

Omaha Man Now Manager Of Keystone Type Foundry

Word comes to Omaha that Harry Rowley, formerly of this city, has been appointed general manager of the Keystone Type foundry of Pennsylvania, with headquarters at Phila-

delphia. The Keystone concern is the largest in the business and has branch houses in all the principal cities of the country. Mr. Rowley started as an office boy in an Omaha printing office and later became a journeyman printer. While yet a young man he became foreman

at the Rees Printing company, from which place he went as sales manager for the George H. Lee company of this city. It was while with the Lee company that he became acquainted with N. W. Ayer of the Ayer Advertising agency. Mr. Ayer is also principal owner of the Key-

stone Type foundry. He called Mr. Rowley to Philadelphia and made him sales manager, later to be assistant manager, and now Mr. Rowley has risen to be general manager. These advancements have all come within five years and Mr. Rowley gives the city of Omaha due credit for all the

business training that he received here. Sick Headache Due to Constipation. One dose Dr. King's New Life Pills and your sick headache is gone. Get a 25-cent bottle and be convinced. All druggists—Advertisement.

Commercial Club Would Revise Workhouse Law

Some revision of the workhouse law in Nebraska is wanted by the municipal affairs committee of the Commercial club before a workhouse is

established at Omaha. The committee met at noon with Commissioners Best and Jardine of the city and county, respectively, present to talk over the law. What the suggested amendments will be is not yet determined, but there is a feeling that the law as it stands is hardly workable.

Report of Special Committee of Commercial Club of Omaha on Electric Light and Power Rates

Omaha, Nebraska, September 18th, 1916.

To the Honorable City Council of the City of Omaha and to The Omaha Electric Light and Power Company:

At the time of the last session of the legislature, the matter of securing more favorable electric light rates for the City of Omaha was brought to the attention of the Commercial Club of this city. A general discussion of same was carried on among the members of the club, and the citizens of Omaha generally became deeply interested in the subject.

On the sixth day of April, 1915, an ordinance was passed by the City Council requiring the electric light company to reduce its rates and the enforcement of this ordinance was suspended by a temporary injunction in the Federal Court at the suit of the Omaha Electric Light and Power Company. (This suit is still pending at the time of making this report.)

At this juncture, when it seemed that several years of litigation would probably ensue before the controversy should find its way through a series of courts until the highest court in the land should render a decision in the case that would be final, the Executive Committee of the Commercial Club, after due consideration, decided that, if its good offices should be acceptable to the City Council and to the Electric Light Company, and that the benefits might be enjoyed by our people within a comparatively short period of time, in undertaking to ascertain the facts as to the amount of the investment of the Omaha Electric Light and Power Company, the amount of its revenues and expenses, the determination of a fair rate of return on its investment, and a study of rates to consumers that would produce such reasonable return, to the end that the controversy might with reasonable promptness be brought to a conclusion, it would offer its services to the parties, and the chairman of the Executive Committee was instructed that if the offer was acceptable to the City Council and to the Electric Light Company, he should appoint a committee to take charge of the investigation and to make its findings in the premises.

The President of the club, John L. McCague, and the chairman of the Executive Committee, J. A. Sunderland, presented the matter verbally to the City Council and to the Electric Light Company, resulting in favorable action by both of the parties. Thereupon, the chairman of the Executive Committee appointed the following committee to take the matter in hand, viz:

- F. A. Brogan, F. J. Farrington, Geo. H. Kelly, F. S. Knapp, T. J. Mahoney, F. H. Myers, H. A. Thompson, J. L. McCague, W. S. Wright.

The Executive Committee added to this committee the name of J. A. Sunderland.

