakota, the SFC set up the huge Great Plains Gas plant in Beulah, ND.<sup>251</sup>

Much like the WPPSS project, these projects quickly ran into hard times. During the first part of the administration of Ronald Reagan in the 1980's the United States plunged into a severe recession, probably the biggest downturn since the Depression. Electrical demand flattened- a disaster in an environment with many power plants in the construction pipeline. Petroleum prices softened and then mounted a sustained decline. By 1983, the synthetic fuels industry had largely collapsed. In succeeding two years, these plants found themselves shuttered. In confirmation of this trend, the Bureau of Land Management offered no new coal leases for the entire Ft. Union formation in 1983 and 1984.<sup>252</sup>

The emerging energy glut played havoc with Montana Power's plans for Colstrip III. The plant came on line to find saturated power markets in Washington State and Oregon. The larger California market had more opportunity for sales but operated as a pale shadow of what had been anticipated. Power company officials had not paid much attention to electricity pricing. They believed that the price of the commodity reflected inelastic properties-increases in prices brought no decrease in demand. Unfortunately, for the industry, just as Shakow had postulated for City Light, pricing did effect demand. Not only did consumers cut back on electrical consumption, they started investing in conservation efforts. As power prices seemed to permanently increase, electricity users invested in more effective equipment to reduce kilowatt hours.<sup>253</sup>

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<sup>251</sup> *Plains Truth*, 10-1, Jan. 1981, pp. 8, 10-4, April, 1981, p. 5. Circle West refers to the area west of the town of Circle.

<sup>252</sup> *Ibid*, pp. 12-4, May. 1983, p. 5, 12-5, June, 1983, p. 5.

To make matters more difficult for the power company, the Carter Administration's newly passed energy program required that utilities purchase power generated by small, alternative sources. Montana Power had to purchase over one hundred megawatts of power from these sources. The company had more current at hand than it could deal with. This came on top of ACM going out of business, an event that lowered companywide electricity demand by 10% . In a startling turnaround, Montana faced an electricity surplus for the foreseeable future.<sup>254</sup>

This situation stressed the Butte firm enormously. It petitioned the PSC for a 96 million dollar annual rate increase to cover the unexpected costs of plant III. To accomplish this, the new plant needed to be placed in the regulatory rate base. The PSC started hearings in June of 1984. The body had newer staff members that viewed Colstrip and the power company skeptically. William Johnson of the Bureau of Natural Resources testified on the increases in rates that would be passed on to the consumer if the last two plants were added to the regulatory base. Montana Power protested this testimony.<sup>255</sup>

Foes of the enterprise recommended a denial of the increase request. They asserted that the state of Montana did not need the power. The opponents repeatedly pointed out that the utility ferried most of the current from Colstrip III to the coast. In these new circumstances, critics contended that the plant did not meet the criteria for public usefulness defined by the 1973 Siting Act.<sup>256</sup>

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<sup>253</sup> *Plains Truth*, 13-6, June, 1984, pp. 5, 16-4, April, 1986, p. 5.

<sup>254</sup> *The Missoulian*, 10/24/2003, p. 2.

<sup>255</sup> *Plains Truth*, 13-1, June, 1984, pp. 1-4, 16-4, April, 1986, pp. 1-4.

<sup>256</sup> *Plains Truth*, 13-6, June, 1984, pp. 1-5. *The Missoulian*, 10/24/2003, p. 2.

The heirs of Ryan strenuously objected. They noted that the DNR had issued a Certificate of Engineering Compatibility and Public Need in 1976, thereby verifying compliance with the 1973 Siting Act. The status of the plant had not changed and despite all the delays, the facility had met all regulatory hurdles.<sup>257</sup>

In September, the PSC denied the vast majority of Montana Power's request for rate relief. The utility regulator allowed an increase of a mere 4.1 million dollars. The state oversight group denied the Butte firm's contention that the Colstrip III generation operation had complied with the requirement for public need. The PSC soon rejected an appeal by the company. Turning down a large rate increase did not make for bad politics either.<sup>258</sup>

The Butte management felt ill-served by the PSC and its staff. A new employee from outside of Montana had appeared to steer the bureaucrats in Helena against the firm at every turn. The power company faced some real problems from the denial of inclusion of the new facility into the rate base. The utility's stock tanked and substantial financial problems loomed. Some overwrought analysts even mentioned bankruptcy, but this probably would not have happened. As we shall see after the denouement of the deregulation battle in the next chapter, the firm had substantial unencumbered assets to borrow against and undoubtedly could have raised more equity to shore up its books.<sup>259</sup>

The firm tightened its belt and sold as much power to California as it could. The PSC started to experience turnover, both on the Board and among the staff. The apparently hostile PSC staffer departed for greener pastures. The utility commenced

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<sup>257</sup> Ibid, pp. 1-5.

<sup>258</sup> *Plains Truth*, 13-8, Sept, 1984, pp. 1-3.

<sup>259</sup> Burke Interview, August, 2005.

extensively working its political connections. It kept attacking the state government and decrying the apparently hostile business environment. These approaches greased the skids for a retry.<sup>260</sup>

The PSC reviewed the firm's reapplication to include Colstrip III in the rate base. In October of 1985, the regulators relented and essentially adopted the utility's position. They approved an \$83 million dollar rescue package of rate increases to be spread out over eight years. This caused a roughly fifty per cent increase in rates over the period.<sup>261</sup>

The energy enterprise took the increase and received an additional \$200 million for selling off its share of Colstrip IV to the other members of the consortium. The firm returned to even keel financially. Its stock price recovered. While the general public opposed the rate boost, a good number of influential Montanans owned shares of the utility. Some of these equity holders had pressured Helena for a more "evenhanded" and pro-business approach to the power company.<sup>262</sup>

At this highly inopportune time, the utility suffered an embarrassing reverse. The rate process allowed Montana Power to pass all Federal taxes it paid on through to the ratepayers. In 1982, the Butte firm billed customers \$1,178,000. Unfortunately, the actual amount paid to Washington DC turned out to be only \$55,000, creating an over-billing of about \$67 per customer. Neither the PSC nor the firm established specific blame for this practice. The glaring difference between taxes paid and the estimate of expected taxes made any innocent excuse seem less than creditable. The electricity enterprise returned the funds, but it did not need this kind of publicity.<sup>263</sup>

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<sup>260</sup> *The Missoulian*, 10/24/2003, p. 2.

<sup>261</sup> *Plains Truth*, 15-8, October, 1985, pp. 1-3.

<sup>262</sup> Burke Interview, August, 2005. *The Missoulian*, 10/24/2003, p. 2.

The Denouement: Real and False “Lessons”

Montana Power finished the challenging project in Rosebud County, but the facilities did not achieve the financial returns that had been projected. The Coal Severance Tax of 1975, along with the PSC rulings on intra-company pricing of coal definitely limited profits. Delays in construction pushed up the costs of construction, locking the company into a much higher rate structure than planned.

The Colstrip III was the last addition to the company’s power generation capability. This completed Montana’s network of electrical power. The firm never again seriously considered adding electrical generating capacity in Montana. Glutted Northwest power markets accounted for most of this reticence. If the fabled mistaken projection of 7% growth had indeed occurred, more giant coal-fired plants would certainly have blossomed next to the first four units. However, the actual events of the Colstrip endeavor changed the *mentalite* of the firm permanently.

The Colstrip exercise proved crucial in the history of the company. The ghosts and supposed “lessons” of the endeavor in eastern Montana haunted the executive suite during subsequent deregulation efforts, as the sale of the firm’s tangible energy assets and the massive redeployment of cash into Touch America. The electricity business in Montana came to be viewed as a loser and a backwater. Decision-makers favored unregulated and even non-energy business. The Butte firm restricted its investments in energy, sticking largely to natural gas. Gas properties ran from Alberta to Texas. Under the administration of Robert Gannon in the 1990’s, the power company even made

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<sup>263</sup> *Plains Truth*, 13-9, October, 1984, pp. 4-5. No public investigation occurred, so whether the billing practice represented clerical oversight or reflected sharp practice by the firm remains unanswered.

investments in power companies located in foreign countries. The Big Sky had lost its allure for electric current generation. Crucially this strategic pivot by the firm's senior leadership and its board ignored the incredible narrowing of firm's management vision and the almost complete loss of strategic insight that the firm had historically shown.

