REPORT

OF THE

Electricity Commission

(LAPOINTE COMMISSION)

OF THE

PROVINCE OF QUEBEC

TO THE

PRIME MINISTER OF THE PROVINCE

21st JANUARY, 1935

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To the Honourable L. A. Taschereau, LL.D., K.C.,

Prime Minister of the Province of Quebec.

Pursuant to our appointment as Commissioners to enquire into the question of electricity in the Province of Quebec, having special reference to:—

1. State ownership;
2. Municipalization;
3. Effects of the municipalization of the big centres upon the rural districts of the Province;
4. Study of the present rates for electricity in view of the possibility of reducing them;
5. And in general the extension of the use of electricity in the rural municipalities.

We, in the first instance, invited those interested—utility companies, municipalities and other organizations—both by letter and by announcement in the press of the Province, to submit any briefs or send in any information to us which they considered pertinent to our enquiry.

We then announced that we would hold public hearings at various places within the Province. These hearings were held in the following cities and towns:—

Montreal
Quebec
Hull
Rimouski
Chicoutimi
Three Rivers

By appointment we interviewed the Chairman of the Ontario Hydro-Electric Commission and discussed with him matters that had been brought before us in the course of our hearings and collection of evidence concerning the question of electricity in the Province of Ontario as compared to the Province of Quebec.

Our study dealt with the following subjects:—

1. The Nature, Function and Importance of Electricity;
2. Electricity in the Province of Quebec;
3. Different Systems of Operation which can be Applied to the Business of Electricity;
4. Electricity Rates;
5. Rural Electrification.

We now have the honour to present the following report:—

I.—THE NATURE, FUNCTION AND IMPORTANCE OF ELECTRICITY

The extension of the use and control of electricity is an industry which vitally affects the welfare of the community and which gives rise to some of the most important social and economic problems of the day. Light and power have become economic necessities and will increase as such in the years to come. The uses to which electricity may be put gradually extend to many spheres, its growth has been remarkable and it will continue more and more to ameliorate domestic life, both urban and rural.

In the study of the problems which are created by this important public utility, it is essential to have regard to the national and local interests. It is necessary to adjust and harmonize the principles of municipal autonomy with the broader interest of provincial economy and that of society generally. If an efficient and regular service can be provided at reasonable rates, the use of electricity will spread and a greater demand will favourably affect the conditions of sale and distribution.

An industry so essential to the country and which only exists in virtue of privileges granted by the State cannot be considered as an ordinary private industry. Its importance in our economic and social life, and the almost complete monopoly which it exercises carry with them responsibilities to the public from which other industries are free. It is obvious that different regulations must be imposed.

The right to exploit the natural resources of the State, to furnish practically an exclusive service, to make use of the roads and highways above and below the surface, to expropriate private property and so on, are rights which belong to the public and it is the same public which confers these rights on those who

exercise them. Private industries do not possess such rights. If the State entrusts these important social functions to a corporation, the corporation only has the right to act as mandatory to the State. Its officers and its employees assume a quasi official position; the public benefit by their ability but suffer from their incompetence.

Under such circumstances, the public has the right to insist that the administration and expansion of this industry be not only in the interests of the creditors and shareholders of the corporation, but also in the interests of the public itself; and so it follows that the State, whose duty is to assure the prosperity of the community, has the following obligations to the public utilities and the community:—

1. To facilitate the supplying of electricity to the greatest number at the lowest price compatible with efficient service and general economy;

2. To exercise the necessary control and supervision towards this end;

3. To permit electrical companies which are operated on proper lines such rates as will assure efficient service and a reasonable profit to the security-holders on the capital usefully employed in the business.

The very nature of this industry makes the intervention of the State necessary. It has the characteristics of a monopoly and it is preferable that it should remain as such. Competition, which is the safeguard of public interest in ordinary commercial business, has not the same effect on public utility enterprises. It cannot be in the best interests of the public to have two different water or telephone systems or postal services. In practice competition in public utilities protects neither the producer nor the consumer and in a number of instances it would lead to disaster. The advocates of all forms of administration agree on this point. "Concentration of larger generating units in larger and fewer power stations, wherever practicable, is urgently required in order to reduce the cost of industrial power to a minimum . . ." (Williamson Report, Great Britain, 1918, page 6.)

Senator Norris, of Nebraska, leader of the movement in favour of nationalization of electricity in the United States, expressed himself as follows:

"As a matter of fact, electricity is most economically produced and distributed on a large scale. The nature of the industry lends itself to monopoly. Great saving can be effected by hooking up all generating plants on one system and transferring and relaying current so as to keep the consumption constantly up to the peak load. Electricity can be relayed from coast to coast and the

greater the super-power system thus connected, the greater the possibilities of human benefit."

If the business of electricity is by its nature a monopoly, it is essential that it be controlled and regulated by the State in such a manner that the interests of the public will be protected. The profit element which has been of such great importance in the progress and development of the industry must be reconciled with public service and subordinated thereto.

II.—ELECTRICITY IN THE PROVINCE OF QUEBEC

During the year 1932, 98% of the total power produced in Canada was generated from water power; power plants and necessary machinery for the production of 7,045,260 horsepower (1) were at the disposal of industry, and of this amount 3,357,320 horsepower—or somewhat over half—was produced (2) in the Province of Quebec. A considerably greater quantity is capable of being produced when further developments are made. It is undoubtedly true that the Province is favourably situated for the production and economical distribution of electric power.

It is interesting to note that 61% of the total sale of power in this Province in 1932 was made to large manufacturers, while there was exported to Ontario during the same year 1,452,732,000 kilowatt hours—in other words, 17.1% of the total Quebec production. The capital invested in the industry in the Province of Quebec amounted to $574,953,411, which is 43.04% of the total capital invested in the whole of the industry in the Dominion.

This tremendous development and large production of electric power is the result of slow but steady progress. The pioneers in the industry invested their capital and took risks displaying courage and initiative before meeting with success. As in other countries, many small corporations and individuals established in numerous centres comparatively small generating systems which were subsequently absorbed by larger concerns.

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(1) The figures cited here have been taken from the supplement of the report of the Federal Bureau of Statistics, Transportation and Public Utilities Branch, Industry of Central Power Plants for the year 1932.

(2) Produced is hereby used as meaning installed.

The Province today is almost entirely served by four large distributing companies:—

Montreal Light, Heat & Power Cons., which furnishes electricity in the City of Montreal and surrounding district;

Shawinigan Water & Power Company, which produces and distributes electricity in the central part of the Province, including the Cities of Quebec, Three Rivers and both the Shores of the St. Lawrence as far as the town of Rivière-du-Loup on the South Shore;

Southern Canada Power Company, Limited, which supplies the Eastern Townships; and fourthly

Gatineau Power Company, which serves the City and District of Ottawa, the North Shore and part of the South Shore of the Ottawa River, and all the territory along the Gatineau.

These four large networks each capable of supplying power are so designed that they can supplement each other in the case of necessity.

In addition there are some municipalities and several other independent networks, such as the Lower St. Lawrence Power Company, which supplies the counties of Matane, Rimouski and Temiscouata, and the Saguenay Electric Company—a subsidiary of Duke-Price Power Company, Limited—which furnishes power in the Chicoutimi and Lake St. John Districts.

Any study of the electrical problems in this Province must take into consideration the situation described above and have regard to the policy followed in the past, what has been accomplished, the capital invested, the expenses and future obligations incurred, and the attitude of mind of the people of the Province.

Such a study would be considerably easier if it was a question of formulating a new policy in an undeveloped territory, rather than having to make recommendations adapted to a situation already established. The gradual evolution, the initial difficulties, the lack of experience, the risks taken have all contributed to certain abuses now existent which should be remedied. There have been cases of over-capitalization, of subdivision of capital stock, of profits accumulated at the expense of the consumers, and in other instances shares and debentures have been issued in amounts not justified by the real valuation of the property or the outlook of business at the time of issue. In some cases the results have been against the public interest.

In this connection the Public Service Commission of the Province of Quebec, which was organized in 1907, has intervened with beneficial results in some cases, but generally the work accomplished was not sufficient.

III.—DIFFERENT SYSTEMS OF OPERATION WHICH CAN BE APPLIED TO THE BUSINESS OF ELECTRICITY

1. PRIVATE ENTERPRISE WITH UNLIMITED COMPETITION.

The very nature of the industry is opposed to such a method of administration and it is, therefore, not necessary to consider it.

2. PUBLIC ADMINISTRATION IN A SYSTEM OF COMPLETE STATE OWNERSHIP OR NATIONALIZATION.

This is substantially the system in force in Ontario and the results accomplished there have certainly been interesting.

The reasons which are generally given in favour of nationalization are that the electrical industry is too important to the welfare of the State to be put under the control of private individuals, that the benefits which it produces should be used by the State in the development of an organization removed from the elements of profit and speculation, that control by the Public Service Commission is not effective and, finally, that there is danger of private companies gaining control of public opinion by means of the different methods of publicity which are at their disposal.

Certain of these arguments have much value and merit serious consideration. On the other hand, the opponents of public ownership say that State monopoly destroys initiative, that political needs often have more weight than economic wants, that administration by the State is always difficult, discipline is lacking and the influence of political parties interferes with operations.

Though we do not wish to put ourselves on record as to the merits of these assertions, we are of the opinion that there are in this Province insurmountable obstacles to the putting into effect of a programme of nationalization. Taking the situation as it stands at the present time, nationalization would require the absorption or acquisition by the Province of all the systems actually in operation and undoubtedly several hundreds of millions of dollars would be necessary for such a purpose. The people of the Province might well look askance on an undertaking of such magnitude.

The situation in Ontario was very different. Some of the large municipalities owned their own system and they formed a nucleus around which the network was built up and extended.

Here the legal difficulties that would accompany the organization of such a vast system would be very formidable. The joint stock companies have franchises, contracts, servitudes and property rights in all fields. That would all have to be acquired or confiscated by the Crown.

In the interpretation of vested rights, the Courts have declared that these rights include future possible benefits as well as present value of property. The determination of the amount payable would be a very complicated problem, opening the way to interminable proceedings.

Under a national system the municipalities would probably have to take charge of the distribution in their own territory, but as their capacity to borrow is limited, they would very often be unable to finance the acquisition of the local distribution system actually in operation. The Province would then be obliged to go to the help of the municipality.

