The United Gas Improvement Company

39th Annual Report

FOR FISCAL YEAR ENDED DECEMBER 31ST, 1920.

To the Stockholders of
The United Gas Improvement Company:

PROFIT AND LOSS ACCOUNT FOR FISCAL YEAR ENDED DECEMBER 31, 1920

EARNINGS

From Leased Works and from Investments in Stocks and Bonds	$5,908,559.71	
Sale of Securities	746,474.56	
Engineering and Supervision	6,209.90	
Interest	389,687.88	
Rental of Broad and Tasker Streets Office	1,660.00	
Rental of Offices in Building, Broad and Arch Streets, to Companies in which this Company is a shareholder	76,181.17	
Total Earnings		$7,128,773.22

EXPENSES

Laboratory	$32,379.16	
Department of Tests	10,200.00	
Registration of Stock	1,500.00	
Expenses of Restaurant, Broad and Arch Streets, over Receipts	16,385.12	
Rental of Safe Deposit Boxes	2,000.00	
Litigation, Retainers, Lawyers' Fees, etc.	18,096.40	
Operating Telephone Service	4,946.18	
Dues to Trade Organizations	1,065.00	
Special Advertising (Annual Report, etc.)	9,271.35	
Office Furniture	7,026.34	
Cost of Operating Building, Broad and Arch Streets, including Taxes	117,131.22	
Salaries and Traveling Expenses	629,443.89	
Office Supplies	17,015.43	
General Expenses	70,742.55	
Taxes, State and Federal	315,977.50	
Insurance, Taxes and Maintenance of Broad and Tasker Streets Office	421.42	
Construction Contracts	7,834.06	
Interest on Bills Payable	30,728.03	
Discount and Interest on Unsecured Gold Notes	610,625.00	
Bonus Tax, Increase Capital Stock	11,387.01	
Commission on Issue of Preferred Stock	305,150.00	
Total Expenses		$2,219,325.66
Profits for Year 1920 before Deduction of Loss from Operations of Philadelphia Gas Works		$4,909,447.56
Loss from Operations of Philadelphia Gas Works		2,605,571.44
Net Profits for Year 1920		$2,303,876.12

COMPARATIVE STATEMENT OF PROFIT AND LOSS FOR FISCAL YEARS ENDED DECEMBER 31st

EARNINGS	1919.	1920.	
From Regular Sources	$6,429,958.32	$6,382,298.66	*$47,659.66
From Special Sources: Profit from Sale of Securities	....	746,474.56	†746,474.56
Total Earnings	$6,429,958.32	$7,128,773.22	†$698,814.90
EXPENSES			
Taxes, Salaries and Expenses	$1,353,597.06	$1,303,550.66	*$50,046.40
Commission on Preferred Stock	....	305,150.00	†305,150.00
War Chest Contribution	25,000.00	....	*25,000.00
Discount and Interest on Gold Notes	533,750.00	610,625.00	†76,875.00
Total Expenses	$1,912,347.06	$2,219,325.66	†$306,978.60
Profits for Year before Deduction of Loss from Operations of Philadelphia Gas Works	$4,517,611.26	$4,909,447.56	†$391,836.30
Loss from Operations of Philadelphia Gas Works	732,271.13	2,605,571.44	†1,873,300.31
Net Profits for Year	$3,785,340.13	$2,303,876.12	*$1,481,464.01
Dividends:			
Preferred	....	$113,787.75	....
Less—Interest Adjustment on Preferred Capital Stock Subscriptions	....	27,523.91	....
From Current Earnings	....	$86,263.84	†$86,263.84
Common—			
From Current Earnings	$3,785,340.13	$2,217,612.28	
From Undivided Profits of Previous Years	1,097,043.87	2,664,771.72	
Total Common Dividends	$4,882,384.00	$4,882,384.00	
Total Dividends	$4,882,384.00	$4,968,647.84	†$86,263.84

* Decrease.
† Increase.

For the fiscal year ended December 31, 1920, the sales of gas and electricity by the properties in which you are interested show, in comparison with 1919:

City of Philadelphia	18.26 per cent. increase.
Properties outside of Philadelphia:	
Manufactured Gas	13.36 per cent. increase.
Electric Current	30.71 per cent. increase.
Natural Gas	9.47 per cent. decrease.