A fair evaluation of the power firm's performance at Colstrip can be based on the past performance of the utility. Evaluating Montana Power's performance in this way demonstrates how far the firm had drifted away from its prior level of accomplishment. From the humble beginnings of Butte General Electric in the frontier era until the 1960's, the enterprise negotiated both rapid growth and as well as the perilous period of the Depression and the New Deal. The leadership in the 1930's exhibited particular skill in facing the hydra-headed challenges of that era.

The late twenties saw a real spurt in business for the utility. However, when ACM faced a veritable collapse due to the Depression, Montana Power quickly adjusted. Management suspended building the then unneeded Kerr Dam. The Butte enterprise quickly cut back power operations. In spite of the poor business climate, the company sagaciously steamed ahead with heavy investments in natural gas and developed a significant appliance sales business. The firm impressively sensed the negative implications of the New Deal, changing the firm's structure to maintain the corporation and working hard to not let the national government take over power generation and delivery in the state. This level of management legerdemain did not appear in the Colstrip enterprise.

Strategic planning in Butte became fixated on utilizing the Rosebud mine coal sometime in the mid-1960's. This plan made sense through the early 1970's. After this point, the firm misjudged future demand, did not take into account the industry-wide over expansion of capacity, missed the future impact of burgeoning inflation, and failed to deal with the emerging environmental movement. The firm also made the mistake of having an interested party, the Bechtel Corporation (who eventually carried out the engineering work for Colstrip), perform the feasibility study.

The Butte management did not question the use of consensus economic forecasts put out by private and public authorities. All experts except for Sankow got the power demand situation wrong. Montana Power seemingly ignored the catastrophic downside exposure of the Colstrip endeavor if growth rates did not double. The vast majority of the utility industry acted based on these forecasts, creating a giant pipeline of electric power capacity. Unless sopped up by very high growth, this production surge insured enormous excess power and glutted Grid markets. The reliance on the utility on an interstate electricity market left the firm highly vulnerable to the production of excess current elsewhere. The company seemed oblivious to this obvious possibility. A very naïve technological and economic optimism seemingly prevented clear thinking.

General inflation accelerated during the administration of Lyndon B. Johnson and spiked sharply upward after the ascension of Nixon to the presidency. More importantly, given the massive building of all types of power platforms in a highly compressed timeframe, one needed to assume that the demand for specialized labor, engineering and

generating equipment would skyrocket. Delays and large increases in expenses seemed naturally built into this massive construction effort. Management also ignored this factor.

The development of the environmental movement and the Green's dramatic increase in political power should not have been surprised the utility. It was likely that many people would object to a project that would transform the nature of Montana's plains, solely for the benefit of a corporation that sold this power in Washington and California. Management failed to perceive that an activity that created lush profits from outside of Montana, while potentially damaging the state itself, could easily excite the revenue enhancing proclivities of astute politicians. The enterprise's bull-it through approach would have only worked in the Montana before the Depression, when the railroads and the heirs to the copper kings reigned supreme. A more sophisticated approach might have mitigated the 1970's political backlash and kept the Butte firm's taxes lower.

In addition, an isolated management in Butte missed the rise of Green politics. Senior executives felt that their project had been unfairly attacked. As mostly Montana citizens, they believed from the beginning that their planning had sufficiently protected the environment from the start. After all, from their perspective, the creation of electrical power constituted a public good.

Ironically, the very success of Corette's storied reign may have led to the atrophy of strong strategic thinking. In making the spectacular acquisitions of both the Alberta gas mines and the Rosebud mine, as well as keeping the federal power authorities at bay, the fabled executive operated largely by the seat of his pants. He worked with only one or

two trusted aids. The increasingly narrow and parochial management in Butte missed all the curveballs that the economic and political environment tossed at them. The disciplines inculcated by GE did not survive Corette's one-man rule.

The management under Robert Gannon in the middle to late 1990's reflected these same management failings, belief in ersatz forecasts, utilizing consultants with a material interest in management decisions, and maintaining that executives for a utility could lay lines of glass as easily as they had copper. Gannon believed in forecasts that predicted a long-term decline in energy prices, the quick triumph of the telecom industry and the ease with which the company could master this *de novo* technology in an unregulated and unfamiliar business environment. He rode off to the telecom wars with a management team steeped in the energy business and possessing no real experience in the new paradigm. No structure existed to stop him as he headed off to build his "field of dreams."

## CHAPTER 6

TOUCH AMERICA AND THE DEATH OF THE FIRM

The classic Delmonico's restaurant closed its doors long ago, shutting a window into a world of privilege and power. The fabulous financial realm that frequented the establishment ended in the darkness of the Great Crash. That event extinguished for generations the heady speculation that had enriched the men who inhabited the concrete canyons surrounding Broad and Wall Streets. By the 1990's this culture of investment as a baccarat table opened again, generating fabulous wealth for investment bankers. Boom times had returned with a vengeance. This new generation of financiers did not often dine on the old eatery's menu of three-star nineteenth-century French cuisine. Instead, they spread out in fancy bistros all over Manhattan, often sampling diminutive portions of exotic international cuisines. While their dining habits had changed markedly over the years, their appetite for earning generous fees from crafting deals for high-flying new industries remained voracious. Technological innovation created many new opportunities. Goldman, Sachs, whose utility trust speculations had almost bankrupted that firm in the 1930's, re-emerged as a leader in this replay of Roaring Twenties mania.

This frothy financial environment proved critical to the topic at the heart of this chapter: the disintegration of Montana Power. Youthful bankers and entrepreneurs quickly made vast fortunes, often with seemingly little effort or background. A pervasive atmosphere of greed accompanied this environment. Fortunes materialized quickly for the bold and avaricious. Stodgy managers could watch with amazement as bold tyros

rapidly made many millions of dollars and were lionized by society. Old systems of regulation came to be viewed as passé. In fact, great fortunes could now be made as these industries deregulated.

Montana Power, much as it had in the 1920's, got drawn into this web of roaring stock markets and complex financial manipulation. Robert Gannon found this an intriguing and invigorating environment. He would gain freedom from the shackles of state control, deemphasize the power business and find financial glory in the expanding world of telecom. Not only did the national environment support these developments, but the history of the firm as Gannon viewed it, supported this folly. The outside forces of speculation, greed, and deregulation resonated with the "lessons" of Colstrip as seen by the Butte management. Gannon felt that firm's Colstrip experience indicated that the company should aggressively pursue deregulation, move away from power generation and into new ventures such as telecom. Unfortunately, this analysis empowered the company to repeat the mistakes of Colstrip, placing too much emphasis on short-term business trends and wildly over-estimating the profit potential of new and poorly understood business ventures. Heavy personal financial incentives to sell the company and pursue the telecom business may have also clouded the judgment of senior management.

Initially all went well. For a brief, shining moment, the Butte company morphed from an integrated, regional energy enterprise into a self-proclaimed cutting edge telecommunications endeavor: Touch America. Then the new fiber optics company rapidly dissipated almost all its assets and disappeared into the black hole of bankruptcy.

Gannon became of the most controversial figures in state history. Like Icarus, he rode the firm to new heights, before the collapse of the telecom bubble melted his wings causing him, the company and the remaining shareholders to plummet to earth.

