SPECIAL MEETING OF THE CITY COUNCIL:

Austin, Texas, December 14, 1920.

The Council was called to order by the Mayor. Roll call showed the following members present: Mayor Yett, Councilmen Alford, Graham, Haynes and Ward; absent, none.

The report of the Committee, consisting of Prof. J. M. Bryant, Frank S. Taylor and J. B. Webb, on fair rates for gas and service of the Austin Gas Light Company, was received, read and ordered recorded. Councilman Graham moved that A. T. Knies be furnished a copy of the report of the Committee and be given until December 30th, 1920, at 2:30 P. M., to make answer to same. Motion prevailed by the following vote: Ayes, Mayor Yett, Councilmen Alford, Graham, Haynes and Ward, 5; nayes, none.

"REPORT

ON

FAIR RATES FOR GAS AND SERVICE OF THE

AUSTIN GAS LIGHT COMPANY.

TO THE MAYOR AND COUNCIL OF THE CITY OF AUSTIN,

TEXAS.

This memorandum of conclusions from the analysis of the Revenues, value of the investment and net return on the said value of the Austin Gas Light Company, is based upon the following:

DATA (1) A statement of operating expenses, depreciation and revenues of the Company for 1919, which was submitted to the City of Austin by the Company to show its right to increase rates for Gas and service in Austin on September 1st, 1919.

(2) Statements of operating expenses and revenues for 1917 and 1918, furnished to your committee by the Company.

(3) Fuel Contracts now in force, inspected in the office of the Company.

(4) Annual statements to the Secretary of State of Texas, reporting the physical value of the Company's property, its operating expenses, revenues, amounts of stocks and bonds outstanding, and other details of the Company's business for 1905, 1916, 1917, 1918 and 1919, all sworn to as being true and correct by the President of the Company.

(5) The Charter of the Company issued by the State of Texas in 1905.

(6) The Company's franchise from the City of Austin, Texas.

(7) Statements by Mr. Knies, Manager of the Company, as follows:

(a) "The Company's property value at end of 1919 was $680,000.00; which does not include a specific betterment added in 1919 and 1920 of approximately $100,000.00."

(b) "Not known that any other money except from proceeds of bonds was ever invested in Company's property".

(c) "All depreciation fully provided, no deferred maintenance or depreciation has accrued; when a replacement is made its cost is included in the expense statement as rendered."

DISCUSSION.

The Company, chartered in 1905, took over a going business, for the value of same, operating expenses and revenues, they issued a report to the Secretary of State of Texas, which report shows:- a capaital stock of $325,000.00; bonded and other indebtedness of $160,485.00; declares a value of visable or tangible property of $206,364.00; and shows a net profit of approximately $13,500.00 for the year.

The Company now claim that their total value of property was approximately $700,000.00 in 1919, but their report for that year sworn to by the President and submitted to the Secretary of State recites a value of physical property of $350,000.00, leaving the inference that the additional value claimed is in intangibles. Such values are not supported, but for the purpose of this analysis, and at the same time taking the question of value out of controversy, we adopt $400,000.00 as fair value in 1905 and $700,000.00 in 1919.

The adoption of this basis indicates an average annual addition to fair value of $20,000.00.

A table of values has been made on this basis and by adding the net additions each year, after depreciation had been deducted, the fair value of the Company's property for rate making purposes is found to be approximately $550,000.00, which agrees with the values of similar plants of the same production in the United States.

The Company's charge for the year 1919 for depreciation is $26,396.00, which is 4% on the outstanding bonds, and according to the Company's statement, "was established in audit by Internal Revenue Department in fixing Capital investment". This fixes neither the fair value of the property, nor the rate of depreciation for rate making purposes.

DEPRECIATION. According to the experience tables of Engineers and substantially accepted by courts and commissions, the composite life of the elements of a gas plant is approximately 30 years, on which basis 3-1/3% would be the proper rate by the straight line method of 2% on a compound interest basis.

In the statement for 1919, the Company has included a charge in its expense account of an amount for depreciation, and from this fact we infer that a depreciation reserve has been set aside in previous years to replace parts of the plant not covered by replacements charged to maintenance when such parts lose their physical or functional value.

The Company does not show any charges to the depreciation fund, nor does it show the existence of such a fund by credit of any revenue therefrom. We therefore assume that such sums as have been withdrawn for depreciation are not considered as assets of the Company and not to be included in fair value of the Company's properties.

According to the method of the Company, as per statement of its manager, all replacements so far made have been charged to current maintenance, so that the reserve required should now be equal to the value, based on cost, of the accrued latent depreciation, this reserve and annually continued charge when computed to properly measure the value of the said latent depreciation is just and fair, but when it is withdrawn from the assets of the Company it is assumed that it is earning its own fair return, and therefore the amount set aside annually for depreciation is deducted from the cost of the plant or properties of the Company at the time it is withdrawn, leaving the fair value of the plant upon which the Company is entitled to have a fair return.