The committee organized at a meeting held at the Commercial Club rooms on June 24th, 1915, by the election of J. A. Sunderland, chairman, and the designation of R. H. Manley, Commissioner of the Commercial Club, to act as Secretary. The committee decided to ask the City Council and the Electric Light Company to share in the expense of the investigation. In response to this request, the City Council on July 27th, 1915, passed the following resolution:

"Inasmuch as a Committee from the Commercial Club of this City has communicated with this Council its desire for the City to participate in carrying half of whatever costs may be incurred in the necessary and proper investigation of the books and the value of the property of the local Electric Light and Power Company, in an endeavor amicable to arrive at fair and equitable rates, to the various classes of consumers of said Company and to said Company for current supplies by the City, and,

Inasmuch as it seemed to be proper and necessary for the committee that neither the company nor the City have further voice or direction in such investigation, to the end that whatever findings and determination the committee might report, the same would have, at least, the greater appearance of fairness and impartiality, and,

Inasmuch as it is the advice of the law department of the City that the City is without lawful authority to expend the public money for such purposes without retaining definite control and direction over the investigation and work in hand, as well as the money to be expended, in the manner, the methods and the objects for which it is expended, and,

WHEREAS, it may be feasible and possible for the Committee from the Commercial Club, working in conjunction with various officers and departments of the City, assuming such cooperation to be agreeable to the committee, to reach a proper basis for fair and equitable rates, provided the Electric Light and Power Company will furnish certain desirable and needed data and facts without cost and expense to the Committee.

NOW THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF OMAHA:

That in the circumstances, the said Committee be advised that the City Council does not feel itself free and at liberty to devote any of the moneys

of the City to the purposes mentioned in the communication of said Committee and under the conditions and terms of said communication. But realizing the good purposes of said Committee and the desirable objects to be attained by it

BE IT FURTHER RESOLVED: That it is the sense and the wish of this Council to forward the efforts of said Committee as much as is within its power to do and that the City Council and the various departments of the City are more than ready, anxious and willing to co-operate with said Committee in its work and to furnish it whatever of aid and means which may be in their power so to do. By W. S. Jardine,

Mayor and President of City Council, Adopted July 27, 1915.

Attest: Thomas J. Flynn, City Clerk. By H. M. Primeau, Deputy.

After this action by the City Council, and in response to the request of our Committee, the Omaha Electric Light and Power Company accepted the good offices of the Committee in the following communication:

J. A. Sunderland, Chairman, Special Committee on Electric Light and Power Rates, Commercial Club. My dear Mr. Sunderland:

Responding to your verbal request of yesterday that I put in writing the Company's acceptance of the good offices tendered by the Commercial Club through its President and yourself I submit the following as my understanding of the plan and procedure by which will be determined:

1. The amount of money actually invested in the property of this Company upon which it is entitled to earn a fair return.

2. The amount of profit to which we are entitled as a fair return upon the investment.

3. The rate which will produce the fair return in question.

Our proposition is that your committee shall engage the services of an audit firm of the highest character (whose report will be accepted without question by financiers at home and abroad) which company shall proceed as promptly as may be to make a complete audit of our books from the beginning of the Company's existence down to the present time for the purpose of showing conclusively the total amount of investment upon which this Company is entitled to a fair return. While the selection of the audit firm is left entirely to your committee this Company will pay for the audit and all business incidental thereto.

While the audit is being made we would like to have the committee take up the question "What is a fair return?" On this we would like to be heard.

When the audit is complete and the percentage of fair return has been agreed upon we would have the committee secure the service of a rate expert of the highest grade who shall report to the committee the form of a rate schedule which will produce the agreed-upon fair return upon our investment. This expert should not be one who is engaged in private practice or has any affiliation which would prevent his being entirely judicial in his study and final opinion. We would prefer that he would be one of the experts of the Wisconsin Railroad Commission for the reason that the Wisconsin Commission is the only regulatory body in the country that has made a complete and scientific study of the true basis of a rate schedule.

The costs of this rate investigation—and all other costs in the case—will be paid by this company.

Grateful to the Commercial Club and to yourself and your associates for the fine public spirit shown in this important matter and assuring you of our complete co-operative willingness I am, with great respect,

Sincerely yours, Geo. H. Harries, President.

In the discussion between representatives of our Committee and the City Council, it developed that the City Council did not feel free to bind itself in advance to adopt the report and recommendation of the Committee, being without legal power so to do, but that it would welcome the results of the Committee's investigations.