In the argot of networks that we have used, Montana Power, particularly after the Colstrip problems, no longer believed that opportunity lay in the direction of expanding electrical power networks. While these systems might grow somewhat, a new era of deregulation dawned, lowering prospective profit opportunities and perhaps even threatening the solvency of the firm. Gannon and senior executives in Butte looked to the emerging telecommunications networks for future investment. The recently de-controlled telephone industry seemed to need enormous amounts of fiber optic infrastructure to carry myriads of data in a completely new and rapidly growing network of communication. The utility could readily exploit the firm's in-house expertise to gain in the construction of this network. Gannon felt that the firm's expertise in laying copper wiring for electricity could readily be transformed into laying lines of glass fiber.<sup>264</sup>

The essential facts of the Touch America episode are clear. In the spring of 1997, the Montana Power Company urged its allies in the state senate to introduce Senate Bill 390 (SB 390) on the floor of that legislative body. SB 390 sought to accomplish two goals. First, this law removed the power production component of the utility from the purview of the Public Service Commission (PSC). Pricing for electricity from the firm's dams and steam plants would float with the market, and the state would have no say over rate policy. Second, the rate payers would reimburse the power firm for approximately

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<sup>264</sup> *Missoulian*, 10/24/2003, p. 2.

one billion dollars for so-called “stranded costs” that deregulation would impose on the Butte company (the legislation later lowered this to \$800,000,000). SB 390 passed both legislative branches, with limited amendments, only a few months later.<sup>265</sup>

The process of leaving the confines of regulation in Montana required that the state calculate the value of the investment that ratepayers had paid for over the years in their monthly bills. Helena officials ruled that the power company’s customers had paid in much more than required. This meant that a “stranded benefit” existed for Montana businesses and consumers. The Butte energy enterprise *owed* the rate payers a refund. The firm protested this ruling vociferously. The Governor, Marc Racicot, and his officials did not give in. An impasse ensued.<sup>266</sup>

Gannon found a way out of the situation. He sold the production assets in question. Over the next two years, the Butte firm liquidated not only the generation facilities, but also its power brokerage company, the coal and gas assets and the transmission and distribution facilities. The Montana Power Company that we have analyzed disappeared, except for the Touch America subsidiary. The Butte management even expunged the Montana Power moniker and formally renamed the firm Touch America. Asset sales garnered almost \$2,700,000. The Butte telecom firm quickly deployed the funds in the creation of an 18,000 mile fiber optics network. However, the predicted communication business never materialized, rendering the entire endeavor insolvent, sending the remains of the Butte firm into the mists of bankruptcy.<sup>267</sup>

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<sup>265</sup> Ibid.

<sup>266</sup> Ibid.

<sup>267</sup> Case CV-04-87-BU-SEH. Case materials obtained from Federal Court in Great Falls.

This sale of the utility and the subsequent demise of Touch America stunned the state. Electricity and gas rates rose precipitously as the millennia dawned. The unexpected failure of the Butte telecommunications firm cost local investors millions of dollars. This tawdry tale remains crowded with recriminations, massive lawsuits and confusion. The Touch America saga has been recounted in two narratives: the power company's account of the deregulation and sale of the firm, and the highly different perspective offered by the lawyers representing some of the major remaining Touch America shareholders. Company partisans describe a firm gamely responding to the vagaries of changing markets and of a stellar business enterprise beached by investing too early in a promising new technology. Counsel for the plaintiffs, litigating against Touch America and its former executives, attorneys and bankers tell a tale of misfeasance and skullduggery, malfeasance and incompetence. We will evaluate both sides, with a particular emphasis on the ambiguous legacy of Gannon, certainly Montana's most controversial and perhaps currently its most despised citizen.<sup>268</sup>

The company presented a two-fold case. First, in their view, the 1990's portended a transformation in the electricity industry in which power-generating entities competed to deliver power to customers without regard to traditional territoriality. Large power producers like Enron would now compete for the business of significant electricity users in Montana. Other firms would enter the markets to compete for retail customers. As a regulated entity, Montana Power could not hope to compete as the firm found itself straight-jacketed by an obsolete regulatory regime. The utility needed the freedom to

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<sup>268</sup> Ibid.

respond to markets. Company executives offered a vision of greater efficiency and lower prices for all in an unrestrained market.

Coupled with the utility's alluring vision of unfettered, efficient markets, the firm aggressively sought ways to expand its footprint in the emerging telecom industry. Management felt this approach maximized returns to shareholders. In the 1990's telecoms robust growth seemed a sure way to substantial riches, certainly much more promising than the newly risky and confining world of electric power generation and distribution. Senior management in Butte maintained that they devised these plans with only limited input from outsiders such as Goldman, Sachs.<sup>269</sup>

In the view of the executives in Butte, the sale of the utility came about only after the unreasonable actions of Governor Marc Racicot and his administration. The amount they claimed that the state owed them could not be determined and the necessary funds raised without a resort to the mechanism of an asset liquidation. They viewed the facility sales as serendipitous.

The plaintiff's counsel cast the motives of the utility in a darker, more sinister way. These attorneys filed suit against the management of Touch America, Goldman, Sachs, and the law firm of Milbank, Tweed. This legal proceeding remains in abeyance. Yet this case, along with bankruptcy filings in Delaware over Touch America, sketched a very different picture than the one painted by Gannon. They argued that management planned to sell the utility from some time in the mid 1990's. Management worked with investment bank of Goldman, Sachs of New York, which pushed the concept of selling the utility. Upon completion of a sale, this august firm stood to pocket a hefty

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<sup>269</sup> *Missoulian*, 10/24/2003, p. 2.

thirty million dollar commission. Goldman could then also advise on the redeployment of the newly generated capital, potentially earning additional lucrative fees. The senior management could then ensconce itself in the theoretically much more remunerative telecom business while being paid huge, ersatz bonuses as management transformed Montana Power into Touch America. Milbank, Tweed, the august white shoe Manhattan law firm, stood accused of cooking up an illegitimate opinion letter that permitted management and the board of directors to avoid taking the Touch America transaction to a shareholder vote. These parties, in essence, looted the firm.

An evaluation of these starkly clashing narratives must first start with an understanding of the environment of the 1990's concerning deregulation and the incredible speculative mania that gripped this era. These two factors provided the loam and the seeds that Gannon and his associates hoped would create a vibrant garden of fiber optic opportunity. Without the deregulation process, Montana Power could not have been broken up and sold. Without the mania in the telecom market, the Butte firm's participation in this industry might have proceeded more leisurely and certainly on a smaller scale.

### Deregulation

The drive to deregulate long-established industries hovered over the public and political landscape in the United States during the 1980's and 1990's, much like the cry for public power had in the 1930's. Many industries had or would soon experience a lessening or outright elimination in government control in all or some of their activities.

President Carter started the ball rolling by helping to end both price controls and mandated routes on airplane travel. Airlines, railroads and phone companies gained the opportunity to explore the new possibilities presented by significantly less restrained markets for their products. The ideology of deregulation informed both the Montana Power Company and its business and political allies in the firm's effort to enact SB 390.

Deregulation promised many benefits: better service, more consumer choice, as well as lower prices. Unfettered markets insured the blossoming of much new efficiency. Individuals and businesses could customize their usage and pay for only what services supposedly stood to benefit. Regulation of utilities had been common since the Progressive Era. Montana Power dominated or held a monopoly of electricity sales in the western two-thirds of the state, except where electric co-ops resided (and the firm delivered the power to the co-ops). If the Butte firm wanted to raise prices, only the law barred it from charging very high rates. Unless another producer entered the market, the firm could, at least theoretically, charge whatever it wanted. Any reader of a standard microeconomics text has encountered the use of the power company as a natural monopoly. This classic economic analysis suggested that utilities would always charge higher prices than a competitive market. The expense of creating an alternative generating capacity, the installation of long distance transmission lines and rival distribution systems would serve to keep out potential competitive power entities from entering the Montana market.

As we shall see, Montana Power argued that this regulatory approach no longer applied. More open markets guaranteed price competition that regulated entities simply

could not match. The people of the state needed to grasp the future and shape the best approach to an emerging deregulated world.<sup>270</sup>

Montana Power historically had resisted public power and control. The firm continually eschewed interference from either Washington or Helena. Corette, as we saw in chapter III, vehemently attacked New Deal initiatives as socialistic. The management laid almost all the problems of the Colstrip development at the door of meddling by state and federal officials. In the aftermath of Colstrip, Gannon and his associates came to look askance at any regulated business. Hence, any opportunity to rid the firm from the clutches of an abhorred government would find favor with the senior management of the Butte enterprise.