We do not believe that such a project is to be recommended in this Province. Besides, it has not been seriously sought after in the briefs that have been produced, nor in the oral arguments that our Commission has heard. This solution does not seem possible at this time. It would involve too much of an upset in our economic equilibrium.

As a matter of principle, the State ought to put itself in the place of an already existing private enterprise, only when the enterprise is incapable, or cannot be effectively compelled to do itself what ought to be expected from it in the public interest.

Complete State ownership is a regime to which recourse should be had in this Province, only after having exhausted all the other means capable of promoting the public good.

3. PARTIAL STATE OWNERSHIP.

It is suggested by the Union of Municipalities that a means of bringing about reduction of rates would be to have competition for the private companies from State-owned plants. The Province would develop certain water powers and itself organize certain transmission and distribution lines carrying electricity to the public.

The adoption of this system might be considered if there were not already developed more hydro-electric plants than the Province needs. We produce much more electricity than we consume.

Why make huge capital expenditures to bring about competition which might be ruinous if there are other means of attaining the desired end? From

an economic point of view this system would not be sound. "Waste does not make a people wealthy".

In Britain, before the report of the Williamson Commission, there were six hundred electric generation plants. This multiplicity of plants was considered to be ruinous and disastrous. All the experts agreed in saying that concentration of production by a considerable reduction in the number of plants would result in reducing the price, and this solution was adopted.

In France, the law prescribes a special collective organization for the purpose of establishing a network of high tension transmission lines intended to join up the generating plants with each other and with the transformer stations from which the distribution lines go out. The State exercises a stringent control on the whole system.

Even in Ontario competition does not seem to be desirable, and the Provincial service has gradually acquired a large number of privately owned and municipal systems.

It is everywhere admitted as desirable from the point of view of economy and efficiency that the electric service in each community should be a monopoly. It is even one of the aims and objects of effective control to eliminate all useless and ruinous competition. A monopoly of this nature cannot deal unjustly with consumers if the Government gives a controlling body requisite powers, and if the body does its duty.

In the United States, the situation is not the same. There is not that surplus of electric energy which we have at our disposal in this Province. Besides, the control of public services is under the jurisdiction of different states. Commissions are created by each state respectively and are governed by different laws. There no uniformity exists. For experimental purposes the creation of certain electrical generating stations is perhaps desirable.

In our Province, we have not this diversity of control, and a strict and uniform set of rules can be imposed.

The Tennessee Valley Authority System, to quote even from its authors, is an experiment. Its operations and its results remain to be proved.

It will be very interesting to follow in the course of the coming years the results of this experiment and to reap every possible benefit from it. But it is premature to take as a yardstick this undertaking in the course of development which will apparently involve hundreds of millions of dollars of invest-

ment; besides, it must be remembered that the production and sale of electricity forms only one part of the programme, the real aim and object being to reawaken to industrial activity a huge district which at the moment is in a very precarious situation.

The rates adopted in these big experimental centres are, to a certain extent, provisional and anticipate the extensive electrification of the whole region. It is difficult enough to forecast at this stage the actual results of this vast experiment, although generally speaking a lowering of the cost of electricity in the United States may result; at the moment U. S. costs are considerably higher than anywhere in Canada.

We believe that it is preferable for the Province to await the results of this experiment, and we have no doubt but that if the results are favourable, all the private companies producing and distributing electricity will have to give similar advantages or disappear from the scene.

4. MUNICIPAL OWNERSHIP.

All the municipalities of the Province of Quebec have the right and power to undertake municipalization of electricity. Article 408 of the Municipal Code gives the right to all corporations covered by this code. Article 456 of Chapter 108 of the Revised Statutes of the Province of Quebec gives the same right to all cities and villages covered by the general law.

The cities of Montreal and Quebec alone do not fully enjoy this right. The City of Montreal has the right to municipalize electricity for the purpose of street lighting and other municipal services.

The City of Quebec has the right even to municipalize for the purposes of domestic and commercial lighting but not for distribution of motive power, which is surely an anomaly.

We see no reason why all the municipalities are not placed on the same footing in this respect and have not the power of municipalizing electricity, provided that the proprietary voters approve all by-laws in the matter and as actually called for by the law.

In studying this problem, the municipality ought to consider it under two different aspects—the generation of electrical energy, and its distribution.

Generation is certainly more economical when it is centralized, then as to distribution, sale and delivery are essentially a local matter and may benefit

from decentralization. By reason of the ease of transmission to long distances the net cost is reduced and it is possible to benefit from considerable hydro-electric developments which are already in existence.

Some of the municipalities have adopted this system and, while owning and operating their distributing plant, they buy power from one of the big corporations which sells it wholesale. This is the system most to be recommended to municipalities which wish to distribute their own electricity. Under this scheme, the municipal systems become a co-ordinated part of the big systems and receive a more dependable, regular and economic service. It is also the better way of achieving uniformity which is so desirable in the matter of electrical distribution.

In certain particular cases, it would be more beneficial for two or three or even a large number of municipalities to get together for the purpose of establishing a joint system.

The municipalities ought to have the power to acquire water powers outside the limits of their territory as well as to establish the necessary transmission lines.

Municipalization, which is already permitted by the laws of the Province, should be allowed to carry on, subject to a control which would reconcile local autonomy with the general interest of the community, as we recommend later.

5. REGIME OF PRIVATE ENTERPRISE UNDER CONTROL.

It is the middle course between public ownership and free private enterprise.

After having very carefully considered all the factors which might affect the conditions of the sale of electrical energy in our Province, and having taken into account the situation created by the policy of the past, as well as the interests present and future of our fellow citizens, we have reached the conclusion that the complete and adequate control of the production, transportation, distribution and sale of electricity, both by private enterprise and by the municipalities, is the solution which the present time calls for.

We recommend that the responsibilities of such control be confided to a commission organized according to the principles which we set out in this report.

The control to be effective ought to be complete and exercised by a body giving every guarantee of competence and of justice and possessing the public confidence.

To be complete the control ought to be exercised:

(*a*) On all people and corporations, including municipalities, who devote themselves to dealing in electricity;

(*b*) On the funds engaged in the enterprise, the capital, the rates and the expenses.

If the State has the duty to secure reasonable rates for the undertaking, it has as a corollary the right to supervise the use of the revenues created by that undertaking.

The powers of the controlling Commission should be of a manifold nature:

1. It will issue regulations on its own initiative, thus participating in the legislative power;
2. It will see them carried out—executive power;
3. It will decide litigious matters which will be submitted between persons engaged in the industry or business of electricity, and the consumers—judicial power;
4. It will do the studies necessary to enable it to exercise its prerogatives with the maximum of efficiency—power of research.

The Commission ought, in our opinion, to have specifically the following powers:—

1. The organization of electrical companies ought to be submitted for its approval;
2. Any water power ungranted ought not to be granted without its approval. They ought to be preserved for the future needs of the Province, and any concession ought only to be made on condition that the development is definitely required and economically justified;
3. No electrical development ought to be made without its consent;
4. The Commission ought to make a complete valuation of the real assets of the companies and corporations engaged in the business of electricity before approving the rates. We will deal later with the principles according to which the rates ought to be established;

5. Coalition or amalgamation of companies will not be permitted without its consent and no company will be allowed to acquire shares of another company or make a contract with it concerning the electrical business without the approval of the Commission;

6. The Commission shall supervise and control the capitalization of companies, no change in capitalization by issue of shares or bonds or stock dividends to be made without its approval;

7. The Commission will establish a uniform and detailed system of accounting which shall be adopted by all companies and corporations, and it will have the power at any time to make a complete examination of their books. The accounts and books of the big public utility corporations are not private property, and the State represented by the Commission has the right to take communication of them;

8. The companies and corporations shall make a complete report on their affairs on the dates and on the form called for by the Commission;

9. The Commission will have the power to order companies and corporations to furnish electric energy to people and corporations, which it will designate, in the manner and according to the rules established by it;

10. The Commission will have power to make in existing contracts the necessary modifications in order to do away with all unjust and unreasonable conditions and practices, and those causing unfair discrimination which do not conform to the rules established by the Commission;

11. Every contract between a company and a municipal corporation shall be submitted for the approval of the Commission, in order to do away with all undesirable proceedings in the negotiation and the execution of such contracts.

In a general way, the Commission shall have all the powers necessary to see to the maintenance of a perfect electric service, to exercise its control of the accounts and books of companies and corporations, to supervise the financial operations, particularly the issue of capital stock and debentures, and the establishment of fair and reasonable rates.

The public is alive to all these operations, together with their difficulties and the need of technical knowledge.

The control requires men possessing knowledge, prestige, courage and character which will render them independent of high finance and politics, and the qualifications necessary to give the public that confidence which is the essential element in the solution of the problem.

The controlling Commission ought to have an adequate personnel comprising experts and the necessary funds for the fulfilment of all its duties. The Commission will be a central authority to which will be submitted the absolute and complete control of electricity in the Province of Quebec, both as to production and distribution. It could be called, as in England, "The Electricity Commissioners".

The Public Service Commission actually in existence will continue with its other functions which are already of a various and considerable nature, but everything that concerns electricity will cease to be submitted to it.

The Commission which we recommend should be composed of three members of which the tenure of office will be the same as that of judges of our Superior Courts.

We have considered the choice of several methods of nomination and we have reached the conclusion that, as it is the Government which will be held responsible for the acts of this Commission, the naming of the members should come from the Government.

One of the members of this Commission ought to be an electrical engineer, the two others ought to represent as much as possible industries and consumers in general, one of them should be specially familiar with matters concerning the operation of joint stock companies.

The Commission should name as counsel an advocate who would advise the Commission and be in charge of all the legal affairs affecting it. This advocate ought to represent the public before the Commission in all its enquiries and the litigious matters which would be submitted to it.

The salary to be paid to the Commissioners ought to be sufficient to attract the best men available. In order to assure complete independence of action by the Commissioners, it is essential that they be free from all care as regards their personal security. To this end, compensation in the form of a pension, of which the amount should be specified in advance, ought to be assured to them to provide for the case where, for one reason or another, independent of their will, they should cease to carry out their functions.

Only an act of dishonesty on their part in the exercise of their duty as established by a Court of Justice could relieve the Government of this obligation.

The cost of this Commission ought to be covered by a tax on the gross revenue of all the enterprises selling electricity in the Province. This tax could be varied each year to cover the exact expenditure incurred. For the protection of those interested some maximum on a fixed percentage basis should be determined.