While the Electric Light Company, in accordance with the original agreement made by it, and acquiesced in by the City Council, has furnished all of the funds necessary to carry on the work of the Committee, the disposition of such funds has been wholly within the power of the committee and no suggestions have been offered by or received from the Electric Light Company, as to the expenditure of any part of same.

The Committee secured an analytical audit of the Electric Light Company's books and accounts covering the period from August 31, 1889 to June 30, 1915. Haskins and Sells, the auditors selected by the Committee, have an unimpeachable standing throughout the United States and other countries. Their selection was formally approved by the City Council and by the Electric Light Company. The auditors had access not only to the books and accounts of the Company, but also to its minutes, vouchers and all other records that were necessary to make clear and intelligible all items entering into its accounting. From time to time the Committee called for special information, some of which required an enormous amount of work. This work was done and the information was furnished promptly and to the entire satisfaction of the Committee. It is our belief that nothing has been withheld by the Electric Light Company

from the knowledge and consideration of the Committee. As expert advisers, the Committee selected Mr. Blon J. Arnold of Chicago, consulting engineer in private practice, who has served municipalities and private interests in some of the greatest engineering undertakings of our time, and Mr. Edward N. Strait, engineer in the statistical department of the Wisconsin Railway Commission. Mr. Strait has been connected with the Wisconsin Railway Commission during many years of its active service, in which many of the relations between public service corporations and municipalities have been determined by it. The Wisconsin Railway Commission's decisions have been followed quite generally by courts and the commissions of other states. The selection of these experts was approved before their employment by the City Council and the Electric Light Company. These consulting engineers spent several days in consultation with the Committee, considering the many phases and details of its work, and each of them has rendered to the Committee a voluminous report made up independently, stating their conclusions and recommendations from the facts presented by the audit of Haskins and Sells and such matters as the Committee presented to them.

It has been the purpose of the Committee to secure from all available sources, including the auditors, consulting engineers, technical works and current publications, all the information possible bearing upon its work. The Committee has spent much time in its work. It has held several all-day sessions, many half-day sessions and many shorter sessions of two or three hours each. It has held conference with the City Commissioners and the representatives of the Electric Light Company, and one general hearing of all of the parties to which the public was invited. It has been the policy of the Committee not to hold conferences with either the City Commissioners or representatives of the Electric Light Company separately, believing that both of the parties should be present at any conference where the interests of either of them were to be specially inquired into.

From an examination of the information obtained by the committee as above set forth, the committee finds as follows:

A. When the present Electric Light Company took over the plant and property, August 1st, 1903, the physical value of the plant at that time was, (H. & S. p. 4) \$794,373.73. From that date until the 30th day of June, 1915, the company made additions to the physical plant amounting to (H. & S. Ex. E) \$441,747.27.

Total \$1,236,121.00. And withdrew from the plant the completed depreciation during that period, amounting to (H. & S. Ex. C) \$1,329,462.86.

So that, on the 30th day of June, 1915, the amount invested in the physical plant was \$3,906,658.14.

On the estimated depreciation of 5 per cent per annum during the period from August 1st, 1903, to June 30th, 1915, we deduct from this plant investment the sum of \$711,977.56 (being the accrued depreciation remaining after the completed depreciation shown above).

Leaving invested in the physical plant after deducting accrued depreciation, as of June 30th, 1915, \$3,194,680.58.

B. We find that during the six months ending June 30th, 1915, the average working capital invested by the company in the operation of the business was, (H. & S. Ex. C) \$241,298.30.

C. The Committee has given careful consideration to the question of development expenses, consisting of accumulated deficits from early losses, during the period while the business was being built up. A somewhat similar claim is sometimes made in investigations of this character, under the head of what is called "going value," that is the value which a plant has after being many years in successful operation, over the value which it would have if but recently constructed. In this case also, it has been pointed out to us by the experts who have examined the accounts of the company, that no substantial charge has been made for overhead engineering management, furnished in the planning and construction of the plant by the engineers of the parent company which controls the stock of the company although such an allowance is frequently made in such cases.