Further, the anti-government meme had a long tradition in the state. The Anaconda Company had used similar arguments to fight paying taxes, oppose workmen's compensation and avoid environmental laws. Montana ranchers and executives feared interference from public entities. This traditional distrust of the state played a major role in the ideology of the Republican Party in the state of Montana. During this critical period, the state had firm Republican rule in both branches of the legislature as well as in the governor's mansion.<sup>271</sup>

### The Wall Street Connection

The financial feeding frenzy of the 1990's restored Wall Street to the heights achieved by the fall of 1929. Wall Street's reputation suffered a severe downturn after the

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<sup>270</sup> Ibid.

<sup>271</sup> Ibid.

Great Crash. The New Deal passed the Glass-Steagel Act and created the SEC to restrain substantially investment bankers' power and activities. Massive investor losses marred the reputation of these financiers in Depression Era America. The industry's prestige slowly recovered after the Second World War and the industry recreated itself as a conservative guardian of its corporate and wealthy retail clients. The robust markets of the 1980's changed this. As Tom Wolfe wryly observed in his novel, the *Bonfire of the Vanities*, these bankers were now the highly compensated "masters of the universe." With many participants at these firms drawn from the power elites and educated at the finest Ivy League universities, a certain social cachet returned to these money runners. America's celebrity culture embraced these well-heeled and seemingly all-knowing wizards of financial alchemy. This new reverence opened many intriguing and profitable opportunities for the heirs of JP Morgan. Not all these ventures benefited the net worth of their clients. Unfortunately for Touch America shareholders, the telecom industry would soon prove that.<sup>272</sup>

The Dot.com and telecommunications booms served as a crucial ingredient in the alchemy that produced the Touch America debacle. The stock market created an environment privileged these investments and for a season allowed owners of these industries and their financier's access to almost undreamed of riches. Bankers like Goldman, Sachs provided investment opportunities that at least gave the appearance of superlative prospects. Wall Street's financial kingpins enriched themselves, and as is now evident, often at the expense of their customers. Critics charged that Goldman gained

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<sup>272</sup> Wolfe, Tom, *Bonfire of the Vanities* (New York, 1989).

handsomely for its advice to Gannon and Montana Power, with many employees and shareholders paying dearly as this allegedly self-serving advice blew up.<sup>273</sup>

Return on assets would quickly prove a crucial topic for Montana Power. The stock market prices shares based on the earnings power, adjusted for risk and growth characteristics. A regulated utility can usually count on a steady, not particularly risky stream of income. For example, a dollar of income translated into about ten dollars of share prices. Many of the investors in the firm, including a good number of state residents, owned the Butte enterprise for its purported safety and generous dividend. Montana stock brokers often placed the power companies' securities into retirement accounts. The market's verdict: a solid company with only modest growth potential.

That kind of steady business endeavor did not appeal to the Wall Street of the 1990's. Whims of share investors and stock touts gravitated toward novel businesses with dreams of unlimited future potential. The Dot.com stocks epitomized this market. New firms, with little or no track records, saw the prices of their shares rise fantastically. These firms traded at lofty price-earnings ratios, often at 80 to several hundred times earnings. Some new companies had no profits at all and traded at infinite PE's. A dollar of earnings per share from one of these firms might cause a stock price of \$80 to \$100 dollars. To stock purchasers, these profit dynamics compared favorably to the rather measly ten dollar price spike that a stable firm like Montana Power with a PE of ten or so

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<sup>273</sup> *New York Times (NYT)*, 11/26/2001, p. c1, *NYT*, 5/5/2002, p. c9. *NYT*, 5/23/2002, p. c1. *NYT* 10/27/2002, magazine, pp. 6,44. This article notes that Goldman, Sachs joined Deutsche Bank, Bear Stearns, Morgan Stanley, Lehman Bros., JP Morgan, Chase and UBS in agreeing to pay the government almost one billion dollars in fines for knowingly misleading their investment clients with inflated views of certain companies prospects. These financiers painted rosy prospects for the stocks of companies for which they had underwritten securities. Many of these same firms experienced gut-wrenching drops in share prices and many went out of business during the Dot.com bust.

might receive for a single dollar increase in the bottom line. The telecom industry quickly emerged as a favorite in this cauldron of speculation.<sup>274</sup>

Industry and stock analysts saw the glass fiber optic lines replacing older technologies for data transmission, thereby creating a completely new set of industries. Goldman, Sachs analysts created what they called the “one hundred day rule.” This measure posited that fiber optic network capacity would double approximately every one hundred days. Instead of doubling every decade, as in the projections for Colstrip, these networks would double in little over a mere quarter. A wide spread belief in some version of this metric powered a veritable land rush into this business on the part of executives, investors and investment bankers.<sup>275</sup>

Executives in enterprises favored in the late 1990’s bull market often received substantial compensation in stock options and/or stock. Many of the early entrants profited richly as their companies’ shares rose astronomically. For example, an executive oversees a company whose earnings rise one dollar per share in a given year. Given the magic of large price earnings ratios, such an increase in profits could cause a stock price increase of \$100 per each share. If this executive had 10,000 shares or options, his gain would be \$1,000,000. An important executive might have well over 100,000 shares or stock options. The gain from this perquisite would enrich the beneficiary by \$10,000,000. Benefiting from this profit calculus, erstwhile college dropouts and computer geeks in their early and mid-twenties quickly amassed huge fortunes in start-up enterprises.

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<sup>274</sup> *NYT*, 3/18/01, Sec 3, p. 1.

<sup>275</sup> *NYT*, 10/21/97.

Seasoned executives in other enterprises could only stare with envy at the luck of these young entrepreneurs.<sup>276</sup>

One can easily see that management in staid businesses might press their noses against the glass of this magical candy store and contemplate how they might enjoy such treats. This proved true for Montana Power management. Unlike many companies, the utility did have a beachhead in this exciting business. In the 1950's Montana Power had formed a tiny firm to take advantage of the firm's microwave expertise:

Telecommunications Resources Inc. Over the years, the utility added several other small firms to this mix, concluding with the purchase of long distance service provider, Touch America, in 1990. This operation grew smartly and made excellent profits, becoming a star in the firm and a favorite of Gannon. He saw this in-house telecom firm as a potential powerhouse.<sup>277</sup>

#### Management's Case & the Debate

Executives saw the environment for electricity generation as quickly becoming more risky. Montana Power faced collapsing electric power rates and competition from very low cost electricity generated outside of their old territorial borders. The utility needed pricing flexibility that an end to pricing controls would bring. The firm posited that the opportunity to mold this newly competitive environment for the benefit of its customers and shareholders. In a deregulated market, Montana Power and other entrants into the territory could help guide consumers into the brave new world of consumer

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<sup>276</sup> *NYT* 5/27/2001, Sect. 3, p. 1.

<sup>277</sup> *Missoulian*, 10/24/2003, p. 2.

power choice. The new energy environment allowed the utility to press its views in a newer and more compelling manner.

In the 1990's, power costs started to work their way lower. Stable to lower electricity prices in the Northwest caused the company to fear that future competition might drive rates even lower. Abundant and inexpensive natural gas created this problem for the power company. A gas glut existed in the country at the time. The price of one thousand cubic feet of natural gas fell to two dollars. This inexpensive fuel stock allowed for the entry of the combined cycle combustion engine into the Northwestern power equation.<sup>278</sup>

Literally a jet engine on a platform, this turbine allowed energy companies quickly and inexpensively to set up small power plants that produced inexpensive, clean power. This innovation alone would normally not have troubled the utility. Longstanding legal territorial restrictions would have kept most if not all of this power out of the state. However, two factors emerged that gave the Butte management great concern. In 1992, Congress responded to the antiregulatory zeitgeist by passing the Energy Policy Act (EPACT), which adjusted energy regulations to substantially eliminate the territorial protection afforded to power companies. In 1996, the Federal Energy Regulatory Commission ordered utilities to permit wholesale wheeling of electricity from sellers outside their territory to large customers within those boundaries. The old territoriality rules no longer stood in the way of customer purchasing current from other sellers in other areas. This placed the Butte firm in a quandary.<sup>279</sup>

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<sup>278</sup> Judge, Patrick, *Montana's Power Trip: Electric Deregulation, Consumers and the Environment*, Master's Thesis, Missoula, 2000, p. 10.

