

THE KENORA ARBITRATION.

With the taking up of the awards by the parties interested two long-standing arbitrations have been brought to an end. The disputes have been dragged along through the courts since 1906 and related to the value of a partially undeveloped water power on the Winnipeg River expropriated by the municipality of Kenora.

The lands in question were situated on both sides of the Winnipeg River. One acre was originally held by the Keewatin Power Company, the other eleven acres on the other side of the river by the Hudson's Bay Company. In June, 1904, the Corporation of Kenora expropriated the properties, paying the Keewatin Company a sum of \$100, and the Hudson's Bay Company a sum of \$1,687.50.

In commencing the arbitration, however, the Hudson's Bay Company placed a valuation on their property of \$1,600,000, and the Keewatin Company of \$400,000. The difference in the valuation is explained as being the difference of the land as land and the land as a site for the Kenora power plant with a great potential future. It may be stated that when the suit was first begun the Crown claimed to have control of the river-bed and Power Company, but the claim was settled in favor of the Hudson's Bay Company.

The Board of Arbitration included, in addition to His Honor Judge Winchester, Mr. W. T. White, representing the Hudson's Bay Company; Mr. Hy. Holgate, representing the town of Kenora; and Mr. W. F. Tye, who joined the board in October as representative of the Keewatin Company.

The awards of the arbitrators are in favor of the Hudson's Bay Company for \$45,000, and the Keewatin Power Company for \$35,000, or a total of \$80,000, to be paid by the municipality of Kenora. The arbitrators were unanimous.

The effect of the judgment declaring the Crown lease invalid and of the award, is to give the town of Kenora not only the lands involved but the absolute title to the water power in addition for the \$80,000, whereas under the original clauses they would have got the land, paying a price for it, but the water power could only have been got by paying a yearly rent to the Government. The rent would be subject to revision every ten years, and naturally as the value would increase there could be expected a corresponding advance in the rental.

Because of the great interest in the value of water powers we give here a summary of the evidence put in by the expert witnesses called.

Leonard Davis: Thought \$350,000 was reasonable cost of development and \$100,000 to complete it. The real value of the undeveloped water-power was what the water rights could fairly earn; it would have to be attractive as an investment. This kind of investment involved higher rates of interest than regular form of security; especially where the market was speculative; if power could be sold the risk decreased. If the market was speculative the investor must be given a chance of making more than if there was a certainty of selling power.

An investor here would expect to get a return of 10 per cent for his money. Taking the cost at \$350,000—sinking fund, 2 per cent., equal \$7,000; insurance and taxes $2\frac{1}{2}$ per cent., equal \$8,750, and interest, 7 per cent., equal \$24,500; equal \$49,000, plus \$6,000 for operation, gives \$55,000, or \$22 for 2,250 horse-power. There was nothing in sight in 1904. The present lighting load was 700 horse-power to flour mill, to flour mill 1,000 horse-power, or a peak load of 1,000 k.w. The power for lighting should be fairly sold at \$25 per horse-power, giving \$17,500, and 1,000 at \$10 would be \$10,000, or a total of \$27,500, thus showing an annual deficit of \$27,500.

On the basis of 5,000 horse-power, the investment was \$450,000, and the annual charges would be \$67,500, and the cost of producing the power would be \$13.50. He agreed with Mr. Smith's rate of charge in making up of the annual cost.

Of the 500 horse-power, for which there was a market in 1904, he would capitalize it at 10 per cent., equalling \$5,000, or a rental of \$1 per horse-power. The balance of power—4,500 horse-power—there was no present sale for, and the future sale was prospective. The present installation had an annual charge of \$45,500. Bonds at 7 per cent. equal \$24,500; depreciation, 2 per cent. equals, \$7,000; insurance and taxes 2 per cent., equals \$7,000, making a total of \$38,500. General expenses, \$5,000; wages and supplies, \$8,000; repairs, \$2,000, equals \$15,000; making a grand total of \$53,500, a cost per horse-power of \$17.40.

Estimating the power sold at \$25 and 600 horse-power, it would equal \$15,000, and 1,000 horse-power at \$10 would equal \$10,000, making \$25,000, leaving a deficit of \$43,500—\$25,000, equals \$18,500. There was no market for 2,500 horse-power, and the plant was of no use commercially beyond 1,600 horse-power. Another 900 horse-power might be sold for power at say \$15, yielding say \$13,500, but still a deficit of \$5,000 would have to be met, so that even with a market of 2,500 horse-power, it could not pay.

If the town could take 2,000 horse-power, at \$25, equalling \$50,000, then 1,000 horse-power to the milling company at \$10 equals \$10,000, and the balance—2,000 horse-power at \$10 per horse-power, but assumed at \$15 per horse-power, then the receipts would be \$90,000, leaving an annual profit of \$22,500, or a profit of \$4,500 per horse-power, but this was purely speculative, as we could not tell when it would be realized. It must be discounted to its present worth. It may be fifteen or twenty years before they could sell the whole 5,000 horse-power, and he assumed the period as fifteen years, and for a prospective proposition of this kind an investor would expect 20 per cent. for so distant a venture. This made capitalization rate for unused power \$22.50 per horse-power, on a basis of \$4.50 profit. That would be in 1919, or fifteen years from the date of expropriation, and, discounted to present worth, would be \$1.45 per horse-power year.

For 4,500 horse-power, being the balance of unused power, it would be \$6,525, figuring as at 1904. He took \$10 for 1,000 horse-power because that was what was being received and \$15 for what was not being sold. They had, at the end of fifteen years, a speculative value of \$22.50 per horse-power, for the undeveloped water rights. That would be the whole value. The whole question was one of market.

Another assumption was made after twenty years, in which nothing could be paid for the speculative part. He thought the whole water-power in 1904 was worth \$10,000 cash. The population in 1904 should have been 15,000 to make it a commercial proposition. There was no justification for a larger development. It would not pay to operate an electric railway in Kenora, and the line of the G.T.P. would be more economically worked by steam than by electricity on account of the cost of installation.

Cecil B. Smith, of the firm of Smith, Kerry & Chace, Toronto:—Mr. Smith assumed an available market close by with a demand for the whole power. An 8,000 horse-power development could have been put in for \$300,000. He would compare the cost of producing hydro-electric power with the cost of a similar steam power installation. Hydro-electric power would cost \$9 per horse-power per annum. Steam power with full load would be worth \$50, and on a partial load \$40, then \$40—\$9 would equal \$31, making a difference of