In our conclusions, however, we have confined ourselves solely to considering what additional allowance should be made on account of the development expense incurred by the company in building up its business.

It appears that this franchise was obtained in 1885 by one J. C. Regan, and his associates, and that a small amount of development work had been done by him and the company which he organized to take over the business, up to 1889, at which time the stock of his company was purchased by the Thompson-Houston Electric Light Company, and this holding company, subsequently consolidated with the General Electric Company, has ever since controlled the stock and directed the management of the business, and also financed the company during its initial period, and has supervised its financing up to the present time.

We have been furnished with all the information in the possession of the present company, and the accountants and engineers have made, from various angles, independent estimates of the condition of the plant and its business during the initial period, from 1889 to 1903. We are satisfied that during a considerable portion of that period the revenues of the company were not sufficient to enable it to meet its expenses, provide for the depreciation, and pay a reasonable return on the capital invested.

But by the year 1903 the business had reached a point where it was profitable. At that time there was a re-organization to the extent that the present Omaha Electric Light & Power Company, a corporation organized under the laws of the state of Maine, received a formal transfer of all the assets of the old company, and took over the management of its business.

From 1903 until the present time the business has been profitable, and during at least a part of that time has produced an excess above a reasonable return on the capital invested, sufficient to reduce somewhat the deficits incurred during the early period.

In endeavoring to arrive at the amount of development expense which should be allowed, we have had the benefit of various calculations by the experts employed. Messrs. Haskins & Sells, the accountants, submitted a report showing that the amount of the accumulated losses of the company, that is, the amount by which its revenues fell below a fair return on its investment, from 1889 to 1915, would amount, at the end of that period, to \$3,718,210.91. (H. & S. Special Report.)

The experts in the employ of Mr. B. J. Arnold calculated the accumulated deficit at the end of the same period to amount to \$1,683,112.00. (B. J. A. p. 9.)

Mr. Edward N. Strait, of the Wisconsin Railway Commission, submitted a calculation based on different rates of income during the periods in question of \$1,234,993.00. At the request of the committee he made computations ranging from \$562,634 (St. Table D 1, p. 138) based on an income of 8 per cent from August 31, 1889, at the beginning of the business, to June 30th, 1915, with interest on deficits compounded at 7 per cent per annum, up to \$1,495,606.00 (St. Table 16, p. 62), based on a calculation of 9 per cent revenue from 1889 to 1903 and thereafter 8 per cent, with deficiency or excess of revenue calculated on the same basis and compounded.

The committee has seen fit to reject entirely the calculations of Haskins & Sells on this item as being based on data not accepted by the committee, and has concluded that the recommendations of Mr. Arnold and Mr. Strait were excessive, for the same reason.

After consideration of the entire matter we have concluded to recommend an additional allowance of \$750,000 to the Company's investment as development expense, based on the calculations made by Mr. Strait, this amount to cover all allowances that might be made or claimed in such cases on account of overhead engineering and also what is usually denominated "going value."

D. In addition to the physical plant property and the legitimate allowance for developing the same, and the current working capital, the company has an additional investment in the depreciation reserve, set aside out of the annual earnings, to meet the cost of replacing the plant, resulting from wear, obsolescence, or other causes.

We find that during the period from 1903 to 1915 the revenue of the company had been sufficient to set aside an annual sum to meet such depreciation, amounting to 5 per cent of the investment in the plant from time to time (H. & S. p. 4). The total amount set aside for depreciation during this twelve-year period is \$2,041,440.42. Of this amount \$1,329,462.86 was withdrawn from the investment as completed depreciation, as appears under paragraph (A) herein. And we have deducted the remaining amount from the investment in the plant, so as to reduce it to its present physical value. But this does not mean that the amount of the depreciation reserve has been withdrawn from the investment, unless it has actually been paid out to the stockholders in dividends, or has been reinvested in the plant, and an additional allowance made for it as an investment there.

