

THE INDISPENSABLE SERVANTS OF OUR COMMUNITY LIFE.

A. J. NESBITT

(Nesbitt, Thompson & Co., Investment Bankers.)

The Public Utilities—electric light, power, street railway, gas and telephone—are absolute necessities in our every day life, and are also materially assisting in the growth and prosperity of our cities and towns.

Canada is farther advanced in the development of Public Utilities than any other country, and especially of her water powers, of which there is an abundance. In 1910 there was only slightly over 1,000,000 h.p. developed, while in 1919, there was over 2,000,000 hydro-electric power developed, and in operation. This 100 per cent increase (the largest part of which was in the Province of Quebec) resulted in increased industrial expansion and activity, with consequent prosperity to the country, and saving the importation of millions of tons of coal.

In view of these facts it can readily be realized that conditions which would tend to reduce the efficiency, prevent the services rendered, and expansion of these utilities must be remedied, otherwise the results would be disastrous for the communities served as well as for the companies.

Up to the year 1915 Public Utility Companies all over Canada and the United States had been operating under very satisfactory and profitable conditions.

The securities of such companies, more particularly those which were generating their electric energy from water powers, were regarded with great favor by bankers, trust and insurance companies and investors generally, as the companies were protected by long term franchises at fixed fares, rates, etc., and as a consequence were considered the safest and most stable form of investment. In fact selling on the same yield basis as the best municipal bonds.

Since 1915, however, these long term franchises at fixed rates, fares, etc., which were so well regarded have become a burden to the companies for the following reasons:

All materials, and equipment entering into their operation advanced in price due to war conditions, labor also became scarce and require increased remuneration, thus heavily increasing the operating expenses, while the rates and fares for services rendered, remained stationary, resulting in decreased net earnings, and depreciation in the market value of such securities.

Realizing that the services rendered by Public Utility Companies are not only essential to the welfare and growth of the communities served, but are absolute necessities, the various Provincial Governments of Canada (and State Governments of the U.S.) appointed Public Utility Commissions with power to investigate and regulate the conditions under which these companies were operating. This has been very beneficial to the public and the companies as well.

These commissions have made a careful study and investigation of the conditions arising within the districts under their jurisdiction, and in every instance have been fair and reasonable. Viewing the situation from a broad standpoint they realized that if the companies were to render efficient and satisfactory service they must receive fair and adequate compensation, and unless this was forthcoming the public must suffer, due to the inability of the companies to make the necessary extensions, etc., to keep pace with the growth of the communities served. With this in view and in order to arrive at a proper basis as to fares, rates, etc., in many cases the commissions made exhaustive valuations of the properties, and authorized such increases as would enable the companies to earn a fair and adequate return on the capital investment. Many of the judgments rendered by the various commissions being very sound and reasonable.

The majority of our Canadian companies have been granted increases during the past year or two. The most recent judgment rendered has been by the Public Utility Commission of Manitoba in August last, when awarding increased fares and rates to the Winnipeg Electric Railway Company. The Commissioner, after going into the valuation, etc., which had been made of the company's properties, made the following statement in connection with the return on the capital investment to which the company was entitled:—

"To insure continuance of a satisfactory service the rate must be such as will be attractive to investors, for

the business is one that constantly requires additional capital. In my judgment 8 per cent is the proper rate to fix after maintenance renewals and depreciation."

These favorable judgments and awards, as also the fact that labor and material costs have undoubtedly reached the top, and in many cases are on the decline, is helping to re-establish the confidence of investors in this class of security.

After a careful survey of the Public Utility situation we believe that the securities of well established public utility companies supplying light, power and street railway service, and generating their electric energy from water powers, are exceptionally attractive at present prices, and any change must be an appreciation in value.

The following comparisons of the earnings of over 100 Canadian and American public utility companies will show the improvement which is taking place.

Gross Revenue.	
July, 1920.	July, 1919.
\$48,911,305	\$37,877,604
Increase \$11,033,701, or 29 per cent.	

Gross Revenue.	
July 31st, 1920.	July 31st, 1919.
12 mos. to	12 mos. to
\$467,797,484	\$346,368,732
Increase \$121,428,752, or 35 per cent.	

Net Revenue.	
July, 1920.	July, 1919.
\$18,326,121	\$14,463,149
Increase \$3,862,72, or 26 per cent.	

Net Revenue.	
12 mos. to	12 mos. to
July 31st, 1920.	July 31st, 1919.
\$200,384,582	\$163,584,057
Increase \$36,800,425, or 23 per cent	

It is not generally appreciated, but is nevertheless a fact, that the electric street railway is the most economical and efficient means of short haul transportation that engineering science has yet devised, notwithstanding the advent of the motor bus.

The following statement by the General Manager of the Fifth Avenue Motor Bus Co. of New York is very interesting and important:

"There are those who believe that the trolley car propelled by a gasoline power unit may supersede the present equipment. In my opinion this theory will not bear close analysis, for the greatest asset the trolley car has is cheap power, and if you take this away the structure falls to pieces."

"No kind of bus designed up to the present is capable of properly handling peak loads. In my opinion the theory that the car systems in any of the larger cities can be supplanted by any standard size of bus now obtainable is absurd and not worth any serious consideration. The bus is not more economical than the trolley car on the basis of cost per passenger carried, which is the only real basis."

"It should be borne in mind that the financial success of the Fifth Avenue Coach Company is largely due to the 10 cent fare. On a 5-cent fare its development would have been absolutely out of the question."

The Public Utility Companies are absolute necessities and can be termed correctly,—"The Indispensable Servants of our Community Life," and being so necessary in our every day life proved that the securities of the Public Utilities are founded on a stable business situation which is the fundamental requirement of a conservative investment.

To sum up the Public Utility situation:—

The Standing of the Public Utility Companies a Year Ago.

1. Operating cost, material and labor had advanced enormously and were still advancing.

(Continued on Page 343.)