<sup>279</sup> Judge, *Montana's Power Trip*, pp. 3-4, 24.

Montana Power remained a low cost producer, but not necessarily in the region. Oregon, Washington and Idaho utilities had somewhat lower rates. New entrants with cheap new gas turbine power figured to price power at even lower levels. Small consumers and businesses, of course, would not buy current from out of state. However, the state's major industries would be quite anxious to do so in order to lower power costs. Making matters even worse, these larger Montana energy customers had also experienced flat business conditions and showed little potential for growth in energy usage.<sup>280</sup>

Removing these regulatory constraints from the Northwest Grid turned the firm into a small player in a very big market. The utility had no power to direct events; the company became a mere chip in a turbulent sea of energy sales. Deregulation appeared unstoppable and potentially lethal.<sup>281</sup>

Ironically, it should be noted that within a few years, the gas surplus that had supported lower prices evaporated and gas turbine electricity rates rose smartly. High electrical prices from these units relegated many of them to supplemental, peak power providers. The Butte management had assumed that low gas prices would remain unchanged. This replicated the firm's over-reliance on unrealistic straight line projections for future growth of electricity use that falsely informed the firm's Colstrip development decisions.

Gannon pushed for a legislative fix to the regulatory issue by forcing the state to forego control of electricity production pricing. The utility used SB 390 as its vehicle to

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<sup>280</sup> *Missoulian*, 10/24/2003, p. 2; Judge, *Montana's Power Trip*, p. 29.

<sup>281</sup> Burke Interview.

accomplish this change. The firm presented a plausible case. While opponents also had a powerful battery of arguments against the bill, the political configuration of Montana in 1997 rendered these reservations moot.<sup>282</sup>

Montana Power and its supporters in the legislature made five major points in proffering their proposed solution to the firm's problems. First, the proposed legislation would allow the state to choose how to deal with the emerging and inevitable world of deregulation. Quick action would allow Montana to shape events rather than react to them later, in perhaps less favorable circumstances.<sup>283</sup>

Second, big customers could and would leave the system. Bob Anderson, then a PSC member, stressed that abundant gas stocks and improvements in energy conversion technology would create sufficiently lower electricity prices that would draw off major power users from the Montana Power system. Third, the high cost of regulated power would inhibit new firms from relocating or expanding operations in the state. Fourth, competitive markets would facilitate improvements in efficiency that would ultimately translate to lower costs for smaller customers. Lastly, while unforeseen problems would arise with the end of governmental controls, these issues could be easily dealt with in the future.<sup>284</sup>

Opponents countered the pro-deregulation groups on the preceding five points and more. Foes of SB 390 represented most Democrats as well as consumer and environmental activists. First, the move to remove or constrain utility regulation had only just commenced and the situation did not require speed. Only high cost states had freed

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<sup>282</sup> *Missoulian*, 10/24/2003, p. 2.

<sup>283</sup> Judge, *Montana's Power Trip*, p. 38.

<sup>284</sup> *Ibid*, pp. 38-39.

power generation pricing from the aegis of state approval. Unlike Montana, these states had very high cost electrical power. They had deregulated to allow in cheaper power from other much lower cost states-like Montana. No low cost state had removed its pricing prerogatives. Also, if deregulation proved as inexorable as SB 390 proponents proclaimed, the federal government might well come in with a national pricing initiative that would override any previously enacted state laws.<sup>285</sup>

Second, foes of SB 390 claimed that proponent's assertion that the state's top energy users would leave the system represented a straw man. The state merely needed to impose stiff exit fees on large customers desiring to exit the system. This represented another way of alleviating a potential "stranded cost" problem. The third point of the pro-SB 390 advocates, that continued regulation would act as a bar to bringing new businesses into the state, represented another chimera. The PSC had shown flexibility in coming up with attractive rate schemas for companies entering the state. Montana still had low power costs and the state could always create ad hoc tax incentives to entice desirable firms to Montana.<sup>286</sup>

Fourth, consumer groups argued that consumer choice would probably only occur for the largest Montana Power customers. Big business gained by this legislative change, but improvements projected by the utility for retail customers had not yet occurred anywhere. These benefits existed only in theory and might very well prove illusory.<sup>287</sup>

Those working to defeat SB 390 also pointed to what they called the "stranded benefits" in the current system; price caps, special conservation programs, aide to low

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<sup>285</sup> Judge, *Montana's Power Trip*, p. 41. The high cost states were CA, PA, NY and RI.

<sup>286</sup> Judge, *Montana's Power Trip*, pp. 41-42; David Ewer Interview, summer, 2005.

<sup>287</sup> Judge, *Montana's Power Trip*, pp. 43, 46.

income customers and renewable energy programs. Removing price controls opened customers up to large rate increases in the future. SB 390 contained a Universal System Benefits Charge provision to continue subsidies for these worthy projects. However, the utility would only be on the hook for four years. True price competition might cause the power firm to drop or lower these subsidies in the future. The deregulation package also presented possible problems in regards to employment at the Butte enterprise.<sup>288</sup>

Progressive opponents of freeing Montana Power from price controls pointed to job losses at the firm. By their calculations, in preparation for deregulation during the 1990-1997 time period, the Butte enterprise shed six hundred jobs. A really competitive electricity market might force the utility to make additional steep job cuts.<sup>289</sup>

Lastly, SB 390 represented a permanent decision. The genie of deregulation could not be rebottled. Hasty decisions that proved calamitous subsequently might not be reversible.<sup>290</sup>

The debate missed one obscure, but significant factor. SB 390 granted the utility; a major triumph: the end of price regulations based on now ancient accounting. The rates that Montana Power could charge on the generation of power and pumping of gas were constrained by a regulatory price scheme that factored in the historic acquisition cost of dams and gas fields. The utility's construction of rates to be approved by the PSC had to take into account the regulatory cost of the dams at the time the facilities were constructed. Some plant entered the firm's books at the turn of the century. This rate base did not change over time. In fact, with the case of the Butte firm, we saw the FPC, in the

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<sup>288</sup> Ibid, pp. 42-43.

<sup>289</sup> Ibid.

<sup>290</sup> Ibid.

1940's, actually order the lowering of these accounting values. The power company could now fetch far higher prices in the open market for these legacy assets. The same went for natural gas assets that were developed in the 1930's and 1950's (We will revisit this factor when we discuss the stranded costs controversy). Unfortunately for those who attempted to thwart the utility's legislative ambitions, they faced a hopelessly uphill fight.

The politics of the 1970's often left Montana Power at the short end of the stick. They faced an increasingly green, Democratic legislature and a reform-minded governor from that party. In 1997, however, the state's political power constellation had reversed completely. Gannon and his associates now held almost all the cards. Four factors accounted for this state of affairs.

First, the Republicans utterly dominated both houses of the legislature. They held sway in the Senate, 34 to 16 and in the House 64-35. The vast majority of these representatives held a deep ideological commitment against state intervention in business affairs, and needed little persuasion by the firm. In addition, Montana Power still paid \$140,000 for eighteen full-time lobbyists to work both legislative bodies. Moreover, Jack Haffey, the Chief Operating Officer of the utility had served in 1981-1987 as a state senator from Anaconda and had many friends in that chamber. Second, the Republican governor, Marc Racicot, also a thoroughly firm free marketer, supported the company fully in this matter. Third, some influential Democratic lawmakers from Butte and Great Falls felt that they needed to support this major local employer.<sup>291</sup>

Fourth, SB 390 proponents had designed the legislation to appeal to other powerful players that might be tempted to oppose the company. The state's twenty-six

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<sup>291</sup> Judge, *Montana's Power Trip*, pp. 37, 59; *Missoulian*, 10/24/2003, p. 2; David Ewer Interview.