In the case of expense of appraisal, the entire cost could be charged to the undertaking concerned, which would have the right to write off the payments by annual charges on a basis to be determined in each particular case.

It is recommended that the Government should pay, out of the public money, the cost of setting up and putting the Commission into operation during the period of organization, which without doubt will take several months.

Such a control may appear severe, but we are convinced that it only will satisfy public opinion and it is certain that the institutions which carry on a public service will not know how to maintain themselves without the confidence of those with whom they do business.

Prudence tells us to exhaust all possibilities of effective control before assuming the risks of governmental operation, but we have no doubt that there are only two alternatives—a choice between complete and effective control and Government ownership. It is essential that the interested corporations and all those who have invested capital should realize and understand this situation.

A Commission of control, named with all the care and all requisite guarantees, with all safeguards which will ensure its independence and impartiality, seems to us to be the only authority which will be able to do justice to all the parties interested, to the producers, to the consumers and to the owners of shares and debentures.

If the public officials chosen to undertake this control with all the necessary powers cannot fulfil their duty, how can we rely on them fulfilling the more than difficult task of operating and administering. Yet the defeat of a policy of control, the failure of the Commission appointed in this instance, the refusal of the electricity corporations to recognize that their operations are those of a public service and not exclusively private, an absence of frank and complete

publicity will lead inevitably to Government ownership, whatever the obstacles that may have to be overcome in adopting it.

Today the public insists on taking an interest in the administration of public utility companies and, in particular, those which distribute electricity. Collaboration ought to be established not only between the management of the companies and the consumers, but also with the general public represented by the State, which in its turn would delegate its powers to a Commission. If the companies do not wish to accept with good grace collaboration in the common interest, this collaboration ought automatically to be turned into a control of their activities by means of the text of laws sufficiently rigid that the control should be as much more complete as the reluctance of the companies would be more pronounced.

It seems possible to protect the interests of the consumers just the same as of the shareholders, in setting up this intermediary organism between the two bodies.

IV.—ELECTRICITY RATES

The setting of rates would obviously be the most important work of the Commission. The rates are the cause of the uneasiness and the agitation which seems actually to exist. It is the main question which interests the public and the new methods of operation which are suggested are with the idea and hope of reducing and evening the rates paid by consumers.

As a matter of fact, all those from whom we have heard have given a remarkable tribute to the quality of the service furnished by the electricity companies. All the complaints are concerning the cost of electric energy.

A comparison of rates between different territories is undoubtedly difficult to establish. There are all kinds of elements and factors to be taken into account. Among others are the population and its density in the different communities where the electricity is sold, the number of customers, the diversity of the supply and the manner of consumption by these customers, the wealth and mode of living of consumers, etc., etc.

Whatever be the number and nature of the rates adopted, their main object after all is to spread over the total clientele all the costs of production of electric energy distributed by the network, whether it comes from private or public ownership. In order that the costs should not be too high and that the selling price should be fair and reasonable, it is necessary from the outset that the financial policy of the distributing company should be sound, that the

capital ought not to be watered, that the shareholders should be satisfied with a reasonable profit and not cause the consumers to pay on exaggerated assets which are used for their benefit. It is also necessary, in the case of a municipally-owned or State-owned system, to have honest and wise administration willing to submit to principles which are generally admitted to be correct both from the technical as well as the economic point of view.

The points admitted, it should be noted that the cost of electricity is divided into two elements—the fixed charges and those which vary with the quantity of energy sold. The fixed charges in the case of a network fed by a hydro-electric plant are very important. They result in large measure from the necessity of rewarding and amortizing the capital invested in the construction of generating plants, transmission lines, sub-stations, the distributing network and the installations for customers. They contain also certain provisions for the accumulation of reserve funds necessary for the protection of every well-organized enterprise. No matter what quantity of electric energy is used by the consumers, the fixed charges remain the same, or, in other words, the unit price of electricity is just as low even though the total consumption is greater. This fact is of considerable importance on the average price per kilowatt-hour.

Certain costs of production depend on the quantity of electricity sold. They arise chiefly from the commercial side of the enterprise and are in a certain measure influenced by the quality of service offered to the clientele. Certain of these expenses do not vary to any extent on the volume of production of the network and are added to the fixed charges to make a total amount which does not vary, irrespective of the use the customers make of the electricity put at their disposal.

Each consumer must pay his share of this fixed element of net cost whatever his consumption may be. This explains the "fixed charge" or meter rental comprised in a minimum charge which is found in light contracts, and also the "fixed charge" of so much per horsepower per month in contracts for motive power. This method of dividing the sale price into two elements—the fixed element set by reason of the burden of installation and the variable element proportionate to the energy consumed—is the most logical and equitable for all concerned.

Numerous other factors which cannot be ignored also enter into the calculations of net price. All these have their influence in the calculation of the average price per kilowatt-hour, or per horsepower.

It is chiefly between Quebec and Ontario that comparisons have been submitted to us, as much on account of the proximity of the two territories as by reason of the fact that the rates in Ontario are considered very low. There are, however, different social and economic conditions between the two territories which ought to be taken into account.

In addition, in Ontario, a long time ago they adopted comparatively low rates for domestic use, which have been adjusted at different times in the hope that growing consumption would bring receipts which would permit of balancing budgets. In Quebec, on the other hand, high rates have at first been adopted and to the extent that the public increased its use of electricity they have been gradually lowered. As the average consumption is more or less affected by the detailed rates of the tariff, the difference in policy in the two systems has brought about different results. This fact is the more important as there is a direct relation between the average consumption and the average price of electric energy.

In this connection it is to be noted, whether due to the different mentality of the people or to the rates, the average annual domestic consumption was in 1932 in Ontario 1558 kilowatt-hours, whilst in Quebec it was 621 kilowatt-hours.

In Ontario they endeavour to have each customer, insofar as he belongs to a certain category of consumer, carry the actual cost of the electricity he consumes, and all the rates are supposed to be established without taking into account any preferences or competition. In Quebec, on the other hand, the rates are subjected to solely commercial consideration, and the laws of free competition apply more particularly to the cases of the big contracts for motive power, from which there results a lack of uniformity and often even of method, which renders comparison of rates practically impossible. Let us add that in Ontario they strive to apply to each centre of population, to each municipality, the rate corresponding to the characteristics which are appropriate to it, while in Quebec the big distribution enterprises strive to use the same rates in a very widely extended territory which contains groups with very varying needs.

To sum up the difference in the method of rate-fixing in Ontario and Quebec is that in the first case there is strict and methodical administration, while in the second case the discretion of the management of the companies and the municipal systems has free play everywhere.

Insofar as it is possible to compare thousands of different rates, although established on well-defined principles, with other rates no less numerous but

altogether dissimilar, the following is what can be said of the present situation.

On the whole, the average charges for domestic service, for commercial service and for ordinary power service in small quantities are lower in Ontario than in Quebec, but the rates paid by consumers of considerable quantities of industrial power are generally lower in Quebec. These latter rates do not seem to follow any fixed rule but are rather the result of private contracts between companies.

In Ontario the rates enacted for customers of large quantities of power are based on the same principles as the other rates, that is, according to the value of the service or the cost price.

As regards consumers of domestic service, the minimum charge paid in Quebec is generally speaking no higher than in Ontario and is even lower in certain cases, but the consumers of larger quantities pay much higher prices in Quebec than in Ontario.

The rates in the United States are much higher than those charged in Quebec and in Ontario.

It matters little, after all, to know that in Ontario or in other countries electricity is cheaper than in Quebec. What chiefly matters is not so much the comparison of rates or of average prices, but rather the verification of the justness of the amount which the consumer must pay for the electricity he uses—this is an entirely different question.

More precisely, the whole problem consists in finding a means of placing electrical energy at the door of all present and future consumers in Quebec at a strictly minimum price, due consideration being given to the economic interests of the Province, the particular conditions of utilization and the quality of the service desired.

It is practically impossible for us to determine the rates for the different electrical services in this Province, and for this purpose a complete investigation should be made by engineers and experts under the direction of the Electrical Commission which we have recommended should be created. This investigation should establish the real value of all the properties of all companies producing and distributing electricity, as well as the actual capital invested in these enterprises.

If the rates are based on the actual value of the system and of the capital actually invested, the supposed capital, or "watered stock" cannot affect the consumers.

It is evident that all companies producing and distributing electricity have been formed in order to operate profitably, and they cannot continue to exist if reasonable rates do not assure them a profit on their operations.

What should this profit be in order to be equitable? It should be a profit resulting from reasonable revenue on the actual value of the property which is used to render the service.

The Commission, then, will have to determine:

1. The actual value of the property, and

2. What is an equitable and reasonable revenue for the use of this property.

The value of the property which has to be determined is a difficult problem, which gives rise to many interpretations, specially in the United States. The dispute is chiefly between the partisans of a valuation of the property based on the actual capital invested and used, "prudent investment", and the partisans of a valuation based on the actual value of the property, "reproduction cost less depreciation".

We believe that the Commission should enquire into each case and each point which, in its judgment, might have a bearing on the value, and it should take into consideration, among other things, the original cost of construction, as well as all sums spent for useful and permanent improvements, the probable cost of reproduction or of reconstruction of the property based on the average present price of materials, lands, labour, etc.

It must also take into consideration capital invested. The value of the property being established, what reasonable rate of revenue should be admitted?

In this connection, we have noted a declaration of President Roosevelt, published on the 5th August, 1932—"a return of 7 to 8% on its investment is held by the Governor to be a reasonable expectation by any power company. Consequently he holds to the view that his program of closer regulation by keeping his principle uppermost will do nothing to disturb the present high investment rating of the higher grade public utility securities, which in recent years have replaced railroad liens, as an investment favourite."

We believe that the rates should be established in such a way as to assure the company of an equitable and reasonable revenue.

However, in order to encourage initiative, good management and progress, we believe that when profits are more considerable, the excess should be divided between the corporation and the consumers or the Government, in virtue of representing the public. This division should be made in equal parts, when the excess amounts to 1 or 2%, but the share of the public shall become greater if the excess is higher than 1 or 2%. By this method, the consumers and the public will benefit by all increase in profit, while making it sufficiently interesting to the administrators to improve the efficiency of operation.

The rates should be based on the principle that each class should carry its own burden and meet the expenses called for for its use and to pay for its own costs. It is unjust to make some consumers pay a price higher than the value of the service that they receive so as to be able to give the same service to other consumers who cannot bear the cost of it.