STATEMENT OF ASSETS AND LIABILITIES
December 31, 1920

ASSETS

Gas, Electric, Welsbach and other properties at cost	$71,828,325.58	
Investment in Philadelphia Lease exclusive of Working Capital	16,988,812.98	
Working Capital, Philadelphia Gas Works	4,774,650.41	
Liberty Bonds and Victory Notes	616,250.00	
Real Estate, Philadelphia and elsewhere	1,051,759.23	
Cash	5,625,689.40	
Accounts and Bills Receivable	6,901,557.57	
Coupons and Guaranteed Dividends (Accrued but not yet due)	780,123.75	
Storeroom Material	94,252.49	
Philadelphia Sinking Fund Securities	10,628,200.00	
Total		$119,289,621.41

LIABILITIES

Capital Stock:			
Common		$61,029,800.00	
Preferred		4,554,800.00	
			$65,584,600.00
Six per cent. Unsecured Gold Notes			7,500,000.00
Bills Payable (Liberty Bonds)			488,750.00
Taxes (Accrued but not due)			268,020.00
Sundry Accounts			734,303.68
Philadelphia Sinking Fund Reserve			10,628,200.00
Philadelphia Accrued Rental			1,505,050.02
Philadelphia Sundry Creditors			490,216.14
Philadelphia Uninvested Accretions on Sinking Fund			236.00
Undivided Profits, December 31, 1919		$34,755,017.29	
Net Profits for Year 1920		2,303,876.12	
		$37,058,893.41	
Less—Dividends paid in Year 1920			
Preferred—September 15 $34,072.80			
December 15 79,714.95			
$113,787.75			
Less—Interest Adjustment on Preferred Capital Stock Subscriptions 27,523.91			
	$86,263.84		
Common—January 15 $1,220,596.00			
April 15 1,220,596.00			
July 15 1,220,596.00			
October 15 1,220,596.00			
	4,882,384.00		
Total Dividends		4,968,647.84	
Undivided Profits, December 31, 1920, invested as above			32,090,245.57
Total			$119,289,621.41

Messrs. Lybrand, Ross Brothers and Montgomery have audited these statements and report as follows:

"LYBRAND, ROSS BROS. & MONTGOMERY,
Accountants and Auditors,
Morris Building,
Philadelphia.

Philadelphia, 11th April, 1921.

We have examined the Assets and Liabilities of The United Gas Improvement Co. as of 31st December, 1920, and the Income and Operating Accounts for the year ended that date and found them correctly stated on the books of the Company. We certify that the foregoing statements of Assets and Liabilities as of 31st December, 1920, and Profit and Loss Account for the year 1920 are in accordance with the books.

LYBRAND, ROSS BROS. & MONTGOMERY,
Accountants and Auditors."

A Committee of the Board of Directors has examined and verified the Company's securities and report as follows:

"Philadelphia, March 2, 1921.

Mr. Samuel T. Bodine, President,
The United Gas Improvement Company,
Broad and Arch Streets, Philadelphia.

Dear Sir:

Pursuant to resolution adopted by the Board of Directors on February 9, 1921, we have counted all the stocks and bonds owned by The United Gas Improvement Company and found the same to agree with the amounts stated in the books of the Company.

We have attested in writing detailed list of said stocks and bonds and have filed the same with the Treasurer.

Very truly yours,

WILLIAM WOOD,
MORRIS L. CLOTHIER,
THOMAS J. DOLAN."

The $6,103,000 of 7 per cent. Preferred Stock, the issue and disposal of which were authorized at the last Annual Meeting, was offered to the stockholders for subscription at par in proportion to their holdings of Common Stock. Only $962,750.00 being so disposed of, the balance was taken and paid for by the Underwriting Banking Syndicate.

The $7,500,000 of 6 per cent. Gold Notes maturing February 1, 1921, were paid from the proceeds of an issue of two year 8 per cent. Gold Notes of like amount.

The most marked feature of 1920 was the great increase in the cost of oil and coal, and the difficulty of securing adequate supplies at any price.

Immediate steps were taken to secure the adoption of new gas standards and increased rates for gas and electric current to offset increased costs of manufacture. These efforts have been successful in every case except in the City of Philad[illegible].

When it became appare[illegible] deficit for 1920 in operating under the Philadelphia gas lease [illegible]obably exceed $2,500,000 and practically cut in half the Company's earnings from other sources, and that it was impossible to sell securities of gas and electric properties in which your undivided profits are invested, the President was authorized by the Board of Directors to send to all shareholders a letter of which the following is a copy:

"September 8, 1920.

