A FINANCIAL HISTORY OF THE PHILADELPHIA ELECTRIC COMPANY; PP. 112-163

Published @ 2017 Trieste Publishing Pty Ltd

ISBN 9780649322923

A Financial History of the Philadelphia Electric Company; pp. 112-163 by E. M. Patterson

Edited by Trieste Publishing Pty Ltd.
Cover @ 2017

www.triestepublishing.com

E. M. PATTERSON

A FINANCIAL HISTORY OF THE PHILADELPHIA ELECTRIC COMPANY; PP. 112-163

Trieste

A FINANCIAL HISTORY
OF
THE PHILADELPHIA ELECTRIC COMPANY

BY

E. M. PATTERSON, PH. D.
WHARTON SCHOOL OF FINANCE AND COMMERCE
UNIVERSITY OF PENNSYLVANIA

THIS ANALYSIS SHOWS THAT

1 THIS COMPANY IS IN ABSOLUTE CONTROL OF THE ELECTRIC LIGHT AND POWER BUSINESS IN THE CITY OF PHILADELPHIA.

2 IT WAS OVERCAPITALIZED BY MORE THAN $20,000,000 AT THE TIME OF ITS FORMATION IN 1899.

3 IN SPITE OF THIS TREMENDOUS OVERCAPITALIZATION, IT HAS BEEN ABLE TO MAINTAIN INTEREST ON ITS BONDS AND SINCE 1902 DIVIDENDS ON ITS STOCK, THESE DIVIDENDS NOW BEING AT THE RATE OF 7 PER CENT. PER ANNUM.

4 IN ORDER TO MAINTAIN THESE INTEREST AND DIVIDEND PAYMENTS THE CITY OF PHILADELPHIA AND ITS CITIZENS HAVE EACH YEAR PAID NEARLY $1,000,000 IN EXCESS OF A FAIR CHARGE FOR SERVICE RENDERED.

WHILE OVERCAPITALIZATION IS COMMON AMONG UTILITY COMPANIES, THE PHILADELPHIA ELECTRIC COMPANY IS ONE OF THE WORST OFFENDERS IN THIS RESPECT.

PUBLISHED AS AN APPENDIX
TO THE
ANNUAL REPORT OF THE DIRECTOR OF PUBLIC WORKS
PHILADELPHIA
1914

With the Compliments
of the Author

FINANCIAL HISTORY

OF THE

PHILADELPHIA ELECTRIC COMPANY

FOREWORD

When the Philadelphia Electric Company was incorporated in 1899 it was over-capitalized to the extent of at least $20,000,000. Because of this Philadelphia and its citizens have been paying each year for electricity nearly $1,000,000 more than would otherwise have been necessary. Having absolute control of the business of furnishing electric current there was nothing to restrain the company from placing its charges at the point which it was thought would yield the maximum net returns.

This policy was followed. Interest payments on bonds have been met with unfailing regularity and as early as 1902 dividends were paid on the stock. By 1903, only four years after the incorporation of the company, these dividends rose to 5 per cent. per annum, and since 1913 have been at the rate of 7 per cent. Moreover, the last report issued shows that on December 31, 1914, there was on hand, after dividend payments of $1,574,000, a surplus of nearly as much more. To be exact this surplus was $1,471,747.

This situation was brought about by organizing a series of holding companies. One after the other, singly and in groups, the numerous electric properties throughout the city were brought together, until, in 1902, the acquisition of the Kensington Electric Company completed the process. The Philadelphia Electric Company owns all or nearly all of the stock of five other companies, three of which are themselves holding companies.

At the basis of this complicated structure are some twenty-five operating companies. Their independence of action has, of course, entirely disappeared; but their corporate organization and their securities still exist.

Prior to 1895 a number of companies, including the Brush, United States, Philadelphia, Northern, Penn, and perhaps the Columbia, were brought together as the "Electric Trust". Closely associated with them was the Edison, which leased certain conduits belonging to the Penn. In order to consolidate this organization there was incorporated in 1895 the Pennsylvania Heat, Light & Power Company. This new company acquired nearly all of the stock of the companies in the group. On this stock there had been paid in by the stockholders no more than $3,131,200, but the new company issued an enormous volume of new securities, the net increase amounting to $6,763,100.

