

## ACCOUNTING OF PUBLIC UTILITIES

### Public Commissions and Their Powers—Independent Supervision of Accounts

No matter, whether publicly or privately owned or operated, those indispensable adjuncts to modern industrial, commercial and domestic life are "public utilities," and generally speaking, subject to the same control and regulation. Laws providing such control and regulation and establishing public utility commissions to apply the same, are being gradually extended throughout the United States. In Canada, the idea has taken root and will grow. To select for control and regulation this class of private corporation as distinguished from other mercantile institutions is quite logical when it is considered that a public franchise usually granted for a long term, perhaps in perpetuity, and almost invariably gratis or on favorable terms, is the foundation on which the undertaking rests. Such a franchise may mean the right to use the most valuable thoroughfares of a large city for tramway purposes, the right to dig up streets and install conduits and pipes, or to encumber highways with lines of poles and wires for purposes of communication, or for the conveying and distribution of a dangerous force. It has been said that such a franchise is but a part of the power or privilege of sovereignty allotted to a private person for the benefit of all, and only incidentally given for private emoluments, stated Judge Robson, public utility commissioner in an address before the Dominion Chartered Accountants' Association at Winnipeg. This delegation of sovereignty is even more conspicuous when the right of expropriation of private property is given as to many utilities, and always to through railroads is indispensable. Such is the unquestionable justification of the control and regulation of franchise corporations.

#### Jurisdiction of the Commission.

And when questions are put, why should any private corporation be required to render accounts to a public authority? Why should the private corporation be required to follow a system prescribed by such authority? the palpable answer is that the sovereign people are entitled to demand that it shall be disclosed to authority, established for the purpose, what benefits are resulting from the delegation of the public franchise to private interests.

In advanced jurisdictions public utility corporations are subjected to a special tribunal—namely, the commission whose jurisdiction enables it to control rates, to exact extended or improved service and to decide questions on all matters arising between the utility and a municipality or private citizen, and of equal or paramount importance to impose a system of accounting and periodical report of financial results.

For practical purposes there are a variety of reasons for such accounting. Many of the provisions of public utility acts are passed in the interests of shareholders, bondholders and mortgagees, in whose interest it is that there shall be supervision of accounts, and particularly that there be a due regard to depreciation, and by providing for depreciation funds or reserves ensure that capital is not impaired to make up dividends. The prominent instance of reference to such accounts is in rate questions to see if present traffic and the resulting revenues are such that reduction of rates may be ordered and still leave a fair return on the investment. The right to increase rates will conversely depend on the accounts showing that present traffic and rates do not produce such fair return. Improvements of service and extensions of plant and distribution equipment are frequently demanded. Here the financial capacity of the utility is a consideration and an inquiry thereupon is an essential proceeding.

#### Salient Purposes of Accounting.

Properly-kept accounts duly reported to a commission answer the question at once. In highly profitable franchises where rate reduction for some reason may not be possible, as in the case of fixed rates of street car fare, there is the alternative course frequently even more satisfactory, of requiring extended or improved service. All this is done in a spirit of the utmost fairness to the corporation. Proper accounting by such utilities is necessary in their own interests. Without a reliable system by which at any moment they can exhibit their financial burdens and gains they cannot meet attacks that may be made with only apparent justification. "One of the chief benefits to be derived from the standardizing of accounts is the possibility of comparing conditions in different places." Incidentally may be mentioned the power of a commission to require at any time an independent valuation or appraisal of a utility plant. This valuation provision is necessary in settling rate problems, the actual value of the plant and equipment, with cost of operation, being the true basis of rates. The valuation and accounting provisions are indispensable towards the supervision by the

commission of the issue by a utility of new stocks and bonds for which the consent of the commission is required. Such in a few words are the salient purposes of accounting in the case of private franchise corporations.

#### Self-Supporting Utilities are Desirable.

What about the like accounting by publicly-owned utilities, by which are meant municipal undertakings? Does the necessity for public accounting exist? It does, for some of the reasons mentioned, but also for others. It is necessary to consider for a moment the special nature of such enterprises. The end to be gained by the pledging of the public credit for the installation of public utility plants is not always the same. Water service now naturally falls in this country to municipal authorities. That cannot yet be said regarding electric or gas plants, telephones, telegraphs, railways or tramways. There are increasing instances of publicly owned and operated electric and gas plants, telephones and street railways. These may be instituted from different motives. It may be that the field is new and private enterprise not at hand, or that reduced price of service is sought to be secured by means of public competition, or that existing private undertakings do not cover the field, and public action is imperative or is thought to be beneficial to the community.

It seems to be the intention in this country that these publicly-owned plants shall not be expected to do much of anything in the way of making profits. This is so that the consumer may get service at cost. But equally well founded is the determination that such plants shall, when well-going, be made to pay their way and cast no burden on general taxation. Both private and public utility enterprises have their early periods of operating loss, while attaching business. Consideration must be given to this. In some municipal cases this loss may continue till the community increases in population, in which increase the very existence of the utility service in the community may be a factor. But allowing for all this the desired financial end is that the utility shall be self-supporting.

#### Independent Supervision of Accounting.

A municipal plant run at a loss means that taxpayers who do not use it, though they may remotely benefit from the fact that the plant is there, are paying for the service provided to their neighbor and not to them. In public plants there are no shareholders to be concerned. Bondholders have the whole assessable property to fall back on and so may not feel much interested in the finances of the plant. Questions of rate reductions are not likely to arise. So that the reasons for requiring accounting in public plants are not identical with those in private ones. Yet it is all important that there be independent supervision of the accounting of publicly-owned utilities and the enforcement of adherence to proper principles, and that this be likewise made the means of acquainting the taxpayers with what is being done with their money, and with the funds raised on the security of their property, and whether the administration is successful, and the financial result of the undertaking satisfactory. Every taxpayer is under a guarantee limited by the value of the property he owns, for the debts of the municipal utility. He is entitled to know reliably the extent to which such guarantee is, by reason of deficits, converted into direct liability, and to know what the taxpayers in the municipality are paying for the privilege of having the utility. In municipal cases depreciation reserves are of the highest importance, else the present may be consuming the plant at the expense of the future. In cases where there is competition between a public plant and a private one, it is but just that the same rules of accounting should apply to both.

## ATLAS GLASS WORKS IN LIQUIDATION

An order for the winding-up of the Atlas Glass Works, Limited, has been granted and the Quebec Savings and Trust Company appointed provisional liquidators. The company has an indebtedness of \$146,000 over its bonded indebtedness.

The company was capitalized at \$1,500,000 (7,500 shares of \$100 each and \$750,000 bonds). Of the \$750,000 bonds authorized, \$350,000 were issued at 6 per cent. The bonds issued are secured by a first and specific mortgage of the company's real and immovable property, plant and machinery and a floating charge on all other assets; \$400,000 were retained in the treasury and could only have been issued for 75 per cent. of the cost of additional property acquired or extensions made to plant. The company's property consists of about 700,000 square feet of land situated in the town of St. Pierre, formerly Blue Bonnets, Quebec province.

A branch of the Bank of British North America has been opened at 150-Mile House, B.C., under the charge of Mr. A. de C. Smith as acting manager.