In certain particular cases the interests of the public might require that an exception be made to this rule; the Commission should have all needed discretion to this end.

In summing up—rates should be just as equitable for the corporations as for the present and future customers.

V.—RURAL ELECTRIFICATION

In the Province of Quebec, where agriculture is and must continue to be the basic industry, anything that can be done to improve conditions or make rural life more attractive or remunerative has great social value. Among the more important improvements that can be made is the production of large quantities of electricity at low prices, together with its transmission and distribution to all groups of rural consumers. Much can be done to encourage and popularize the use of electricity by the farmer, particularly as light is equally as important to him as motive power, amounting practically to a labour-saving device in his house and in the other farm buildings.

In several of the principal countries of the world, rural electrification has become a national problem as it is recognized that by providing the farmer with electric light, rural conditions are improved and the inducements to stay on the and are thereby strengthened.

Remarkable progress has been made in the distribution of electricity to farms, particularly in such countries as Germany, Denmark, Sweden, Italy and France. The methods employed differ in various countries and districts but

frequently the organizations which undertake the distribution are co-operative agricultural societies or syndicates receiving subventions from the State.

The difficulties which face rural electrification are numerous and include among others the following:

1. The return on capital is small compared with that of the urban system;
2. The capital required is proportionately higher per customer;
3. The load factor is low, lighting often being the only use to which the electricity is put;
4. The population is scattered and the consumption small;
5. Rates are often complicated and the consumer finds them difficult to understand;
6. The installation cost is relatively high;
7. While several uses have been found for electricity on the farm, its application to machinery and labour is only on a small scale.

Rural electrification can only be successful by means of increased consumption of electricity for purposes other than that of lighting; and at the present time the approximate cost of electric service is higher for the rural than the urban consumer.

Basically the problem is more of a social than an economic nature and if rural electrification cannot be accomplished under ordinary conditions, the State should come to the aid of the farmer by paying part of the costs of bringing the electric power to him. This method has been adopted in Ontario, which province pays about 50% of the cost of distribution and also furthers the installation of electricity on the farms by means of loans and subventions. Officials of the Ontario Hydro-Electric Commission have said that this procedure was adopted, not as a question of business but as a solution to a social problem, the principal object being to endeavour to keep the farmers on the land. The price charged to the rural consumer in Ontario is, however, quite high, the rates, as for other services in Ontario, being based on the cost price.

The practice in Ontario is to place farmers in different categories, depending on the nature of their farms and their needs. The largest number of those receiving electric power fall into what is known as Class 2B or Class 3. The former covers farms of 50 acres or less, and provides for motive power not exceeding two kilowatts. The latter covers larger farms which often use three kilowatts. In all cases a fixed monthly charge is made. It is usually $2.50 for

Class 3 and in most instances $2.10 for Class 2B. Consumption is charged for by means of rates varying from 1.8c to 7.2c per kilowatt-hour, according to the location and the quantity of power used.

In Quebec, however, the minimum charge is generally less and it often allows for a consumption which, although low, seems to satisfy the needs of our farmers. For consumption over that which is allowed by the minimum charge, the rates in Ontario and Quebec do not differ materially. According to the most accurate statistics we have been able to obtain, in both of the Provinces of Ontario and Quebec about 13% of the farmers have the advantage of electric service. In the Province of Quebec the majority of farmers consuming electricity do so for lighting purposes only. Widely differing conditions are the cause of this state of affairs, and an extensive educational campaign, coupled with further experiments, must be made before the expansion of rural electrification can take place in a satisfactory manner.

It is found that the electrified districts in this Province are only those situated near the transmission lines of the large companies and the use to which the electricity is put is limited to the lighting of buildings. For this service the rates charged by the companies do not appear too high, particularly compared with the charges in other countries and other provinces. We are of the opinion that the Government should assist rural electrification by means of subventions, particularly to make available electric service to districts which are not situated near the principal transmission lines.

The organization of co-operative associations which have as their object the construction of power lines connecting with the larger networks should be encouraged by the Government and part of the construction costs should be paid and considered as an agricultural subsidy. The prices to be charged should be established by the Electricity Commission. We suggest the appointment of an officer of the Department of Agriculture who would act as an intermediary between the farmers, the distributing companies and the Electricity Commission, and whose duty it would be to further the expansion of rural electrification. It would appear advantageous for two or more concessions or parishes to unite in forming a co-operative syndicate to attain the objects suggested above. We suggest that experiments be made of such systems of distribution in three or four districts in the Province where Experimental Farms are in operation, in order that this method of distribution may be made known and to establish the results therefrom.

SUMMARY OF RECOMMENDATIONS

1. A special law should be adopted covering everything pertaining to the production, transmission and distribution of electricity in this Province, as well as to the individuals, companies and corporations engaged in the business.

2. A new commission called "The Commissioners of Electricity" should be established having exclusive jurisdiction over electricity, its production, transmission and distribution and over those engaged in the industry. The choice of the members, their qualifications, the method of their nomination, the period of term of office, and the personnel at their disposal should be as determined in this report.

3. The powers of the Commission should be, among others, the following:

(*a*) The establishment of all generating service, transmission or distribution of electricity, of whatever nature in this Province, should be submitted for its approval;

(*b*) All extensions, modification, change or cessation of service should be approved by the Commission;

(*c*) No development of hydro-electric power should be undertaken without its consent;

(*d*) The Commission shall enquire into existing rates and charges for all services of electrical power, and establish that the rates thus charged are fair and reasonable;

(*e*) The Commission shall make a complete valuation of the actual assets of the various companies, corporations or individuals who are either engaged in the production, transmission or distribution of electricity and the rates shall be based on this estimate in the manner outlined in this report;

(*f*) No advantage, preference or favourable treatment shall be granted to any consumer of electric power, the rates being those determined and approved by the Commission;

(*g*) The Commission shall be the tribunal for the hearing of complaints regarding the subject of rates or electrical service, and shall give judgment on such complaints;

(*h*) No amalgamation of electrical services shall take place without the consent of the Commission, and no company or corporation shall be permitted to acquire the shares of another company or corporation, or enter into a contract with them without the approval of the Commission;

(*i*) The Commission shall have absolute control over the capitalization of the companies and no issue of shares or debentures shall be made without its approval. The same approval shall be required for all new issues of shares, debentures or stock dividends;

(*j*) The Commission shall establish a uniform and detailed system of accounting which shall be adopted by all companies, corporations or individuals engaged in the business of electricity and the Commission at any time shall be able to make a complete examination of the books, accounts, contracts and other documents;

(*k*) The companies and corporations shall make, at the dates and in the form indicated by the Commission, a complete report of their affairs. This report shall contain, among other information the following: depreciation charged; legal expenses; taxes and rentals; the quantity and valuation of material employed; receipts from all sources; expenses of all classes; net and gross revenue; dividends and interest; details of surpluses or reserves; the prices paid by the consumers; directors' fees and other information required by the Commission;

(*l*) The Commission shall make a special study of the following questions:

The expediency of keeping separate the accounts for depreciation, reserves and other similar funds, of investing separately the monies of these different accounts and of only making use of these for the purposes for which they were created;

The expediency of requiring the companies or other corporations to establish contributory pension funds;

(*m*) The Commission shall see, and we strongly recommend, that a complete separation be made by the companies and other corporations of the assets representing electrical enterprises and investments, and operations not having to do with the production and sale of electric power;

(*n*) The Commission shall have power to order the companies and corporations to supply electricity to the individuals and corporations designated by it, in the manner and according to the regulations established by it;

(*o*) The Commission shall have power to make the necessary modifications to all existing contracts in order to terminate unfair practices and conditions, or those which occasion unfair discrimination and which are not consistent with the regulations established by the Commission;

(*p*) All contracts between a company and a municipal corporation shall be submitted for the approval of the Commission;

(*q*) The Commission shall in addition have all the powers referred to in the Law relating to the Public Service Commission of the Province of Quebec, so far as these are applicable to electrical enterprises and not incompatible with the present recommendations;

(*r*) In a general way, the Commission shall have the necessary powers to maintain a perfect electrical service, to exercise its control over the accounts and books of the companies, corporations or individuals interested in the industry, to superintend financial operations, particularly the issue of Capital Stock and Debentures, and for the determination of fair and reasonable rates.

4. No water power shall be conceded or alienated without the consent of the Commission;

5. All municipalities of the Province of Quebec shall be placed on the same level and possessed of the power of municipalizing electricity, as prescribed in the Law of Cities and Towns and the Municipal Code. This power of municipalization shall be subject to the formalities provided for in the said Law;

6. The municipalities shall have the right to supply electric power beyond their limits, subject to the control by and approval of the Commission;

7. Subject to approval by the Commission, several municipalities shall be permitted to unite in order to establish a joint system;

8. With the approval of the Commission, the municipalities shall be permitted to purchase water powers situated outside of their territory, as well as to establish the necessary transmission lines;

9. Rural electrification shall be encouraged and subsidized;

10. Co-operative Associations may be organized for the distribution of electric power, for the building of transmission lines, but under the control of the Commission which may compel all companies or corporations to sell current or energy to the said Co-operative Associations at an unconditional price, stipulated by the Commission. Co-operative Syndicates may be established for the same purpose;

11. An official of the Department of Agriculture shall be appointed to look after rural electrification and act as intermediary between the farmers, the distributing companies and Commissioners of Electricity, in order to facilitate the expansion of electricity in the rural districts;

12. Government subventions should be granted to all Co-operative Associations, Co-operative Syndicates, as well as to municipalities, in cases approved by the Commission, in order to further rural electrification;

13. The export of electric power outside of the Province of Quebec shall be submitted to the approval and control of the Commission.

In the course of our enquiry the operations of the following utility companies were brought more or less prominently to our attention:

1. Montreal Light, Heat & Power Cons.
2. Shawinigan Water & Power Co. and its subsidiary—The Quebec Power Company.
3. Southern Canada Power Company.
4. Duke-Price Power Company, Limited.
5. Canadian Hydro-Electric Corporation and its subsidiary—Gatineau Power Company.
6. Lower St. Lawrence Power Company.
7. Northern Quebec Power Company.

As a result of our study, we have made and attach herewith a special report in connection with each of these companies, drawing attention to certain features which we think should be made the subject of special enquiry by the proposed Electricity Commission.