If your committee was able to refer to the exact figures for the capital account in 1905 and the correct account of the additions to the plant value during subsequent years, values, in the opinion of the Committee would be less favorable to the Company, but inasmuch as we have been guided by the expressed desire of the Council to show any doubtful estimates or computations in favor of the Company, the depreciation has been based on the total value of the property, including the intangible values. We have also used the Company's rate for depreciation, which is excessive for well constructed gas plants, even by the straight line method of providing for depreciation reserve, but the method that seems to be practiced by the Company in providing replacements would indicate that the Committee would have been justified in using the compound method for finding the proper rate and to apply it only on the actually depreciable property.

Allowance is made on computations based upon the present age of the Company's plant for replacements which have been made . It is found that approximately one-half of the Company's 4% depreciation reserve is used as current maintenance. The remaining rate of 2% would therefore be reserved for the latent depreciation which should be charged to the revenues of the Company as one of its proper operating expenses. From this we compute that the amount to be deducted for depreciation in 1919 is $11,300.00.

<u>EXCEPTIONS.</u> The Company has charged for Expenses outside of Austin, certain charges for "General expenses", which have not been allowed for the reason that charges made for services for bookkeeping, etc., outside of Austin are not chargeable to expense of operating. The Company's charter (1905) provides, "The place where the business of said corporation is to be transacted is in the City of Austin, Texas. Its principal office shall be in said City of Austin. " This charge for 1919 was $2,325.00.

<u>REVENUES.</u> No check or audit of the Company's statement of gross revenues has been made, the amount recited by the Company in its statement is assumed correct and is adopted for the purposes of this report.

<u>CONCLUSIONS.</u>

It appears from the reports of the Company for 1919, that the net revenues, after making correction for errors as stated in depreciation and other exceptions, is approximately $70,500.00. Deducting $11,300.00 from this amount for depreciation reserve, leaves $59,200.00 apparent net profit for the year 1919, which is 10.6% on the fair value of the property previously stated and shows an excess profit above 8% for that year of approximately $14,500.00.

By similar deductions it appears that the excess profit for 1918 was $2,100.00 and for 1917, $12,600.00, making a total excess profit in the past three years of approximately $29,000.00.

<u>RATES FOR SERVICE.</u> The rates allowed by the City are meant to average a fair return, (see W.R.C.R.890,895,Feb.1917) and we are not justified in anticipating a temporary loss to the Company on account of contracts for fuel which will undoubtedly make their operating expenses more while such contract are in force, neither are we willing, with data at hand, to project the revenue curve into the future and thus, with the high price of fuel, well

above the market price of same, create a hypothetical basis for higher rates for service rendered, making the people pay for the reduction in the Company's net revenue before the said reduction has been shown to be enough to affect the fair return to which the Company is entitled, especially in view of the fact that the Company has been shown to have had an excess above the fair return to which it was justly entitled, probably more than the loss of fair return if there should be such loss in 1920 and 1921.

SUMMARY AND RECOMMENDATIONS.

From the data at hand, as recited herein, which is incomplete in that unchecked statements and reports are used, and assumptions, while favorable to the Company's interests, are made from data in some cases conflicting in their import, it nevertheless appears after all considerations have been given, that the Company has earned more than a fair return on its investment during the last three years with the rates then in force, and since it does not appear that the Company is now operating at a loss even on the basis of the rates of 1919 and in view of the excess profits already mentioned; it is recommended that the rates in force in 1919, be restored, being a proper basis for income on the Company's investment.

COMPANY'S FRANCHISE OBLIGATIONS.

The Company's obligation to the people of Austin in furnishing proper service and to comply with the requirements for gas service in parts of the City not covered by the Company's distribution system, is not considered an essential part of this report as far as rates for service is concerned, but we refer to the Company's obligation to furnish the "People of Austin" with proper gas service. This, we understand, means all parts of the City reasonably covered by habitation of sufficient density to support by its patronage a service properly expected under the fair meaning of the Company's franchise obligation, and we suggest that the Company's right to withhold services, where they are properly demanded, be investigated further, so that the people of the whole City may enjoy the service so essential to modern comfort and convenience, obtainable only from this Company, because of its substantial monopoly of the gas business in the City.

Respectfully submitted,

J. M. Bryant, Chairman,
Prof. Electrical Engineering,
University of Texas.

Frank S. Taylor, Consulting Engineer.

J. B. Webb, "

The Council then adjourned.

Jno. Hornsby
City Clerk