The next step was to incorporate in 1898 the Pennsylvania Manufacturing Light and Power Company which acquired the Pennsylvania Heat, Light and Power Company (the holding company just mentioned) and a number of other companies including the Hamilton, Powelton, Manufacturers', Diamond, Suburban, Wissahickon, West End, Bala and Merion, Germantown and Keystone companies. Again there was an increase in the volume of outstanding securities, this time amounting to $2,076,811.

In 1899 four companies, *i. e.*, the Southern, Overbrook, Beacon and Cheltenham, were brought together by incorporating the National Electric Company. Once more there was an increase in securities, the expansion in this instance amounting to $2,825,960.

This last step had brought all but one of the companies operating within the city limits, and several outside companies as well, under the control of two large holding companies, the Pennsylvania Manufacturing Light and Power Company and the National Electric Company. To bring them together the Philadelphia Electric Company was incorporated in New Jersey on October 5, 1899. The two holding companies just mentioned were acquired with still another increase in securities, this last expansion amounting to $9,139,732. There was thus a total increase of $20,805,603 in outstanding securities through the organization one after the other of these four holding companies.

These estimates are carefully worked out in the main part of this report where the evidence will be found presented in detail; a careful examination of the data there submitted will show that these conclusions are conservative. It has nowhere been assumed that security issues were excessive. In every case of doubt it has been taken for granted that the outstanding stocks and bonds represented actual payments to the companies by the security holders. It may well be that $20,805,603 is altogether too low a figure. Accusations have frequently been made that in still other instances stock was issued "full paid" when actually little or no cash was received for it. To the extent that such charges are true the conclusions just stated are too conservative. The figure given is a minimum and not a maximum.

To the city and people of Philadelphia these increases were of great importance. The movement throughout was characterized by the policy of turning stock into bonds. Each holding company issued its bonds in payment for the stock of the companies it acquired and then put out in addition a large volume of its own stock. Even had there been no increase in the volume of securities this would have been serious. If any one or all of the small companies had failed to pay dividends on its stock, the general public would have been little concerned. Owners of stock would merely have been said to have risked their funds in an unsuccessful enterprise. Changing the stock into the bonds of the holding companies, however, altered the situation. Bondholders are technically not owners but creditors. Failure to receive interest on bonds has the appearance of serious misfortune. Ability of the companies to meet these payments is viewed as essential. The inability of a public service corporation to do so seems to be prima facie evidence of a need for higher rates. Stockholders who can thus readily turn their stock into bonds have thereby greatly strengthened their position. Outward appearances are in their favor.

At each stage of the consolidation process additional securities were issued. Stock of underlying companies was in each case exchanged for the bonds of the new holding company and these exchanges were usually at very high prices. Then a large volume of the stock of the holding company was issued. Purchasers of this stock ordinarily paid but little for it but in a few months or perhaps years exchanged it on favorable terms for the bonds of the new holding company.

An illustration is found in the preferred stock of Pennsylvania Heat, Light and Power Company. This stock had a par value of **$50** per share but there was paid in on it only **$35** per share; yet bonds of Pennsylvania Manufacturing Light and Power Company were later given for it on the basis of **$66** per share. The common stock of this same company had been issued as a bonus to preferred stockholders and yet it was purchased in the same manner for **$24** per share.

A still higher price was paid for the stock of Pennsylvania Manufacturing Light and Power Company. On this only **$5** per share was ever paid but it was purchased in **1899** with bonds of Philadelphia Electric Company for **$35** per share.

Philadelphia Electric Company at the present time is responsible directly or through guarantee for interest payments on **$28,276,502** of bonds which were issued in exchange for stock in the manner described. Some of this interest is at the rate of 4 per cent. and some at 5 per cent., all the interest payments thereon amounting to **$1,263,683** each year.