There are also certain other electricity companies in the Province, including MacLaren Quebec Power Company, which are not covered by our report, but

which should be dealt with in the same manner as is recommended for the other companies.

The Commission is pleased to say that it has received the collaboration of all those from whom it requested information and that it has asked and obtained all the explanations it desired.

The Commission hopes that the recommendations will meet with the approval of the Government and the public.

Respectfully submitted,

(Signed) ERNEST LAPOINTE,
" AUGUSTIN FRIGON,
" GEORGE C. MCDONALD.

True copy.

G. E. RINFRET, *Secretary*.

Montreal, 21st January, 1935.

INDEX TO EXHIBITS

Montreal Light, Heat & Power Cons.

Exhibit No. 1 —Report.
" No. 1-A—Statement showing:

A. Percentage of Earnings (before bond interest) to Total Capital Invested.

B. Percentage of Earnings (after bond interest) to Total Capital Invested (exclusive of bonds).

C. Return on Capital Invested (exclusive of bonds).

Shawinigan Water & Power Company

Exhibit No. 2 —Report.
" No. 2-A—Cumulative History of Capital and Surplus and Dividend Paid Thereon.

Southern Canada Power Company, Limited

Exhibit No. 3 —Report.
" No. 3-A—Memorandum *re* Dividends Paid Common Shareholders.

Duke-Price Power Company, Limited

Exhibit No. 4 —Report.
" No. 4-A—Income Accounts.
" No. 4-B—Balance Sheet.

Canadian Hydro-Electric Corporation, Limited

Exhibit No. 5 —Report.
" No. 5-A—Questionnaire and Reply.

Lower St. Lawrence Power Company

Exhibit No. 6 —Report.

Northern Quebec Power Company, Limited

Exhibit No. 7 —Report.
" No. 7-A—Annual Balance Sheets for five years to 31 December, 1933.
" No. 7-B—Comparative Schedule of Revenue Account and Profit and Loss Account for the five years to 31 December, 1933.

Exhibit No. 1

MONTREAL LIGHT, HEAT & POWER CONS.

There is attached a statement showing the capitalization, profits, reserves, surplus, dividends, etc., of the Montreal Light, Heat & Power Company from 1902-1916, and of Montreal Light, Heat & Power Cons. from 1917-1933.

The more important matters that have come to our attention with reference to these two companies are as follows:

1. Write-up of Share Capital of approximately $40,000,000.00.

2. The position of that part of the enterprise devoted to the production and sale of gas.

3. Investment in securities not connected with the production or sale of electricity and gas, and the effect on rates thereby.

4. Substantial return to shareholders, both in dividends and capital appreciation.

5. Very liberal provision for depreciation, evidence of which is given by the fact that on one occasion $5,250,000.00 of the Depreciation Reserve was transferred to Capital.

6. The annual statements submitted to the shareholders have not contained as much information as is desirable.

7. The purchase of The Quebec New England Hydro-Electric Corporation.

Exhibit No. 1-A

MONTREAL LIGHT, HEAT & POWER COMPANY (1902-1916) MONTREAL LIGHT, HEAT & POWER CONSOLIDATED (1917-1933)

Statement showing—A. Percentage of Earnings (before bond interest) to total capital invested
B. Percentage of Earnings (after bond interest) to total capital invested (exclusive of bonds)
C. Return on Capital Invested (exclusive of bonds)

YEAR	Book Value of Issued Capital	Difference due to exchange of shares	Surplus Account of old Companies	Capital Invested (total of Columns 1 & 3 less Column 2)	Profits left in Company	Reserves other than Depreciation	Debenture & Debenture Payments	Total Capital Invested exclusive of bonds (total of Columns 4 to 7)	Bonds	Total Capital Invested (total of Column A & Column 8)	Net Earnings before Dividends	Interest on Debentures	Net change in Reserves other than Depreciation	Net Earnings after bond Interest (total of Columns 9 to 11)	Interest on Bonds	Net Earnings before Bond Interest (total of Columns C and 12)	Dividends and Interest on Debentures Paid	Year	Percentage of Earnings (before Bond Interest to total Capital Invested	Percentage of Earnings (after Bond Interest) to total Capital invested exclusive of Bonds	Dividend Return to shareholders on Capital Invested (exclusive of Bonds
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	A	(8)	B	(9)	(10)	(11)	C	(12)	D	E		% of D to B	% of C to A	% of E to A
1902	16,978.	3,450.	Not Obtainable	13,528.	142.	.....	.....	13,670.	2,500.	16,170.	730.	.....	.....	730.	37.	767.	587.	1902	4.74	5.34	4.29
1903	17,000.	3,450.	do	13,550.	181.	.....	.....	13,731.	6,681.	20.412.	719.	.....	.....	719.	112.	831.	679.	1903	4.07	5.24	4.95
1904	17,000.	3,450.	do	13,550.	385.	.....	.....	13,935.	6,771.	20,706.	884.	.....	.....	884.	321.	1,205.	680.	1904	5.82	6.34	4.88
1905	17,000.	3,450.	do	13,550.	603.	250.	.....	14,403.	8,036.	22,439.	1,129.	.....	250.	1,379.	332.	1,711.	680.	1905	7.63	9,57	4.72
1906	17,000.	3,450.	do	13,550.	901.	300.	.....	14,751.	8,430.	23,181.	1,278.	.....	50.	1,328.	386.	1,714.	680.	1906	7.39	9.00	4.61
1907	17,000.	3,450.	do	13,550.	1,105.	425.	.....	15,080.	8,418.	23,498.	1,441.	.....	125.	1,566.	396.	1,962.	850.	1907	8.35	10.38	5.64
1908	17,000.	3,450.	do	13,550.	1,414.	475.	.....	15,439.	8,914.	24.353.	1,647.	.....	50.	1,697.	403.	2,100.	1,020.	1908	8.62	10.99	6.61
1909	17,000.	3,450.	do	13,550.	1,721.	500.	.....	15,771.	9,063.	24,834.	1,327.	.....	25.	1,352.	419.	1,771.	1,020.	1909	7.13	8.57	6.47
1910	17,000.	3,450.	do	13,550.	2,043.	500.	.....	16,093.	9,027.	25,120.	1,551.	.....	.....	1,551.	425.	1,976.	1,190.	1910	7.87	9.64	7.39
1911	17,000.	3,450.	do	13,550.	2,396.	691.	.....	16,637.	9,243.	25,880.	1,628.	.....	191.	1,819.	428.	2,247.	1,275.	1911	8.68	10.93	7.66
1912	17,000.	3,450.	do	13,550.	2,894.	691.	.....	17,135.	9,010.	26,145.	1,858.	.....	.....	1,858.	436.	2,294.	1,360.	1912	8.77	10.84	7.94
1913	17,000.	3,450.	do	13,550.	3,521.	684.	.....	17,755.	9,487.	27,242.	2,157.	.....	Decrease 7.	2,150.	442.	2,592.	1,530.	1913	9.51	12.11	8.62
1914	17,911.	3.450.	do	14,461.	4,211.	678.	.....	19,350.	9,456.	28,806.	2,389.	.....	do 6.	2,383.	443.	2,826.	1,700.	1914	9.81	12.32	8.79
1915	18,743.	3,450.	do	15,293.	4,970.	678.	.....	20,941.	9,469.	30,410.	2,587.	.....	.....	2,587.	442.	3,029.	1,828.	1915	9.96	12.35	8.73
1916	18,778.	3,450.	do	15,328.	5,742.	678.	.....	21,748.	9,440.	31,188.	2,643.	.....	.....	2,643.	442.	3,035.	1,871.	1916	9.89	12.15	8.60
1917 (9 Months)	63,717.	40,123.	6,445.	30,039.	573.	676.	.....	31,288.	20,875.	52,163.	2,476.	.....	do 2.	2,474.	685.	3,159.	1,903.	1917 (9 Months)	8.08	10.55	8.11
1918	63,966.	40,255.	6,445.	30,156.	1,585.	674.	.....	32,415.	21,405.	53,820.	3,569.	.....	do 2.	3,567.	912.	4,479.	2,556.	1918	8.32	11.00	7.89
1919	64,126.	40,353.	6,445.	30,218.	2,608.	674.	.....	33,500.	21,533.	55,033.	3,585.	.....	.....	3,585.	954.	4,539.	2,562.	1919	8.25	10.70	7.65
1920 (20 Months)	64,475.	40,565.	6,445.	30,355.	3,244.	759.	.....	34,358.	25,043.	59,401.	5,999.	.....	85.	6,084.	1,684.	7,768.	5,363.	1920 (20 Months)	7.85	10.63	9.37
1921	64,554.	40,610.	6,445.	30,389.	3,456.	866.	.....	34,711.	25,496.	60,207.	4,203.	.....	107.	4,310.	1,134.	5,444.	3,228.	1921	9.04	12.42	9.30
1922	64,607.	40,643.	6,445.	30,409.	4,696.	1,026.	.....	36,131.	25,465.	61,596.	5,249.	.....	160.	5,409.	1,171.	6.580.	3,336.	1922	10.68	14.97	9.23
1923	64,632.	40,659.	6,445.	30,418.	6,332.	1,026.	.....	37,776.	25,434.	63,210.	6,181.	.....	.....	6,181.	1,169.	7,350.	3,986.	1923	11.63	16.36	10.55
1924	64,651.	40,670.	6,445.	30,426.	7,471.	1,176.	.....	39,073.	25,404.	64,477.	6,290.	.....	150.	6,440.	1,167.	7,607.	4,525.	1924	11.80	16.48	11.58
1925	64,684.	40,685.	6,445.	30,444.	9,008.	1,176.	.....	40,628.	25,224.	65,852.	6,656.	.....	.....	6.656.	1,172.	7.828.	5,119.	1925	11.89	16.38	12.60
1926	45,166.	40,708.	6,445.	10,903.	11,020.	1,234.	.....	23,157.	55,062.	78,219.	7,005.	.....	58.	7,063.	1,412.	8,475.	5,135.	1926	10.83	16.89	12.28
1927	46,943.	40,708.	6,445.	12,680.	13,782.	1,534.	.....	27,996.	55,050.	83,046.	6,573.	.....	300.	6,873.	2,666.	9,539.	3,915.	1927	11.49	24.55	13.98
1928	48,087.	40,708.	6,445.	13,824.	16,983.	2,000.	.....	32,807.	54,641.	87,448.	7,380.	.....	466.	7,846.	2,651.	10,497.	4,355.	1928	12.00	23.92	13.27
1929	48,163.	40,708.	6,544.	13,900.	20,306.	2,500.	.....	36,706.	54,222.	90,928.	8,218.	.....	500.	8,718.	2,630.	11,348.	4,890.	1929	12.48	23.75	13.32
1930	48,213.	40,708.	6,445.	13,950.	23,378.	2,500.	17,020.	56,848.	58,792.	115,640.	8,924.	166.	.....	9,090.	2,807.	11,897.	6,004.	1930	10.29	15.99	10.56
1931	68,464.	40,708.	6,445.	34,201.	25,812.	3,200.	18,092.	81,305.	57,172.	138,477.	9,047.	499.	700.	10,246.	2,837.	13,083.	7,086.	1931	9.45	12.60	8.72
1932	68,483.	40,708.	6,445.	34,220.	27,118.	3,900.	25,530.	90,768.	56,868.	147,636.	8,033.	683.	700.	9,416.	2,584.	12,000.	7,417.	1932	8.13	10.37	8.17
1933	68,484.	40,708.	6,445.	34,221.	28,381.	3,900.	26,528.	93,030.	53,559.	146,589.	8,043.	785.	.....	8,828.	2,729.	11,557.	7,519.	1933	7.88	9.49	8.08
			Note 2 *					Note 6 *	Note 3 *	Note 6 *	Note 4 *			Note 4 *	Note 3 *	Note 4 *				Note 5 *	Note 5 *