An analysis of the accounts of the company and its assets has led to the conclusion that this reserve in the preceding amount which has actually accumulated out of the earnings of the company, has not been wholly kept intact and preserved in assets under the control of the management. Some of it has either been paid out directly or indirectly in dividends, or has been reinvested in the plant and there treated as new capital. We do find, however, that the company has assets on hand representing a part of this accumulated reserve, consisting of its own bonds, purchased and held in a sinking fund, and the stocks of other companies,

and also financed the company during its initial period, and has supervised its financing up to the present time.

The amount of this reserve which is found in the assets of the company as of June 30, 1915, and which should be added to the foregoing items to ascertain the total investment, is (E. N. S. p. 136), \$583,528.00.

From the foregoing items we have made up the total investment in the plant, business and working capital, as of June 30th, 1915, as follows:

Physical value of plant (A) \$3,194,680.58; Working capital (B) \$241,298.30; Development Expense (C) 750,000.00; Amount in depreciation reserve (D) 583,528.00; Total \$4,769,506.88.

We conclude that this sum, last named, is the amount of the company's investment, which constitutes the investment in the plant, business and property upon which it is entitled to receive a fair return.

If we had accepted the estimate of Messrs. Haskins & Sells and had added \$3,718,210.91 as the development expense, to the other items of the investment, the total valuation for rate making purposes at the present time would be \$7,737,717.79 (H. & S. Special).

The estimates of B. J. Arnold resulted in finding a total investment of \$6,382,572.00 (B. J. A. p. 17), this including a development expense of \$1,682,112.00. (B. J. A. Add. p. 14.)

It was Mr. Strait's conclusion, after comparing various calculations which he made for us, that the amount of development expense to be allowed was \$1,234,993.00 (E. N. S. p. 63), and the total investment in the plant and business as of June 30th, 1915, should be \$5,400,000.00 (E. N. S. p. 72).

In the injunction suit brought by the Electric Light Company in the United States Court, to enjoin the Butler ordinance, we construe the figures there asserted by the company to mean that it claimed an investment of \$5,538,083.97, and it appears from the figures obtained for us from its books by the accountants, that its outstanding capitalization, consisting of the following:

5 per cent bonds \$2,148,000.00; 5 per cent preferred stock 424,200.00; Common stock 3,365,400.00; Total \$5,937,600.00.

But we have concluded that the valuation of \$4,769,506.88 which we have fixed as above, is not unfair to the company and its stockholders, and constitutes a necessary reduction from the values claimed by it and from those recommended by the experts, in order to do justice to the customers of the company.

E. The committee has made a careful study of the question of the rate of return which ought to be allowed for investments of this character. It is obvious that capital cannot be employed on terms fixed by the municipality seeking the services, nor by any rule of law. The employment of private capital, like the procurement of any other commodity, responds to the law of supply and demand. That rate of income must be allowed which will attract capital to the investment. Otherwise the business could not be established in the first instance, and a going business could not obtain the needed capital to permit of its enlargement and development for a growing community.

The entire capital necessary to finance such an enterprise and provide for its enlargement and development, cannot be obtained upon the same rate of return as the interest upon a well-secured bond. Such enterprises are usually financed, partly by money provided by stockholders, and partly by an issue of bonds constituting a first lien upon the property. From the examination we have given the question, we are satisfied that to obtain sufficient capital for the establishment and development of a business of this character, it has been, up to the present time at least, necessary to figure on a return on the total capital invested at a rate which is about 2 per cent or 2 1/2 per cent higher than the rate at which an issue of first mortgage bonds can be placed on the market. This higher rate for the total capital is of course to compensate for the risk involved in the investment, which is thus made subject to a prior lien, and liable to total loss if the enterprise is not successful. It also appears that at the present time bonds on properties of this kind can be floated at a net rate of about 5 1/2 per cent, allowing for commissions, discounts and other expenses of the issue.