powerful electrical cooperatives had the option to not deregulate. That also proved to be the case for the state's other utilities, PacifiCorp (northern corner) and Montana-Dakota Utilities (Eastern Montana). The legislature gave these businesses extra time to adapt to deregulation. Unsurprisingly, the deregulation package passed easily. The Republicans introduced SB 390 on March 3, 1997. After a few minor amendments, both chambers passed the bill and the governor signed the document on May 2, 1997. This seemingly important legislative action received no hearings or committee work. Frustrated opponents of the plan saw Montana Power dominance as all pervasive. They accused Republican lawmakers of acting like ventriloquist dummies with the company pulling the strings and placing words in their mouths. Gannon's victory appeared complete. Unfortunately for him, one detail had not been fully handled: stranded costs.<sup>292</sup>

### Stranded Costs

Stranded costs represented past investments that became uneconomic upon conversion to a competitive environment. Newly deregulated power companies argued that they should be reimbursed for any of these costs. Utilities had been successful in pushing this concept, as firms in other industries usually do not receive this consideration. Industry opponents considered the concept a form of corporate welfare. When these stranded costs have been identified, customers normally face price increases to reimburse the utility in question for the loss of value due to deregulation. Montana Power argued that it had invested a great deal of money into the Montana production plant, mandated conservation and green projects, and major transmission facilities. They

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<sup>292</sup> Judge, *Montana's Power Trip*, pp. 51-52.

believed that their ratepayers therefore owed them a substantial sum of Money in compensation for these investments; perhaps as much as a billion dollars to make up for stranded costs. Having the customers come up with a large settlement served as the second key to this transaction. As per Montana state law, the utility demanded a reckoning of accounts with its clients.<sup>293</sup>

Representatives of the Butte firm argued that without this, the firm could not price competitively in the newly freed current markets. To stay with the old asset values, the firm would need to charge uncompetitive high rates and go out of business. The return of sunken costs would essentially compensate the power company, allowing the firm to write down its plant investments to reflect new, competitive market values and charge commensurately less for power and gas.<sup>294</sup>

Montana Power engaged in some slight of hand, which if taken at face value, would have significantly advantaged the firm. Gannon and his associates wanted only to state assets that had lost value from deregulation. They did not want the state to net out the gains or stranded benefits that had accrued to the firm over time. The firm's hydroelectric capacity stood on the books for next to nothing, yet these assets would be worth a great deal in current markets. A net approach that balanced the gains of deregulation to Montana Power, as well as the prospective costs incurred would certainly lower if not eliminate any monies owed by the ratepayers to the company. Much to the regret of the utility, Helena officials took this net approach.<sup>295</sup>

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<sup>293</sup> Judge, *Montana's Power Trip*, pp. 77-79.

<sup>294</sup> *Missoulian*, 10/24/2003, p. 2.

<sup>295</sup> Judge, *Montana's Power Trip*, pp. 82-83.

Over the history of the firm, ratepayers for gas and electric power repaid the utility a portion of its investment back with every bill. Montana Power apparently firmly believed that these payments from the earliest days of the company did not equal the lower, new values created by a removal of rate regulations. The opposite situation could also exist; the customers had overpaid the utility and stood to receive a rebate. The Butte management apparently ignored this alternative when crafting SB 390.

In the language of the old west, the utility issued a challenge to the government of Montana: stand and deliver. The state delivered. Under the previously supportive Racicot administration, Helena officials calculated that the electricity manufacturer owed hundreds of millions of dollars to its clients. The question of an immediate and substantial payment to the state treasury came to the fore.

Tremendous disagreement broke out over the value of the Montana Power. Gannon stated that the firm suddenly found itself under a financial cloud. They could not agree with the state over value and the going to debt markets to pay off a settlement with the state risked financial ruin. An arms length sale of the firm's dams and coal plants would fix value and provide a means of immediate payment.<sup>296</sup>

Supporters of Gannon, like Tom Powers, a University of Montana economist, agreed with Gannon's assessment. He believed Montana Power had become a victim of forces beyond his control. The basic production facilities fetched a hefty \$988,000,000 from a subsidiary of Pennsylvania-based Pennsylvania Power and Light (PPL). This sale served as a prelude to the wholesale liquidation of the energy enterprise. The lion's share

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<sup>296</sup> *Missoulian*, 10/24/2003, p. 2.

of these funds found their way into the burgeoning Touch America operation. Litigious shareholders and many members of the public rejected the Montana Power narrative. Their take on these events presented Gannon, the rest of senior management and Goldman, Sachs as interested only in selling the old Montana Power and enriching themselves in the telecom business.<sup>297</sup>

### The Legal Narrative Against Gannon and Associates

Joe Cotchett, a crack San Francisco litigator, spearheaded a legal team that challenged Gannon's view of events. These attorneys represented a number of remaining shareholders of Touch America (Montana Power had formally disappeared). Litigants have dubbed the case "Plan Trust." These shareholders sued the bankruptcy entity of Touch America (Plan Trust of Touch America Holdings), Goldman, Sachs, the law firm of Milbank, Tweed, Hadley and McCloy LLP, as well as senior Touch America Executives such as Gannon and Haffey. The suit charged among other things, fraud, deceit, and concealment, breach of fiduciary duty, professional negligence and unjust enrichment. The plaintiffs sought declaratory relief.<sup>298</sup>

The defendants fought unsuccessfully to have the charges dismissed. The case today remains in limbo, with some ongoing settlement discussions. The suit has caused principals, such as Gannon, to cease discussion of Montana Power and Touch America issues until the end this litigation process. The Plan Trust suit detailed a very different story of the sale of Montana Power assets, the creation and demise of Touch America.

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<sup>297</sup> *Missoulian*, 10/24/2003, p. 2.

<sup>298</sup> Case CV-04-87-BU-SEH. Case materials obtained from Federal Court in Great Falls; Website superlawyers.com. 2005 Issue. Publication part of *San Francisco Magazine*.

In this view, Goldman, Sachs in collusion with Gannon and other former Montana Power executives as well as Milbank, Tweed collectively worked to liquidate the power assets of the old Butte firm. The complaint asserted that Goldman, Sachs, “greedy for the huge fees it would earn, devised a scheme where Montana Power would sell all of its energy assets and invest the proceeds in its telecommunication subsidiary.” Further, the investment banker knew that asset prices in the telecommunication business had become over-priced and very risky. The Montana Power executives considered Goldman an expert in all aspects of the energy business. Milbank, Tweed knew Montana Power needed shareholder approval for the asset sale and issued a legal opinion that deprived the shareholders of their legitimate right to veto the transaction.<sup>299</sup>

The New York financiers had an extensive relationship with the utility that allowed both the opportunity and motive to loot the Montana Power. The complaint stated that Goldman had worked with the utility since September of 1985, had been lead underwriter in three first mortgage bond offerings, and had provided diverse consulting services. The plaintiffs alleged bank personnel had worked closely with the policy leadership group in the early 1990’s at Montana Power. This inner circle of key executives included Gannon and Haffey as well as another half-dozen senior managers of the power company. These bankers and utility executives worked on ideas of restructuring and wound up pushing the divestiture agenda. According to this thesis, Goldman pushed the concept that selling electric power production as soon as possible to avoid a collapse in prices due to deregulation.<sup>300</sup>

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<sup>299</sup> Case CV-04-87-BU-SEH, Complaint, pp. 1-3.

<sup>300</sup> Ibid, Complaint, pp. 11-12, 18-20.