To the Stockholders of The United Gas Improvement Company:

With the approval of the Board of Directors I beg to advise you that while the dividend payable on October 15, 1920, will be at the rate of eight per cent. per annum, as heretofore, in view of the great losses which your Company is now suffering in operating the Philadelphia Gas Works, and of which I deem it proper that you should be advised, it is impossible to continue the payment of dividends at the rate of eight per cent. per annum upon the common stock in the immediate future. Such dividends as may be declared after October 15, 1920, must certainly be materially less than heretofore, by reason of facts which are fully set out in the enclosed statement; and the restoration of an eight per cent. per annum dividend rate is dependent upon your company being able to secure an amelioration of the conditions mentioned.

A portion of your dividend paid during the years 1919 and 1920, as you know, has been charged against your accumulated undivided profits of past years; but the object of these accumulations is to enlarge your business, as indicated by the investments composing this fund, in carrying on the operations of the companies in various parts of the country in which you are interested. It is manifest that the present financial conditions make it unwise to dispose of these securities at the sacrifice which would be entailed. They are, therefore, not available for cash dividend purposes.

The proceeds of the sale of preferred stock this year have been loaned to the various companies in which we are shareholders at a rate of interest which of course insures an income in excess of that required for preferred stock dividends."

The statement referred to as enclosed in the above letter was as follows:

"THE UNITED GAS IMPROVEMENT COMPANY
Office of the President

Philadelphia, August 31st, 1920.

Hon. J. Hampton Moore, Mayor of the City of Philadelphia.

My Dear Sir:

In a letter to you dated May 19, 1920, and at subsequent meetings of City Council's Committee on Transportation and Public Utilities, I have endeavored to make clear that the greatly increased demand for oil, as a motive force for naval and merchant vessels, automobiles, trucks and farm tractors, has resulted in a marked falling off in the supply available for gas manufacture.

In order to reduce the consumption of oil and guard against a shortage of gas next winter, City Council, on July 13, 1920, authorized the temporary substitution, until January 1, 1921, of a 530 British Thermal Unit Standard for the 22 Candle Power Standard provided for in the lease.

The capacity of the two manufacturing plants is not more than sufficient to meet the estimated demand on days of maximum consumption during the coming winter. This demand should largely increase each year with the growth of the City and the increasing preference of its citizens for gaseous fuel.

Upon whether a British Thermal Unit Standard shall be made permanent, and, if so, upon how many British Thermal Units per cubic foot of gas shall constitute said standard, depends decision as to the future development of the gas business. An erroneous decision on the question of standards, or failure to act promptly, may seriously impair the efficiency and greatly lessen the value of the City's most important asset.

At our last conference I stated to you that in the operation of the Philadelphia Gas Works radical changes in economic conditions brought about by the war have so increased the cost of manufacturing and distributing gas as to render it financially impossible for The United Gas Improvement Company to continue to operate under the terms of the lease; and urged that, in the interest of the City, its taxpayers and gas consumers, and in fairness to The United Gas Improvement Company, an exhaustive study of the situation be made, with a view to establishing conditions under which it will be possible for the Gas Works to be successfully operated in the future.

I believe that the people of Philadelphia, constituting in their corporate capacity the Landlord, will with practical unanimity admit that The United Gas Improvement Company has been a good Tenant. I doubt whether more than a very limited number realize how good a tenant the Company has been.

In 1897 the Gas Works had a daily manufacturing capacity of 19,440,000 cubic feet.

In the Fall of 1920, when changes in apparatus now under way are completed, the daily manufacturing capacity will be 74,000,000 cubic feet.

In 1897 the number of consumers was 123,026; at this date the number of consumers is 418,863.

The sales of gas in 1898, the first year of the lease, amounted to 3,633,366,805 cubic feet.

In 1920 (the last six months estimated), 15,156,455,000 cubic feet.

The plant when leased to The United Gas Improvement Company was worth approximately $14,000,000. It is now conservatively valued at $40,000,000.00.

The price of gas in Philadelphia has been $1.00 per thousand cubic feet since January 1, 1894. During the first four (4) years of this period the property was operated under municipal management, at a loss of $981,643.94, or an average loss of $245,410.98 per annum.

From December 1, 1897, to December 31, 1920, under the management of The United Gas Improvement Company (the last six months of 1920 being estimated), the City's profit is as follows:—

Cash paid into City Treasury	$30,679,370.00
Betterment and Extension of Plant	25,718,847.81
Free Gas for and Care of Street Lamps	14,889,081.05
Free Gas for City Buildings	2,454,898.10
	$73,742,196.96

City's average profit.................$3,206,182.47 per annum.
During the same period The United Gas Improvement Company's profit averages 634,676.33 per annum.