NOTE:—1 * The above figures are stated in thousands of dollars (000 omitted) and all amounts *re* to the nearest $1,000.00.

2 * Surplus Account of old companies made up of—

M.L.H. & P. April 30, 1916	$5,742,000.
3 mos. ended July 31, 1916	294,000.
Cedars Rapids Mfg. & Power Co.	409,000.
	$6,445,000.

3 * Bonds and Bond Interest, includes—
1902-1916 M.L.H. & P. Company
1917-1925 M.L.H. & P. Co. and Cedars Rapids Mfg. & Power Co.
1926-1932 M.L.H. & P Co., Cedars Rapids Mfg. & Power Co. and M.L.H. & P. Cons.
1933 Cedars Rapids Mfg. & Power Co. and M.L.H. & P. Consolidated

4 * Net Earnings include Revenue from Investments, in 1933 amounted to—$2,694,445.00.

5 * The percentages shown for the year 1926 are based on the average capital invested during that year.

6 * Columns A and B from 1926 include capital adjustment of $10,849,000 arising from transfer from Depreciation Reserve, Profits and Appreciation of Investments, etc.

Exhibit No. 2

THE SHAWINIGAN WATER & POWER COMPANY

Attached is a statement showing Cumulative History of Capital and Surplus and dividends paid thereon.

The special matters which came to our attention in the course of the investigation were as follows:

1. Upon the formation of the Company in May 1898, $6,000,000.00 of Capital Stock was issued in payment for the power rights and other rights in the St. Maurice River;

2. Apparent high price paid for the acquisition of the St. Maurice Power Company and the Laurentide Power Company;

3. Adequacy of annual provision for depreciation;

4. Investment in subsidiaries and other companies;

5. Controlled Company—*Quebec Power Company*—

   (*a*) Original cost of acquisition of component enterprises—Quebec Railway, Light & Power Company and others;

   (*b*) Effect of the operation of the Street Railway System in the City of Quebec;

   (*c*) Adequacy of annual provision for depreciation;

   (*d*) Possible effect on electrical rates of the same company carrying on the operations of other divisions—tramways, gas, etc.

THE SHAWINIGAN WATER

CUMULATIVE HISTORY OF CAPITAL &

Year	Capital	Surplus	Contingent Funds & Reserves	Total
From incorporation in 1898 to 1905	$ 6,500,000.	$ 5,000.	$ 24,000.	$ 6,529,000.
1906	6,500,000.	5,000.	100,000.	6,605,000.
1907	6,500,000.	7,000.	202,000.	6,709,000.
1908	6,500,000.	1,000.	226,000.	6,728,000.
1909	7,000,000.	2,000.	273,000.	7,276,000.
1910	8,500,000.	23,000.	377,000.	8,900,000.
1911	10,000,000.	9,000.	633,000.	10,643.000,
1912	11,000,000.	24,000.	1,030,000.	12,054,000.
1913	11,000,000.	19,000.	1,248,000.	12,268,000.
1914	12,375,000.	39,000.	1,738,000.	14,153,000.
1915	13,612,000.	26,000.	2,051,000.	15,690,000.
1916	15,000,000.	44,000.	2,497,000.	17,542,000.
1917	15,000,000.	30,000.	2,730,000.	17,760,000.
1918	16,342,000.	17,000.	3,069,000.	19,430,000.
1919	20,000,000.	30,000.	3,094,000.	23,125,000.
1920	20,000,000.	39,000.	3,178,000.	23,218,000.
1921	20,000,000.	155,000.	2,802,000.	22,957,000.
1922	20,000,000.	267,000.	2,721,000.	22,988,000.
1923	20,000,000.	315,000.	2,338,000.	22,654,000.
1924	22,000,000.	449,000.	2,383,000.	24,833,000.
1925	25,000,000.	573,000.	2,566,000.	28,140,000.
1926	27,500,000.	758,000.	3,959,000.	32,218,000.
1927	30,000,000.	1,091,000.	803,000.	31,895,000.
1928	56,680,000.	1,928,000.	1,000,000.	59,608,000.
1929	72,239,000.	1,314,000.	2,000,000.	75,553,000.
1930	72,118,000.	1,335,000.	2,000,000.	75,453,000.
1931	72,118,000.	576,000.	1,899,000.	74,594,000.
1932	72,118,000.	888,000.	1,899,000.	74,787,000.
1933	72,118,000.	1,234,000.	1,199,000.	74,552,000.

Exhibit No. 2-A

& POWER COMPANY

SURPLUS & DIVIDEND PAID THEREON

Capital Invested	Profits Left in Company	Contingent Funds & Reserves Created	Total Shareholders Contribution	Dividend Paid	Return on Capital Invested and Profits Left in Company
$ 100,000.	$ 5,000.	$ 24,000.	$ 129,000.	nil	nil
100,000.	5,000.	100,000.	205,000.	nil	nil
100,000.	7,000.	202,000.	209,000.	$ 130,000.	63%
100,000.	1,000.	226,000.	328,000.	260,000.	84%
600,000.	2,000.	273,000.	876,000.	260,000.	79%
2,122,000.	23,000.	377,000.	2,523,000.	286,000.	32½%
3,752,000.	9,000.	633,000.	4,396,000.	456,000.	18%
4,952,000.	24,000.	1,030,000.	6,007,000.	540,000.	12%
4,952,000.	19,000.	1,248,000.	6,221,000.	660,000.	11%
6,602,000.	39,000.	1,738,000.	8,380,000.	821,000.	11½%
7,840,000.	26,000.	2,051,000.	9,917,000.	787,000.	9½%
9,435,000.	44,000.	2,497,000.	11,977,000.	989,000.	10%
9,435,000.	30,000.	2,730,000.	12,196,000.	1,050,000.	9%
10,803,000.	17,000.	3,069,000.	13,890,000.	1,077,000.	9%
14,910,000.	30,000.	3,094,000.	18,036,000.	1,240,000.	9%
14,910,000.	39,000.	3,178,000.	18,129,000.	1,400,000.	7¾%
14,910,000.	155,000.	2,802,000.	17,868,000.	1,400,000.	7¾%
14,910,000.	267,000.	2,721,000.	17,899,000.	1,400,000.	7¾%
14,910,000.	315,000.	2,338,000.	17,564,000.	1,400,000.	7¾%
16,910,000.	449,000.	2,383,000.	19,743,000.	1,400,000.	8%
20,439,000.	573,000.	2,566,000.	23,579,000.	1,676,000.	8½%
24,189,000.	758,000.	3,959,000.	28,907,000.	2,050,000.	8¾%
29,189,000.	1,091,000.	803,000.	31,085,000.	2,200,000.	7½%
59,425,000.	1,928,000.	1,000,000.	62,353,000.	2,861,000.	9%
74,983,000.	1,314,000.	2,000,000.	78,298,000.	4,317,000.	7%
74,862,000.	1,335,000.	2,000,000.	78,198,000.	5,445,000.	7%
74,862,000.	576,000.	1,899,000.	77,338,000.	4,901,000.	6¼%
74,862,000.	888,000.	1,899,000.	77,650,000.	1,633,000.	2%
74,862,000.	1,234,000.	1,199,000.	77,297,000.	1,089,000.	1.4%

Exhibit No. 3

SOUTHERN CANADA POWER COMPANY, LIMITED

There is attached a memorandum showing Shareholders' Investment and Dividends paid to Common shareholders and the return thereon.

The special matters which came to our attention were:

1. The investment in other companies;
2. The original issue of stock of $3,000,000.00.

Exhibit No. 3-A

SOUTHERN CANADA POWER COMPANY, LIMITED
MEMORANDUM *RE* DIVIDENDS PAID
COMMON SHAREHOLDERS

Year	*Common Stock*	*Surplus*	*Total Common Shareholders Investment*	*Dividends Paid*	*Return on Investment*
1914	$3,000,000.00	$ 7,937.00	$3,007,937.00	nil	nil
1915	3,000,000.00	29,783.00	3,029,783.00	nil	nil
1916	3,000,000.00	50,369.00	3,050,369.00	nil	nil
1917	3,000,000.00	94,857.00	3,094,857.00	nil	nil
1918	3,520,000.00	143,008.00	3,663,008.00	nil	nil
1919	4,000,000.00	201,035.00	4,201,035.00	nil	nil
1920	4,000,000.00	259,638.00	4,259,638.00	nil	nil
1921	4,000,000.00	332,157.00	4,332,157.00	nil	nil
1922	4,119,200.00	58,512.00	4,177,712.00	nil	nil
1923	4,171,925.00	127,406.00	4,299,331.00	nil	nil
1924	4,171,925.00	127,989.00	4,299,914.00	$100,000.00	2.3%
1925	4,171,925.00	117,777.00	4,289,702.00	100,000.00	2.3%
1926	4,971,925.00	166,365.00	5,138,290.00	100,000.00	2.0%
1927	4,971,925.00	166,715.00	5,138,640.00	180,000.00	3.5%
1928	8,672,000.00	234,812.00	8,906,812.00	308,913.00	3.5%
1929	8,672,000.00	339,281.00	9,011,281.00	388,784.00	4.3%
1930	8,672,000.00	436,883.00	9,108,883.00	388,784.00	4.3%
1931	8,672,000.00	466,575.00	9,138,575.00	388,784.00	4.3%
1932	8,672,000.00	442,695.00	9,114,695.00	388,784.00	4.3%
1933	8,672,000.00	350,977.00	9,022,977.00	393,387.00	4.3%

Exhibit No. 4

DUKE-PRICE POWER COMPANY LIMITED

Comparative Balance Sheets and Income Accounts for the years 1926-1933 are attached.