Gannon intended to liquidate the utility and completely to move into telecommunications all along. The Butte management pursued the deregulation drive as a ruse to lift price controls on the firm's most productive energy assets, creating the opportunity for a much higher sale price for these power plants. The deregulation case put forward by the utility overstated any potential benefits.<sup>301</sup>

The Butte enterprise quickly liquidated the rest of the remains of Montana Power in four quick strokes. In August, 2000, all of gas and oil properties went to PanCanadian Petroleum Ltd. of Calgary. In September of the same year, Westmoreland Coal purchased the lignite assets in Eastern Montana. A few days later, the BBI Power Company bought an assortment of power assets for \$84,000,000. To complete the liquidation, NorthWestern Energy of South Dakota successfully bid on the distribution system that remained. These actions created a \$2,700,000,000 war chest for the expansion of the telecommunications operations.<sup>302</sup>

Gannon and his new Touch America team quickly put these funds to work, placing fiber lines down, constructing the 18,000 miles of fiber optic infrastructure. This construction came in the teeth of a telecommunications market that weakened and then went into free-fall. Many of these lines never linked up to any customers. The plaintiffs asserted that Goldman, Sachs possessed knowledge of these events and the potentially dire implications for the new entity. In support of this assertion, the attorneys quoted a purported E-Mail between two employees of the firm. Lee Michael, an employee of the investment bank in a memo to a fellow Goldman associate in London,

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<sup>301</sup> Ibid, Complaint, pp. 22-24,

<sup>302</sup> Ibid, Complaint, pp. 26-29, Exhibit 7.

characterized the situation (TA's fiber optics infrastructure construction program) as "this situation is going from bad to worse. If I had a gun I would now blow my brains out.... Why get professional advice if all you want to do is go and screw it up on your own."<sup>303</sup>

These are strong allegations, clearly setting forth the truth as these frustrated shareholders and their counsel saw events unfolding. They present a strong circumstantial case. The key to their argument flows from the financial rewards, in the present and potentially in the future, received by each of these parties: Montana Power management, Goldman, Sachs and Milbank, Tweed.

The complaint explained in detail why management, particularly Gannon, would be motivated by purely self-interest to sell Montana Power. In the new Touch America, Gannon's base salary rose from \$297,500 in 1997 to \$500,000 in 2001. The brief did not touch on the topic, but if successful in establishing a successful telecom operation, Gannon and his team could expect a large package of stock options that would be worth many millions of dollars to them. Had Montana Power remained as a utility with some telecommunications subsidiaries, the remuneration of these executives would have been materially lower.

The Board of Directors created a \$5,200,000 "golden parachute" agreement for the five top managers. Gannon's portion amounted to over two million dollars. A change of ownership triggered the parachute payment. Boards of Directors usually enter into these arrangements to retain key executives by giving them a substantial financial cushion to allay the fear that another entity might take over the firm and remove them.

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<sup>303</sup> Ibid, Complaint, pp. 30 (paragraph 78).

However, the change from Montana Power to Touch America had been mandated by the Butte executives themselves and no change had been contemplated in the executive suites. Gannon and his associates would only receive these bonuses if they liquidated the utility and turned the firm in to a new entity.<sup>304</sup>

Clearly, the plaintiff's make a substantial case against the defendants. Lopsided financial incentives certainly could have motivated their behavior. Litigation induced silence by the accused precludes a full venting of the defendant's side. However, an alternative explanation may put these payments in a different light. Gannon presided over an operation that had just seen the firm's share price rocket from roughly twenty-four dollars a share to over eighty. The golden parachute may have served as a convenient vehicle to grant the Montana Power head and his key people a substantial bonus for vastly increasing shareholder wealth (Remember, this all occurred before the bust, when Gannon still received plaudits from investors for his business acumen).<sup>305</sup>

The accusers made much of the greed and lack of integrity of Goldman, Sachs. The firm would only receive its very large fee if the investment banker actually sold Montana Power assets. They claimed that the Wall Street firm had an enormous incentive to mislead Montana Power. The fact that the investment house had been fined \$110,000,000 for misleading its clients served to burnish the case against them. The complaint further alleged that Goldman had also founded an effort within their firm to buy utility assets for themselves and other investors at the same time that their

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<sup>304</sup> Case 03-11915(LJC), District of Delaware.

<sup>305</sup> Burke Interview.

representatives urged Montana Power to sell the same assets; clearly a major conflict of interest.<sup>306</sup>

Milbank, Tweed received the bulk of the \$10,000,000 in legal fees billed for work on the sale to Pennsylvania Power as well as other fees. This group of attorneys occupied a place in the inner sanctum of elite law firms. Clients must pay exquisitely large fees for services rendered. The appropriateness of their compensation and the efficacy of the opinion letter can only be determined in court.

#### The Quick and the Dead

Robert Gannon stands astride both narratives. The former CEO of both Montana Power and Touch America represents a Nixonian figure. What did he know and when did he know it? We can evaluate his public actions and the results of those actions on the various actors in the Touch America drama. While he made public pronouncement on these issues, his actual inner thoughts remain unknowable. A close scrutiny of these actions may give us some insight into his thoughts and motivations during the SB 390 debate, the sale of Montana Power assets, and the Touch America experience story. In his actions, Gannon created two parties in this story: the quick and the dead.

The quick comprised two major factions: shareholders and vendors. Able to sell stock at prices in the 80's, long-term investors in Montana Power benefited nicely from the CEO's activities. So did the speculators who bid up the Butte firm as the company's plans to invest heavily in telecom found favor in the ebullient market for these shares.

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<sup>306</sup> Ibid, Complaint, p. 32..

Consultants, bankers, and attorneys also received handsome rewards (though some of them now face litigation over those fees).

The dead contains a much larger collection of aggrieved parties: shareholders, rate payers, state of Montana and the employees of the firm. Investors, including many employees and other Montanans, who did not fully realize the nature and very risky prospects of Touch America, held on to these shares and experienced substantial losses. After 2000, consumers, small businesses as well as large energy users saw large spikes in their rates. Regulation no longer protected them. The state of Montana, and the city of Butte in particular, lost the area's only Fortune Five Hundred firm and the hundreds of high paying jobs that go accompany corporate home office sites. Gannon clearly did want or expect this denouement. But, in this whole process, what did he really want? Did he stumble into the creation of Touch America or did he have a strategy to create the telecom entity well before the introduction of SB 390? Given the timing of events and the heavy financial incentives to proceed with Touch America, one has to strain to give the former CEO the benefit of the doubt. Several factors lead to the belief that he kept looking for a way to create a major fiber optics business with the proceeds from the energy assets, the speed of the deregulation process, the rapid sale of the rest of the company, the clear lack of a plan to the newly decontrolled residential electrical market, the expeditious movement of sale proceeds into Touch America and the expenditure of those funds in the face of a collapsing market for fiber networks. Deregulation provided the key to his desires and the bubbling telecom market the goad to his personal vision of telecom riches.

For any utility, the removal of price restraints represented a very good thing. The ability to construct profit maximizing rates, without any restraint by historical cost accounting came as a boon to the firm and its shareholders. Yet Gannon still pursued SB 390 with great haste and determination. The immediate business situation did not warrant such a quicksilver approach. The potential problems with competition lay over the horizon. Perhaps he felt that he needed to take advantage of a political balance that had moved decisively in his favor. The current favorable situation could erode quickly. However, it must be emphasized, that a much higher sale price for the power generation assets could not occur without the passage of SB 390.

Gannon's approach made perfect sense if he intended to sell the company all along. This cast the stranded cost/stranded benefit gambit in a different light. If he prevailed with Racicot as he hoped, Gannon could then have a large payment from the state as well as proceeds from the sale of Montana Power to place into the fiber optics business. If, as it turned out, that the state made him pay stranded benefits, the governor gave him a perfect excuse to sell the firm. At this time, the telecom shares had heated up. The short-term economic trends suggested that monies invested in telecom would produce riches, but investment in electric power represented essentially dead money.<sup>307</sup>

If Gannon did not intend to put the company into play, he certainly looked foolish. If the possibility that the state might find stranded benefits had not occurred to him or his associates, this represented a major failure of management at the Butte firm. Any prudent executive would have checked these contingencies out. In the favorable

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<sup>307</sup> During the discussions before the stranded benefits ruling by the state, there had been talk that the state would pay any stranded cost money to Montana Power and Helena would be reimbursed over time.

political environment, the firm had a lot of options. If they wanted to stay in the power business, they could have easily gotten the legislature to pass a stiff exit fee for any large customer that wanted to leave the Butte firm's system. The firm clearly had the time and power to act deliberatively. Of course, Gannon's actions may have represented the old mindless "bull-it through" approach we saw in the Colstrip project. This may reinforce a theme of general incompetence of the firm at this time. However, haste to get into the telecom business seemed to be a more likely culprit.<sup>308</sup>

In addition, Gannon viewed himself as a market driven, progressive business executive. He ran the enterprise to maximize profits to the shareholders. He did not work for the state or the people of Montana. He had seen the power company go through a generation of austerity and flat growth after Colstrip. In his eyes, the new world of fiber optics had to offer a lucrative way out of an increasingly unprofitable energy business. A rapid rise in the share price of the enterprise undoubtedly justified his actions and steeled his resolve to persevere to build Touch America.<sup>309</sup>

Gannon rapidly hawked the rest of the non-telecom assets. This action offered another clue to his intentions. If the firm feared lower energy prices, selling the remaining power and natural gas assets made perfect sense as the price off these assets would decline along with charges for natural gas. However, selling the distribution system did not. Electric and gas rates remained under price controls. If energy prices continued to decline, the distribution system could get ever -cheaper inputs and improve margins. Regulated rates would decline more slowly than spot market rates. Clearly, the decks

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<sup>308</sup> David Ewer Interview.