When the war began, the Philadelphia Gas Works was the only gas works in the country equipped to produce toluol, the demand for which was largely in excess of the supply. This made it possible during 1915, 1916 and 1917 to offset to some extent the steadily increasing cost of gas manufacture from the increased profits of the residual business which we have built up at the Philadelphia Gas Works.

In 1918 the situation changed. The City's share of the $1.00 paid by consumers was increased to 25 cents per thousand cubic feet, and simultaneously with a reduced revenue per thousand cubic feet the Company was faced by further greatly increased costs, so that for 1918, 1919 and 1920 the results are as follows:

	Profit of City.	Loss of The U. G. I. Co.
1918	$4,581,171.56	$854,111.94
1919	4,414,700.40	732,271.13
1920 6 mos. actual, 6 mos. estimated	5,274,766.58	2,654,089.38
Total 3 years	$14,270,638.54	$4,240,472.45

The results for 1920 are based on 5 cents per gallon for oil at both Manufacturing Stations up to August 1st, and after that date on 13½ cents per gallon at one station and 5 cents per gallon (under a 1919 contract) at the other, or an average of 9¼ cents per gallon for the entire supply. We have been unable even at 13½ cents per gallon to contract beyond February 1, 1921, for the Point Breeze Works, and our 5 cent contract for the Twenty-fifth Ward Works will expire about the same time, and cannot be renewed at less than 13½ cents per gallon.

If after February 1, 1921, oil costs us no more than 13½ cents per gallon at both works, our loss for 1921 and thereafter will, under the terms of the lease, greatly exceed the loss of 1920.

The following figures illustrate the effect of the war upon the cost of manufacturing gas in Philadelphia:

	1916	1920
Gas Oil per gallon	3 cents	5 cents to 13½ cents.
Gas Coal per net ton	$3.13	$5.90 to $13.75
Boiler Fuel per net ton	$3.10	$4.62 to $13.42
Generator Fuel per net ton	$4.12	$7.15 to $8.45
Materials for Construction, Repairs, etc.		Increase of 100 to 125 per cent.
Wages		Increase of 100 to 150 per cent.

But for this great increase in wages, and in the cost of material, The United Gas Improvement Company would have been able, until the termination of the lease, on December 31, 1927, to provide from $1.00 per thousand cubic feet, the high quality of service to consumers which has obtained during the last 23 years, and to maintain the City's present profit of $5,275,000 per annum.

Under existing conditions it will be impossible for us to do so.

We, therefore, urgently request that at the earliest possible date the Mayor and City Council secure the services of capable and impartial experts to study thoroughly the situation and to recommend to the Mayor and Council, taxpayers and gas consumers such readjustments as may seem wise and fair under existing conditions."

The Philadelphia Gas situation is receiving very thorough consideration by a Commission of Engineers and Business Men, composed of Dr. Milo R. Maltbie, Mr. Willard F. Hine, Mr. Howard R. Sheppard, Mr. Thomas F. Armstrong and Mr. Charles Day, appointed by the City to advise the Mayor and Council as to what modifications, if any, should be made in the lease expiring December 31, 1927, and as to a permanent policy and plan for the City to pursue in the future development and operation of the Philadelphia Gas Works. We have submitted to this Commission detailed statements of our operations under the lease from 1898 to date, which their accountants are verifying from our vouchers and books of account.

Early in April, in response to a request from the Commission, your Officers and Engineers submitted an exhaustive study, with suggestions concerning the future requirements and operation of the Philadelphia Gas Works. At the request of the Commission your President prepared the following summary of the results sought to be obtained, for publication with the letter accompanying the study:

RESULTS SOUGHT TO BE ACCOMPLISHED

1. The City's right to terminate the present or any arrangement at any time on predefined conditions.
2. The continuance of the City's cash revenue and free gas and service.
3. In lieu of opportunity for profit, provision for a suitable and defined compensation to the Operating and Financing Tenant.
4. A financial plan capable of providing for any necessary refundings and of supplying as required money for construction and working capital through the issue from year to year, probably in series, of securities which might be called Equipment Certificates, each series to bear the interest rate prevailing at its date of issue, all to have amortization period long enough to discharge the principal at the lowest annual cost so as to add only the least practicable item for that purpose to the cost of gas, and to be secured by such a segregation of receipts from gas as may be necessary to create a marketable security.
5. Such supervision and regulation of rates, services, facilities, accounts and capital issues by Public Authorities as may be necessary to stabilize and to assure the results intended to be accomplished.

"Mr. Willard F. Hine, Secretary Gas Commission, City Hall, Philadelphia.