The operations of this Company being practically confined to the sale of power wholesale, it was not brought before us to any extent. We suggest that an investigation should be made as to the basis on which the Capital Stock was issued, and a fair value established for the Fixed Assets of the Company.

DUKE-PRICE POWER

INCOME

	Dec. 31 1926 7½ Mos.	Dec. 31 1927 12 Mos.	Dec. 31 1928 12 Mos.
Operating Revenue	$ 1,031,000.00	3,123,000.00	3,814,000.00
Operating & Administration Expenses—Taxes	$ 147,000.00	470,000.00	531,000.00
Net Profit	$ 884,000.00	2,653,000.00	3,283,000.00
Miscellaneous Income	$ 587,000.00	67,000.00	112,000.00
Income available for Interest & Taxes	$ 1,471,000.00	2,720,000.00	3,395,000.00
Bond Interest	$ 1,425,000.00	2,220,000.00	2,220,000.00
Other Interest	.....	121,000.00	268,000.00
Total Interest	$ 1,425,000.00	2,341,000.00	2,488,000.00
Net Income before Depreciation	$ 46,000.00	379,000.00	907,000.00
Reserve for Contingencies	.....	.....	.....
Depreciation	.....	316,000.00	558,000.00
Net Income	$ 46,000.00	63,000.00	349,000.00
Dividends	.....	.....	.....
Surplus for Period	$ 46,000.00	63,000.00	349,000.00
Previous Surplus	.....	46,000.00	109,000.00
Surplus-Net Credits-Debits	.....	.....	.....
Surplus as per Balance Sheet	$ 46,000.00	109,000.00	458,000.00

Exhibit No. 4-A

COMPANY LIMITED

ACCOUNTS

Dec. 31 1929 12 Mos.	Dec. 31 1930 12 Mos.	Dec. 31 1931 12 Mos.	Dec. 31 1932 12 Mos.	Dec. 31 1933 12 Mos.
4,107,000.00	4,365,000.00	4,275,000.00	4,305,000.00	4,267,000.00
764,000.00	730,000.00	630,000.00	597,000.00	508,000.00
3,343,000.00	3,635,000.00	3,645,000.00	3,708,000.00	3,759,000.00
95,000.00	57,000.00	42,000.00	43,000.00	29,000.00
3,438,000.00	3,692,000.00	3,687,000.00	3,751,000.00	3,788,000.00
2,217,000.00	2,207,000.00	2,196,000.00	2,181,000.00	2,161,000.00
326,000.00	312,000.00	261,000.00	218,000.00	226,000.00
2,543,000.00	2,519,000.00	2,457,000.00	2,399,000.00	2,387,000.00
895,000.00	1,173,000.00	1,230,000.00	1,352,000.00	1,401,000.00
.....	.....	.....	101,000.00	527,000.00
575,000.00	581,000.00	656,000.00	659,000.00	671,000.00
320,000.00	592,000.00	574,000.00	592,000.00	203,000.00
.....	.....	.....	273,000.00	.....
320,000.00	592,000.00	574,000.00	319,000.00	203,000.00
458,000.00	778,000.00	1,370,000.00	1,944,000.00	2,390,000.00
.....	.....	.....	127,000.00	152,000.00
778,000.00	1,370,000.00	1,944,000.00	2,390,000.00	2,745,000.00

DUKE-PRICE POWER

BALANCE

	Dec. 31 1926	Dec. 31 1927	Dec. 31 1928
Cash	$ 71,000.00	157,000.00	92,000.00
Marketable Securities	.....	261,000.00	.....
Accounts and Notes Receivable	166,000.00	1,457,000.00	1,309,000.00
Inventories	33,000.00	62,000.00	94,000.00
Total Current Assets	$ 270,000.00	1,937,000.00	1,495,000.00
Notes & Accounts Payable	$ 402,000.00	1,268,000.00	1,206,000.00
Accrued Interest on Bonds & Notes	370,000.00	414,000.00	414,000.00
Reserve for Taxes			53,000.00
Total Current Liabilities	$ 772,000.00	1,682,000.00	1,673,000.00
Net Current Assets	$ 502,000.00*	255,000.00	178,000.00*
Plant, Equipment, Water Rights, Etc.	$ 56,259,000.00	59,489,000.00	60,892,000.00
Depreciation Reserve	.....	318,000.00*	874,000.00*
Net Investment in Plant	$ 56,259,000.00	59,171,000.00	60,018,000.00
Investment in and Advances to Affiliated Cos.	.....	.....	.....
Total Fixed Assets—Depreciated	$ 56,259,000.00	59,171,000.00	60,018,000.00
Total Net Current & Fixed Assets	$ 55,757,000.00	59,426,000.00	59,840,000.00
1st Mtg. 6% Bonds May 1, 1966	$ 37,000,000.00	37,000,000.00	37,000,000.00
5 Yr. 6% Notes April 15, 1932	.....	3,500,000.00	3,500,000.00
S.F. Balance in Hands of Trustee			
Total Fixed Liabilities	$ 37,000,000.00	40,500,000.00	40,500,000.00
Tangible Net Worth	$ 18,757,000.00	18,926,000.00	19,340,000.00
Deferred Assets	2,289,000.00	2,190,000.00	2,128,000.00
Reserve for Casualties and Insurance	.....	7,000.00*	10,000.00*
Book Net Worth	$ 21,046,000.00	21,109,000.00	21,458,000.00
Capital Stock 210,000 Shares N.P.V.	$ 21,000,000.00	21,000,000.00	21,000,000.00
Reserve	.....	.....	.....
Surplus	46,000.00	109,000.00	458,000.00
Total Proprietorship	$ 21,046,000.00	21,109,000.00	21,458,000.00

*Red Figures

Exhibit No. 4-B

COMPANY LIMITED

SHEET

Dec. 31 1929	Dec. 31 1930	Dec. 31 1931	Dec. 31 1932	Dec. 31 1933
298,000.00	715,000.00	400,000.00	904,000.00	1,131,000.00
178,000.00	47,000.00	97,000.00	108,000.00	53,000.00
679,000.00	441,000.00	540,000.00	916,000.00	897,000.00
100,000.00	114,000.00	90,000.00	67,000.00	63,000.00
1,255,000.00	1,317,000.00	1,127,000.00	1,995,000.00	2,144,000.00
1,772,000.00	1,254,000.00	138,000.00	144,000.00	130,000.00
414,000.00	412,000.00	409,000.00	405,000.00	397,000.00
99,000.00	106,000.00	102,000.00	138,000.00	75,000.00
2,285,000.00	1,772,000.00	649,000.00	687,000.00	602,000.00
1,030,000.00*	455,000.00*	478,000.00	1,308,000.00	1,542,000.00
61,380,000.00	61,798,000.00	61,899,000.00	62,237,000.00	62,329,000.00
1,447,000.00*	2,028,000.00*	2,685,000.00*	3,342,000.00*	4,013,000.00*
59,933,000.00	59,770,000.00	59,214,000.00	58,895,000.00	58,316,000.00
1,122,000.00	1,190,000.00	1,265,000.00	997,000.00	1,000,000.00
61,055,000.00	60,960,000.00	60,479,000.00	59,892,000.00	59,316,000.00
60,025,000.00	60,505,000.00	60,957,000.00	61,200,000.00	60,858,000.00
36,828,000.00	36,652,000.00	36,452,000.00	36,095,000.00	35,791,000.00
3,500,000.00	3,500,000.00	3,500,000.00	3,500,000.00	3,150,000.00
1,000.00	1,000.00			
40,327,000.00	40,151,000.00	39,952,000.00	39,595,000.00	38,941,000.00
19,698,000.00	20,354,000.00	21,005,000.00	21,605,000.00	21,917,000.00
2,094,000.00	2,025,000.00	1,951,000.00	1,897,000.00	1,839,000.00
14,000.00*	9,000.00*	12,000.00*	11,000.00*	11,000.00*
21,778,000.00	22,370,000.00	22,944,000.00	23,491,000.00	23,745,000.00
21,000,000.00	21,000,000.00	21,000,000.00	21,000,000.00	21,000,000.00
.....	.....	.....	101,000.00	.....
778,000.00	1,370,000.00	1,944,000.00	2,390,000.00	2,745,000.00
21,778,000.00	22,370,000.00	22,944,000.00	23,491,000.00	23,745,000.00

Exhibit No. 5

CANADIAN HYDRO-ELECTRIC CORPORATION LIMITED AND ITS SUBSIDIARY GATINEAU POWER COMPANY

While representatives of this Company came before the Commission at the sitting in Hull, there was very little discussion on the question of the capital structure. A Questionnaire, dated 19th December 1934, was handed to the General Manager of the Company, copy of which is attached together with a reply, dated 22nd December 1934, handed by the General Manager of the Company to a member of the Commission.

It is recommended that the following matters be looked into:

1. Issue of stock for intangible assets;

2. Effect of dividend policy on the working capital of the Gatineau Power Company;

3. Determination of a fair value for the Fixed Assets.

Exhibit No. 5-A

MEMORANDUM RE. CANADIAN HYDRO-ELECTRIC CORPORATION LIMITED

Capital Stock and Surplus of the Company at 31st December 1928 amounted to $49,342,732.70, made up as follows:

First Preferred Stock	$12,500,000.00
Second Preferred Stock	25,000,000.00
Common Stock	5,000,000.00
Surplus	6,842,732.70

The First Preferred Stock was subscribed and paid for in cash by the public.

All the Second Preferred Stock and Common Stock was issued to the International Hydro-Electric for all the Preferred and Common shares of Gatineau Power and 100,000 Common shares of the St. John River Power.