<sup>309</sup> *Missoulian*, 10/24/2003, p. 2.

needed to be cleared to put all funds into the new venture where much higher returns could be realized.

Another clue emerged after deregulation. Consumers had been promised a great deal in the debate on SB 390. However, Montana Power did very little to open up more choice after May, 1997. Apparently the Butte firm had lost interest in the power business by then.<sup>310</sup>

As we have seen, Gannon restructured the firm and dedicated all remaining funds to the construction of glass cable systems. Gannon turned into a modern version of Ahab, plunging ahead with an aggressive investment program in spite of the accelerating collapse of the telecommunications industry. During this period, observers of the industry commented on the increasing network saturation in key markets and a potentially enormous glut of capacity in the pipeline. Gannon persevered nonetheless. His fiber network along with many others traded at three to five cents on the dollar in a couple of years.<sup>311</sup>

One interesting aspect of the Touch America story occurred in Gannon's decision to utilize his management team from Montana Power to staff the expanded Touch America. The overwhelming experience of the utility industry predicted poor results from such an approach. Executives from monopolistic businesses usually do not perform well in competitive environments. Exacerbating this problem, the telecom entity expanded greatly and for all intents and purposes represented an even more difficult business test; a

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<sup>310</sup> Judge, *Poles Apart*, pp. 188-195. Very little interest emerged in the state to bring Montana consumers the benefit of deregulation. The opponents of SB 390's charge that the deregulation argument represented a ruse to achieve the firm's corporate goals became difficult to refute.

<sup>311</sup> This may have been the problem that Lee at Goldman, Sachs may have referred to in his E-mail. The newly created networks had few, if any, customers.

start-up. Obviously, Gannon firmly believed the metaphor that his crew could lay lines of glass as easily as they could copper. The thousands of miles of unused cable systems, as well as the vanished billions gave lie to this assertion. The disappearance of almost all the worth of the firm in such a short period represented a management failure of astonishing proportions. Yet the Board of Directors and investors barely questioned Gannon's presumption. In the fabulous, magic Dot.com bubble, Gannon's plans seemed more probable than most.

In the end, given his ideological presuppositions, one can easily see Gannon believing that he inhabited a virtuous, charmed circle. He accomplished a positive good for all in deregulating electricity and gas. Investors then applauded his sale of the energy assets and the company's aggressive move into telecom with an ever-increasing stock price. Certainly, the investment in fiber infrastructure would yield riches. The strong financial incentives he and his associates received clearly reinforced this thinking. He certainly would have had to make a significant personal economic sacrifice to stay with the energy business.

### The Tale Comes to an End

The Montana Power Company now joins the Anaconda Company in the sepia tinged album of the state's past. Unlike ACM, the power company did not leave behind monuments to Montana's rough and tumble industrial past, such as the Berkeley pit or the giant abandoned smelter in Anaconda. The financial legerdemain that created Touch America acted very much like a neutron bomb. All the facilities remained, but the human

structure disappeared. Montana Power may have vanished, but the electrical revolution that has transformed the planet over the last century and a quarter continues.

The forces that forged and strengthened the Butte firm continue in force. Higher energy prices curtailed further deregulation efforts. Power companies remained socially constructed monopolies described by David Nye. Unlike the communications revolution set off by invention and innovation in telecommunications, no appreciable innovation has occurred in the delivery of electricity. The network of power discussed by Thomas Hughes, has matured in the United States, but continues to experience steady growth in a society with an ever-growing appetite for AC power. Moreover, the newer parts of the global electrical system, particularly India and China, have experienced the systems momentum enjoyed by the Butte firm earlier in its history.

History sometimes offers maligned individuals a palimpsest: with the passage of time allowing for a change of perspective that lightens original harsh judgments. However, for Gannon, the final failure of Touch America probably cast in stone the public perception of him as a knave or malefactor. Even an acquittal in the court of law will not free him. Instead of joining Ryan and Corette on some veritable Mt. Rushmore of corporate achievement, he will undoubtedly be remembered as the man who destroyed Montana's last, best company.

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APPENDICES

APPENDIX A

1937 MONTANA POWER COMPANY SUBSIDIARY CHART

Table 1. Acquisitions of the Montana Power Company, 1912-1933.

<b>City and Company</b>	<b>Date</b>
Lewiston Electric Light & Power	1912
Choteau Milling & Power	1913
Conrad Electric & Power Company	1913
Havre Electric Company	1914
Benton Electric	1916
Harlowton Light & Power Company	1916
Roundup Electric Company	1919
Bridger Coal & Improvement Co.	1921
Melstone Dist. System	1922
Bear Creek Water & Light	1922
White Sulphur Springs Dist. Sys.	1923
Valier Townsite Co.	1923
Chinook Dist. System	1924
Stockett Dist. System	1924
Hardin Light & Water	1924
Dodson Dist. System	1925
Denton Dist. System	1925
Harlem Dist. System	1926
Malta Light & Power	1926
Glasgow Dist. System	1928
Missoula Public Service	1929
Helena Gas & Electric Co.	1929
Deer Lodge Electric Company	1929
Absarokee Dist. System	1930
Belfry Dist. System	1930
Granite County Power Company	1931
Harrison Dist. System	1933
Basin Dist. System	1933
Anaconda Electrical Properties	1935

Appendix based on the 1937 Montana Power Company Subsidiary Chart.

APPENDIX B

FACILITY ROSTER

Table 2. Description of Power Developments, Reservoir and Transmission Systems of the Montana Power Company, 06/01/13.

<b>Completed Hydroelectric Plants (Date)</b>	<b>Installed Capacity in Kilowatts</b>	<b>Installed Capacity in Horse Power</b>
Rainbow Falls (1910)	27,000	36,000
Black Eagle Falls (1913), reconstructed 8,000 HP	3,000	4,000
Hauser Dam (1911)	14,000	19,000
Canyon Ferry (1901)	7,500	10,000
Madison #1 (1907) remodeled	2,000	2,700
Madison #2 (1906)	10,000	13,300
Big Hole (1898) Collapsed 1927, not replaced.	3,000	4,000
Livingston (1908), Enlarged	1,500	2,000
Billings #1 (1907)	1,080	1,400
Lewistown#1 & #2 (1913), remodeled	450	600
Prospect Creek (1912)	750	1,000
	70,280	94,000

Table 3. Steam Plants.

<b>Plant (Date Built)</b>	<b>Installed Kilowatt Capacity</b>	<b>Installed HP capacity</b>
Butte (1907)	5,000	6,600
Billings (1906)	750	1,000
Conrad (1910)	110	150
Phoenix (1895), Butte	250	330
Total Steam	6,110	8,080
Cumulative Capacity	76,390	102,080

Table 4. Developing and Projected Hydroelectric Facilities.

<b>Projected Dam</b>	<b>Projected Capacity in KW</b>	<b>Projected Capacity in HP</b>
Billings #2	1,200	1,600
Volta (Ryan)	60,000	80,000
Thompson Falls	50,000	40,000
Holter	30,000	40,000
Hauser (addition)	4,999	5,330
Projected Additions	125,200	166,930
Total Installed Capacity	201,590	269,010

Appendix based on the 1913 securities prospectus on The Montana Power Company prepared by the investment bankers J.N.W Seligman, Lee, Higginson & Co. and Guaranty Trust of New York. Legal review of the prospectus conducted by the law firm of Sullivan and Cromwell. All of New York. Document from MHS archives.