Dear Sir:

In your letter of February 3, 1921, Question 4 reads as follows:

"On the basis of the heating value standard which you recommend, outline in as detailed a manner as possible the changes which should be made in the plant to secure maximum economic production, taking into account interest charges and ultimate objective."

The plan submitted herewith represents carefully considered effort to answer your question. The outstanding facts which, in our judgment, give rise to the necessity of adopting such a plan, in the interests of the City and of gas consumers are:

1. The gas plant is now taxed to the limit of its capacity, and additions must be provided for immediately in order to meet the constantly growing demand.

2. The present efficient plant of the Philadelphia Gas Works has been developed according to the best practice to meet the requirements of the terms of the lease, which specify 22 candle power as the standard, and can be readily adjusted to the change of standard now apparently economically unavoidable, because of the scarcity and high price of gas oil, by adding for this necessary new generating capacity, those types of apparatus and methods of production which will produce a resultant mixed gas of 530 B. T. U. at a minimum cost.

3. Such additional construction for production and distribution purposes as should be undertaken immediately or as soon as may be in 1921 involve on the lines set out above the expenditure of approximately $6,500,000, and thereafter in each year varying amounts, averaging about $1,000,000 a year, making a grand total, with interest, of approximately $16,000,000 for additional construction prior to December 31, 1927.

4. After the deduction of the rentals paid and accrued to the City of $3,157,654.76 in 1918; $3,207,747.46 in 1919, and $3,837,512.78 in 1920, the operating company's deficits were:

In 1918	$854,111.94
" 1919	732,271.13
" 1920	2,605,571.44

without earning or paying in any of these years interest on improvements or betterments other than those represented by the securities of The Equitable Illuminating Gas Light Company of Philadelphia.

The above deficit in 1920 was incurred under the following average prices for material:

Gas Coal	$8.052	net ton
Generator Fuel	7.72	" "
Oil	6.37c	per gallon

the low price of oil being due to contracts made in 1919.

There is no assurance that comparative losses will not occur in succeeding years under the present lease and in the new economic conditions of the world.

The above construction requirements amounting, with interest, to approximately $16,000,000, create a financial problem of such magnitude that it would be practically impossible, under existing conditions, to sell securities to provide the moneys necessary for construction and for continued operation.

It is not necessary to urge upon the Commission the manifest importance to the City of accommodating the plant to the changed conditions in the gas industry, and increasing the capacity from time to time to satisfy the public need. Any other policy would result ultimately in its impairment as a revenue producing asset to the City, and would tend to cripple the building and industrial development of the City.

The plan proposed provides alike for the improvements urgently required at once, and for the future development of the plant, along lines which will insure its permanent value and efficiency; and while it recognizes the necessity of looking to earnings as the only source available as a basis for financing the work, the estimated rates for gas are decidedly moderate when compared with rates elsewhere.

To cite but one illustration of the many known to the Commission, the testimony shows that in Boston, where 40 per cent. of the supply is by-product coke oven gas, the rate authorized by the Public Service Commission for 528 B. T. U. gas is $1.40, and the City of Boston derives no return whatever from the operation of the gas works.

Here the City's actual cash income, which would still continue under the plan, was for 1920, $3,837,512.78, and will constantly increase with the growth of the business, in addition to which a very considerable part of the public lighting is free of cost.

The plan amply safeguards the interests of the City and the public, by providing that the City may at any time take possession of the plant from the operating company upon satisfactory provision being made for the indebtedness and obligations then existing, and the rates are made subject to regulation from time to time in accordance with prevailing conditions.

Whether future operation and development of the works be conducted by the present lessee or another, the careful estimates on which the plan is founded, and on which any other plan for a like purpose must be founded, show that rates for gas must of necessity be increased, as it is fair to assume that no new operating company could for some time manage and develop the plant as economically as The United Gas Improvement Company, because of its twenty-two years of experience in operating in Philadelphia, and its efficient organization developed as the result of years of effort.

No principle has been more widely recognized by the courts than that contracts should not be permitted to stand in the way of adequate and efficient service by a public utility.

Any plan adopted should be sufficiently elastic to permit prompt adjustment from time to time of rates, services and facilities to meet changing economic conditions and developments in the art.

These suggestions, with the accompanying data, are submitted in the hope that they may be helpful in the solution of the problem before the Commission."

All employees of The United Gas Improvement Company and of the companies in which The United Gas Improvement Company is a shareholder have performed their duties with energy and fidelity under unusually strenuous conditions and are entitled to this public recognition of the appreciation of the Board of Directors and President.

By order of the Board of Directors.

SAMUEL T. BODINE,
President.