We find that, beginning with June 30th, 1915, and for a reasonable period following that date, until conditions shall have changed, as may be hereafter determined, a reasonable rate of return to be allowed this company on the amount of its investment is 8 per cent per annum on the invested capital, as found in paragraph (D) herein, that is to say, 8 per cent on \$4,769,506.88, amounting to an annual return of \$381,560.48.

F. In determining what rates should be charged by this company, it is necessary to ascertain what sum should be set apart as a depreciation allowance. This is indeed a part of the current expense of the business, the other items of which are to be hereafter considered. But the amount to be allowed for depreciation is closely connected with the

rate of return on the investment, and we consider it here.

It is apparent that in a plant of this character depreciation would be greater at the beginning of the development. When the plant was started in 1889 electric lighting was in its infancy, and extraordinary advances in the art have been made since that time. These necessarily involve the rejection of machinery and equipment when a more advanced type has been developed. As the methods grow more stable, the percentage of depreciation will be less. We have become satisfied, from the calculation made by the experts, that during the period from 1903 to 1915 the actual depreciation of the plant was substantially 5 per cent annually on the amount invested in the plant. But we believe that from now on the depreciation will be less, and, averaging the matter by periods, we think that while 5 per cent for the preceding twelve years was a fair allowance for depreciation, for any similar period, beginning in June, 1915, an allowance of 4 per cent per annum would be sufficient.

G. In determining what schedule of rates a company should be allowed, in order to produce a given net revenue to cover depreciation on the plant and a return to the stockholders, it is necessary to ascertain the volume of the company's business and the revenue derived therefrom. It is also necessary to ascertain the expenses incurred in the operation of the business.

We find that for the year ending June 30th, 1915, the company's expenses were as follows:

Manufacturing \$268,246.70; Transmission 8,378.60; Distribution 55,155.02; Utilization 98,989.05; General expense 202,915.32; Total operating expense \$594,684.69; General taxes 98,088.63; City's share of gross receipts 32,403.15; Total operating expenses and taxes \$724,176.47.

The foregoing amounts include every element which should be considered in determining the gross revenue which the company ought to receive, except the annual charge for depreciation, and the return on the capital invested.

But before using this expense amount as a basis for rate making, we have had a careful study made of the elements entering into the expense, for the purpose of determining whether any adjustment should be made.

In the first place, the expenses during that period include installation and renewal of incandescent lamps. Under the present rule of the company lamps are no longer supplied but are purchased and paid for by the customer. We find that this will result in a saving in the annual expense, based on the volume of business for the year ending June 30th, 1915, of about (E. N. S. p. 82-3) \$30,000.00.

During the year ending June 30th, 1915, the legal expense of the company amounted to \$75,531.02 (H. & S. Special). Without attempting to analyze in detail all the items entering into this expense, we find it sufficient to say that while the revenue of the period ending June 30th, 1915, under the rates then in force, was sufficient to meet these extraordinary expenses, and still leave a sufficient sum to pay a return on the capital invested, and while no doubt these expenses were necessary on account of the important litigation in which the company was engaged with the City of Omaha, involving its right to do business and continue to operate its plant, and the other controversies growing out of that dispute, yet these expenses are not to be regarded as the normal basis for fixing rates. On the advice of the experts, Mr. Strait and Mr. Arnold, we have concluded that there should be a deduction made from this expense, on the basis of the business for the year ending June 30th, 1915, of (E. N. S. p. 83) (B. J. A. Table 12 d) \$50,000.00.

As the actual expenses incurred by the company for the year ending June 30th, 1915, including these extraordinary legal expenses and the installation and renewal of lamps amounted to the sum of (H. & S. Suppl.) \$834,176.47. Deducting:

For lamp renewals \$30,000.00; For extraordinary expenses 50,000.00; \$80,000.00.

Leaves adjusted expenses for a similar period \$744,176.47.

H. Assuming, therefore, a volume of business equal to that of the year ending June 30th, 1915, the gross revenue which the company ought to receive from its entire business should be sufficient to cover the following items:

Adjusted expense \$744,176.47; Depreciation charge (4 per cent on \$3,906,658.14) 156,267.22; Return on capital invested (8 per cent on \$4,769,506.88) 381,560.48; Total gross revenue \$1,282,004.27.