When Gatineau Power was organized it appears that all its Preferred and Common shares were issued for water powers, leases, rights, etc., and that these shares were not, at the time of issue, represented by any tangible assets. Since it appeared that substantially all net earnings were paid to International Hydro-Electric in the form of dividends, it might be true that when Canadian Hydro-Electric issued all its Second Preferred and Common shares to International Hydro-Electric in 1927 it got for them only intangible assets of Gatineau (besides, of course, the St. John River Power shares).

Immediately subsequent to incorporation of Canadian Hydro-Electric, a capital surplus arose on the books to a total of $6,690,000 which was created by transferring the $25,000,000 of Second Preferred stock to the parent company, International Hydro-Electric, at a premium over par, and in book profit on sales of properties to subsidiary companies.

From the foregoing it would appear that the actual development of Gatineau Power was financed entirely through the sale of bonds, and it further appears that discount and expenses on these bonds and on other securities totalled some $7,180,000.

If the above deductions are correct, it would appear that of the assets shown upon the Balance Sheet of Canadian Hydro-Electric Corporation there is included what might be termed "water" to the extent of:

Second Preferred Stock issued for Intangibles	$25,000,000
Common Stock issued for intangibles	5,000,000
Capital Surplus, being premium on sale of Second Preferred Stock and book profits on sales of properties to subsidiaries	6,690,000
Discount and expenses on bonds and other securities	7,180,000
TOTAL	$43,870,000

Dividends on Canadian Hydro-Electric Second Preferred and Common shares were commenced in 1931, and in the last three years have been as follows:

1931	$2,001,000
1932	750,000
1933	2,000,000
	$4,751,000

Under the circumstances, and in view of the deficiency of working capital shown by Canadian Hydro-Electric in its 1933 Balance Sheet, would it be correct to infer that the First Preferred shareholders, who are the public, have been prejudiced by the payment of nearly $5,000,000 in dividends on the completely "watered" stock in the hands of the American parent company.

December 19th, 1934.

December 22nd, 1934.

A memo dated December 19, 1934, has been submitted to us which sets forth certain comments on the Capital Stock and Surplus of Canadian Hydro-Electric Corporation Limited.

It is difficult to understand the writer's definition of "tangible assets". Gatineau Power Company received very tangible assets in return for its common stock and $25,000,000. par value of 6% Preferred stock including:

1. Lands and water power rights on the Gatineau at Chelsea (present development, 136,000 horsepower);

2. Lands and water power rights on the Gatineau at Farmers Rapids (present development, 96,000 horsepower);

3. Certain lands and water power rights which were necessary in addition to the lands, rights and leases acquired from the C. P. R. to enable Gatineau to develop the Paugan site on the Gatineau River up to its present installed capacity of 238,000 horsepower;

4. Lands and water power rights on the Ottawa River at Kipawa (present capacity, 24,000 horsepower).

At the time the transfer occurred ont only had definite plans been completed for the development of the whole Gatineau River project but contracts for the sale of this power had been executed. The consideration given by Gatineau Power Company thus covered not only tangible assets but also all the preliminary stages of the work which had already been completed either by International Paper Company or by Canadian International Paper Company as well as the negotiations with the government for the rights necessary to develop the Gatineau River, the storage agreement with the Department of Lands and Forests, the sales contracts for power and a multitude of other intangible considerations which were priceless insofar as the success of Gatineau Power Company's subsequent developments were concerned.

Funds raised by the sale of bonds and debentures did not fully cover the cost of construction of the plants controlled by Gatineau Power Company, additional expenditures having been made from time to time for this purpose out of earnings and out of funds advanced by this Corporation.

It is impossible to believe that the writer is serious in describing bond discount and expenses as "water". This item covers a normal and usual charge for financing and the amount is being amortized over the life of the respective issues.

The surplus of $6,690,000. appearing on the Balance Sheet of this Corporation is still intact and after provision for the same dividend declaration as occurred in 1933 the consolidated surplus as at December 31, 1934, will include approximately $1,700,000 of undistributed earnings.

The statement that all net earnings have been paid to International Hydro-Electric System in the form of dividends is not correct, nor has there been any deficiency of working capital. As a matter of fact, actual value has been received for the Second Preferred and Common shares of this Corporation and the holders of these securities are entitled to dividends as long as earnings and the liquid position of the Company justify them.

Exhibit No. 6

LOWER ST. LAWRENCE POWER COMPANY

This Company submitted statements of earnings and balance sheets for the last five years, from which it is apparent that its debt burden is excessive. In 1926 the total Funded Debt and Notes Payable outstanding were equal to 95% of the Fixed Assets, and in 1933 this percentage had risen to 105%. The total Debt on account of Bonds and Notes Payable was approximately $2,466,000.00 in 1933, which sum appears to be greatly in excess of the amount upon which the Company is capable of earning a fair interest return on the enterprise.

Exhibit No. 7

NORTHERN QUEBEC POWER COMPANY LIMITED

This company operates in the mining district of northern Quebec and while its operations were not discussed before the Commission there were filed Tariff of Rates, Contract Forms, and Annual Statements for the five years to 31st December, 1933.

There are attached comparative statements for the five years showing:

1. Annual Balance Sheet.
2. Revenue and Profit and Loss Accounts.

Attention is drawn to the following matters:

1. Basis of charge for Depreciation.
2. Notes Receivable $685,000.00 written off against Reserve for Depreciation in 1932.
3. Transfer of $897,627.20 from Depreciation to Profit and Loss in 1933.
4. Transfer of $1,000,000.00 from Profit and Loss to Debenture Notes Payable in 1933.
5. Write-up of Plant Investment in 1933 of about $6,000,000.00, of which part was credited to Capital Surplus and part to Depreciation Reserve.
6. Investment Account.
7. Management Fee charged by Power Corporation of Canada.

Exhibit No. 7-A

NORTHERN QUEBEC POWER COMPANY LIMITED
ANNUAL BALANCE SHEETS
FOR FIVE YEARS TO 31st DECEMBER, 1933

	1929	1930	1931	1932	1933
ASSETS					
Plant Investment	$5,235,601.29	5,655,380.67	5,749,994.56	5,854,005.01	12,128,193.29
Cash on Hand and in Bank	5,519.04	6,483.82	2,974.37	16,641.18	106,727.97
Call Loan	.....	.....	.....	.....	75,000.00
Accounts Receivable	91,678.88	109,854.20	307,148.68	54,445.20	151,457.56
Notes Receivable	467,000.00	492,054.96	763,554.96	.....	.....
Loan to Shareholder (Canada Northern Power Co., Ltd.)	.....	.....	.....	170,243.71	.....
Investments at Cost Value	.....	.....	.....	303,400.00	303,400.00
Merchandise, Material and Supplies	37,170.29	24,962.52	28,617.59	29,223.75	23,504.10
Deferred Charges	29,971.25	37,784.18	38,641.91	30,281.09	28,996.68
	$5,866,940.75	6,326,520.35	6,890,932.07	6,458,239.94	12,817,279.60
LIABILITIES					
Funded Debt	$2,650,000.00	2,650,000.00	2,650,000.00	2,650,000.00	2,650,000.00
Debenture Notes	2,350,000.00	2,350,000.00	2,350,000.00	2,350,000.00	3,350,000.00
Notes Payable	52,990.00	.....	.....	.....	.....
Accounts Payable and Accrued Liabilities	17,674.50	123,047.60	80,582.17	168,702.95	77,748.11
Customers' Deposits with Interest Accrued	11,371.26	12,235.40	12,632.73	14,613.70	16,392.40
Bond Interest Accrued	13,250.00	13,250.00	13,250.00	13,250.00	13,250.00
Debenture Interest Accrued	18,830.00	18,830.00	23,500.00	23,500.00	33,500.00
Dividend Payable January, 1934	.....	.....	.....	.....	50,000.00
Reserves:					
Depreciation	519,886.67	951,111.08	1,451,097.91	925,233.29	3,611,551.11
Miscellaneous	947.98	2,592.69	2,504.03	3,721.81	4,634.18
Capital Stock and Surplus	200,000.00	200,000.00	200,000.00	200,000.00	3,000,000.00
Profit and Loss	31,990.34	5,453.58	107,365.23	109,218.19	10,203.80
	$5,866,940.75	6,326,520.35	6,890,932.07	6,458,239.94	12,817,279.60

Exhibit No. 7-B

NORTHERN QUEBEC POWER COMPANY LIMITED
COMPARATIVE SCHEDULE OF REVENUE ACCOUNT AND PROFIT AND LOSS ACCOUNT
FOR FIVE YEARS TO 31st DECEMBER, 1933

	1929	1930	1931	1932	1933
REVENUE ACCOUNT					
Gross Earnings	$ 796,048.20	984,286.06	1,278,832.63	996,592.88	1,158,586.68
Deduct:					
Expenses	210,805.57	273,172.60	347,095.54	*532,401.38	263,311.18
Interest	276,597.83	277,037.25	300,640.58	301,168.72	400,663.01
Bad Debts	794.31	947.30	1,195.24	1,211.14	1,199.19
	$ 488,197.71	551,157.15	648,931.36	834,781.24	665,173.38
Net Earnings	$ 307,850.49	433,128.91	629,901.27	161,811.64	493,413.30
*Includes Management Fee.					
PROFIT AND LOSS ACCOUNT					
Balance at Credit start of period	$ 15,597.85	31,990.34	5,453.58	107,365.23	109,218.19
Deduct:—Prior Year Adjustments	.....	27,541.67	8,675.45	41.32x	54.89
	$ 15,597.85	4,448.67	3,221.87x	107,406.55	109,163.30
Add:—Depreciation Reserve Transfer	.....	.....	.....	.....	897,627.20
Deduct:—Issue of Debenture Notes Payable	.....	.....	.....	.....	1,000,000.00
Balance at Credit	$ 15,597.85	4,448.67	3,221.87x	107,406.55	6,790.50
Add:—Net Earnings for Year	307,850.49	433,128.91	629,901.27	161,811.64	493,413.30
	$ 323,448.34	437,577.58	626,679.40	269,218.19	500,203.80
Deduct:—Depreciation	291,458.00	432,124.00	519,314.17	160,000.00	200,000.00
Dividends on Common Stock	.....	.....	.....	.....	290,000.00
Balance at Credit end of Period	$ 31,990.34	5,453.58	107,365.23	109,218.19	10,203.80

x Red Figures