It is, of course, maintained that no matter how excessive these security issues may have been, the company has in later years invested large amounts in the property and that its actual value is now equal to the amount of its bonds and stock. Only an accurate appraisal can settle this point and it has been announced that an appraisal is now under way.

In the meantime it may be pointed out that an increase in the value of the properties sufficient to offset the **$20,805,603** that was mentioned, must have come from earnings and have been possible only because the rates charged were more than sufficient to meet operating expenses and pay interest and dividends on the outstanding bonds and stock.

This presents two general alternatives. If rates charged have been high enough to make this possible and the value of the property is now equal to the security issues, it should now be possible and proper to reduce the rates. Present charges would certainly be unnecessarily high.

If, however, an accurate appraisal shows that this increase in value has not been accomplished, it is evident that the rates are high enough to pay a return on a capitalization that is still inflated. In either case it seems clear that the rates should and could be reduced.

In the following pages will be found the detailed evidence in support of the conclusions thus briefly stated.

To present clearly the history of Philadelphia Electric Company it is necessary to explain the electric light situation in Philadelphia twenty and more years ago. The organization of today is a consolidation of a large number of small companies and has attained its present form through a process of gradual development. All of the facts regarding this growth are not available to the public and a history written by one who did not participate in the events is necessarily incomplete. In the following account there are included only statements that have been very carefully verified. As a method of guarding against error frequent footnotes have been introduced in support of all important facts.

By the end of 1896 there had been formed 19 different companies to furnish electricity within Philadelphia. These companies are given in the accompanying table (designated as table I). For each company there is indicated the date of incorporation, the amount of capital stock authorized, the amount of stock issued, the amount "paid in" on the stock issued, and the amount of bonds outstanding.[1]

[1] The information presented in this table has been compiled from a statement by Philadelphia Electric Company to the Philadelphia Stock Exchange on January 31, 1902, and presumably all of the facts are as of that date.

TABLE I

SECURITIES ISSUED BY ORIGINAL ELECTRIC LIGHT COMPANIES OPERATING IN THE CITY OF PHILADELPHIA

Names of companies	Date of incorporation	Authorized capital	Issued capital	Amount "paid in" on stock issued	Bonds outstanding
Edison Electric Light Co. of Philadelphia	1886	$2 000 000	$2 000 000	$2 000 000	....
Brush Electric Light Co. of Philadelphia	1881	1 000 000	1 000 000	1 000 000	....
United States Electric Lighting Co. of Pennsylvania	1881	1 000 000	1 000 000	1 000 000	....
Philadelphia Electric Lighting Co.	1882	50 000	50 000	50 000	....
Powelton Electric Co.	1890	600 000	599 140	599 140	....
Bala & Merion Electric Co.	1891	100 000	50 300	50 300	....
Northern Electric Light & Power Co.	1885	1 000 000	650 000	650 000	....
Suburban Electric Co.	1890	500 000	399 840	399 840	....
Diamond Electric Co.	1890	250 000	250 000	250 000	....
Manufacturers' Electric Co.	1890	250 000	250 000	250 000	....
West End Electric Co.	1890	250 000	237 600	237 600	$70 000
Germantown Electric Light Co.	1884	150 000	125 000	125 000	....
Wissahickon Electric Light Co.	1893	250 000	200 000	200 000	....
Columbia Electric Light Co.	1892	100 000	66 300	66 300	28 000
Hamilton Electric Co.	1896	1 370 000	1 370 000	137 000	....
Penn Electric Light Co.	1887	1 000 000	882 248	882 248	....
Southern Electric Light & Power Co.	1890	2 000 000	500 000	500 000	....
Keystone Light & Power Co.	1886	1 000 000	124 950	124 950	....
Kensington Electric Co.	1893	150 350	150 350	150 350	....
Totals	......	$13 020 350	$9 905 728	$8 672 728	$98 000

Total amount "paid in" on stock issued	$8 672 728
Total bonds	98 000
Total amount "paid in" on securities issued	$8 770 728