To ascertain what portion of this gross return should be received from the sale of current, it is necessary to deduct from it the following items:

Income on securities owned \$36,640.00; Steam sold by company 31,784.44; Non-operating revenue 6,959.75; Total 75,384.19.

Revenue required to be produced by sales of current \$1,206,620.08.

We have seen that the rate now in effect, if applied to the period in question, would have produced a total return from current sold of \$1,290,168.22.

Deducting the foregoing revenue required from sales of current \$1,206,620.08. Excess \$83,548.14.

We conclude, therefore, that in order to produce a fair return on the actual investment, there should be a reduction from the rates put into effect on August 10th, 1915, sufficient to reduce the total revenues about \$80,000, or one-sixteenth of the whole gross revenue from sales of current.

L. It must be said, however, that the company cannot afford to do business on the basis we are now suggesting, if there is to be a continuance of the litigation over the right to carry on all classes of business in the City of Omaha, nor, if the company is to be compelled to meet the competition of any other plant established within the city of Omaha and seeking the same business. Our recommendation is based on the supposition that both parties to the controversy will accept the recommendation which we have made, and that all disputes which have existed up to date will be thereupon terminated, so that the company may be able to reduce its expenses to the basis of the adjusted expenses upon which we have based our report.

Respectfully submitted, J. A. Sunderland, Chairman. Francis A. Brogan, F. J. Farrington, Geo. H. Kelly, F. S. Knapp, T. J. Mahoney, F. H. Myers, Henry A. Thompson, John L. McCague, W. S. Wright.

Special Committee of the Commercial Club of Omaha on Electric Light and Power Rates.

actment of the Butler ordinance, and prior to the new schedule of rates adopted by the company on August 10th, 1915. We find the total revenue derived by the company during the year ending June 30th, 1915, under the schedule of rates then in force to be:

From sale of current (36,824,250 kilowatt-hours) \$1,372,011.15; Sale of Steam 31,784.44; Total operating revenue \$1,403,795.59; Income from securities owned 36,640.00; Total income \$1,440,435.59.

This exceeds the amount of a fair revenue, according to our estimate as shown above of \$1,282,004.27 by \$158,431.32.

J. But on August 10th, 1915, the company put into effect a new schedule of rates, making a substantial reduction. We have had a detailed calculation made by the auditors as to the income this new schedule would have produced during the period ending June 30th, 1915, and we find that for the same volume of current, the gross revenue would have been \$1,290,168.22.

This, however, is the net billing, and would not show the actual results, as it cannot be calculated what amount the company will actually allow in discounts for prompt payment, and how much it will collect as penalty for delay in payments. However, a comparison sufficient for present purposes can be made between the net billing for current, under the old rate, and the estimated revenue on the basis of the net billing for the same period, under the new rate:

Under the old rate \$1,379,390.67; Under the new rate \$1,290,168.22; Reduction \$89,222.45.

K. In order to determine whether the rates now in effect are fair rates for the purpose of yielding the revenue which we have ascertained to be a fair return on the capital invested, it is necessary to compare the estimated revenue under the present rates for the period ending June 30th, 1915, with the amount of revenue which we have estimated would be a fair return on the capital invested.

We have seen, in paragraph (H), that the company should be entitled to receive from the total returns on its investment, an amount sufficient to cover the following items:

Adjusted expense \$744,176.47; Depreciation charge (4 per cent on \$3,906,658.14) 156,267.22; Return on capital invested (8 per cent on \$4,769,506.88) 381,560.48; Total gross revenue \$1,282,004.27.

To ascertain what portion of this gross return should be received from the sale of current, it is necessary to deduct from it the following items:

Income on securities owned \$36,640.00; Steam sold by company 31,784.44; Non-operating revenue 6,959.75; Total 75,384.19.

Revenue required to be produced by sales of current \$1,206,620.08.

We have seen that the rate now in effect, if applied to the period in question, would have produced a total return from current sold of \$1,290,168.22.

Deducting