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# AMERICAN WATER WORKS AND ELECTRIC COMPANY INCORPORATED



## ANNUAL REPORT 1946

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FOR THE FISCAL YEAR ENDED DECEMBER 31, 1946

**BOARD OF DIRECTORS**

GEORGE A. BENINGTON  
GEORGE W. BIGGS, JR.  
THOMAS H. BLODGETT  
HAROLD F. BUTLER

RANDOLPH CATLIN  
JAMES A. HILL  
THOMAS H. MCINNERNEY

J. LEE RICE, JR.  
PHILIP L. ROSS  
GEORGE M. SCHURMAN  
EARLE S. THOMPSON

**EXECUTIVE COMMITTEE**

GEORGE A. BENINGTON  
THOMAS H. BLODGETT  
JAMES A. HILL  
EARLE S. THOMPSON

**OFFICERS**

EARLE S. THOMPSON, *President*  
HAROLD F. BUTLER, *Vice-President*      PHILIP L. ROSS, *Vice-President*  
GILBERT W. CHAPMAN, *Vice-President*      LORENZO SEMPLE, *Assistant Vice-President*  
RAYMOND P. KAESSHAEFER, *Comptroller*      J. LEE RICE, JR., *Treasurer*  
HUGH D. McDOWELL, *Secretary*

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**GENERAL COUNSEL**

SULLIVAN & CROMWELL, 48 Wall Street, New York 5, N. Y.

**TRANSFER AND DIVIDEND AGENTS**

AGENTS OF THE CORPORATION, 50 Broad Street, New York 4, N. Y.

**REGISTRAR OF TRANSFERS**

GUARANTY TRUST COMPANY OF NEW YORK, 140 Broadway, New York 15, N. Y.

**GENERAL OFFICES**

50 Broad Street, New York 4, N. Y.

## In Memoriam

H. HOBART PORTER

March 12, 1865

February 9, 1947

The Board of Directors records with deep regret the death on February 9, 1947, of its Chairman, H. Hobart Porter.

Mr. Porter was born in New York City on March 12, 1865. He became the chief executive of the Company in 1914 and served as its President from 1914 to 1937 and as the Chairman of its Board of Directors from 1937 to the date of his death.

Mr. Porter was an exceptionally able and inspiring leader and an outstanding figure in the public utility industry. During the period of his leadership, extending over thirty-three years, the Company's system was developed from a small organization into an extensive and efficient instrument of public service. He served the Company with vision and distinction.

The Company has lost an effective leader. The members of the Board and the officers and personnel of the Company have lost an associate whose qualities of warmth and friendliness will not be forgotten.

# AMERICAN WATER WORKS AND ELECTRIC COMPANY

INCORPORATED

March 17, 1947.

## *To the Stockholders:*

The annual report of the Company for the fiscal year ended December 31, 1946, is presented herewith.

Plans are now pending for the segregation of the Company's present holding company system into two separate systems—one for the waterworks properties and the other for the electric properties and other businesses—and for the dissolution and liquidation of the Company. \*

In view of the substantial progress that has been made in respect of these plans, and the fundamental changes that their consummation will effect, it seems desirable to include in this annual report for the information of stockholders not only comments with respect to operations in 1946, together with financial statements for such year, but also certain material regarding the pending plans and the electric and waterworks businesses which are to be separated from each other under the plans, together with additional financial statements relating to the electric and waterworks businesses. Accordingly, this report consists of five major parts as follows:

First —Operations for the Year 1946:

A review of the results attained with respect to net income, dividends, property additions and retirements, revenues, output and customers of principal subsidiary company groups.

Second—Reorganization Plans:

A review of the proceedings to date, a summary of the Plans, and a statement regarding their consummation.

Third —Waterworks Business:

A general description of the waterworks business to be segregated, its essential nature, advantages of group operation, personnel, pro forma earnings, and future prospects.

Fourth—Electric Business:

A brief description of the electric and other businesses remaining after the proposed segregation of the waterworks properties, and statements regarding the outstanding securities and earnings of The West Penn Electric Company.

Fifth —Financial Statements:

Balance sheets, income and surplus accounts of the Company, both alone and consolidated, with opinion of independent accountants.

## OPERATIONS FOR THE YEAR 1946

### *Net Income of the Company*

The net income of the Company as a separate corporation was \$3,748,900 in 1946 and, after payment of dividends on the preferred stock, was equivalent to \$1.08 per share on the Common Stock. The net income of the Company in 1945 amounted to \$1,954,800.

### *Consolidated Net Income*

The consolidated net income in 1946 amounted to \$7,205,300, which, after payment of dividends on the preferred stock, was equivalent to \$2.56 per share on the Common Stock.

Consolidated net income in 1945 before special tax adjustment was \$2,643,300. The special tax adjustment resulted from the amortization for Federal income tax purposes of certain facilities under Necessity Certificates issued by the Federal Government and was of an extraordinary and non-recurring nature. Consolidated net income in 1945 after the special tax adjustment was \$6,521,300.

### *Property Additions and Retirements*

Gross additions made during the year to plant and property accounts amounted to \$13,111,000 in the case of the electric company subsidiaries and to \$3,430,000 in the case of the consolidated water company subsidiaries. Retirements effected during the year in such accounts by those companies were \$2,520,000 and \$267,000, respectively.

### *Water Properties*

Consolidated water revenues amounted in 1946 to \$16,995,300, an increase of \$423,900 compared with 1945, notwithstanding the sale of Cuba Water Company, Inc. on August 1, 1945, as previously reported. Water customers of the consolidated water company subsidiaries at the end of the year totalled 509,636, representing an increase of 13,790 over the number of such customers at the end of 1945. But for the delay in obtaining pipe and other materials, a greater increase in customers would have occurred.

Community Water Service Company and its subsidiaries are not included in the consolidated financial statements contained in this report, but a copy of that company's annual report to stockholders will be furnished on request. Its consolidated operating revenues amounted to \$5,511,400 in 1946, a decrease of \$1,077,400 compared with the previous year, principally as a result of the sale of four subsidiaries as of November 30, 1945, previously reported. Its

present subsidiaries had 156,222 customers at the year end, or 3,490 more than at the end of 1945.

### *Electric Properties*

Although adversely affected by strikes in the coal and steel industries, the electric system had a net power output of about 4,359,000,000 kilowatt-hours in 1946, which represents only a decrease of less than 1% compared with the output for 1945, and consolidated electric revenues in the year amounted to \$56,732,200, an increase of \$2,054,600, or 3.8%, over the preceding year. This increase was made in spite of a decrease of \$903,000 in revenue from sales to industrial customers since the revenues from the sales to residential and commercial customers increased \$1,797,300 and \$1,247,400, respectively.

The number of electric customers of all classes increased by 27,830 during 1946 to a total of 509,476 at the end of the year, and residential customers of the electric system increased their average annual use of electricity to 1,238 kilowatt-hours per customer in 1946 compared with 1,145 kilowatt-hours during the previous year.

Heavy demands are being made upon the electric system for the supply of power to additional customers and for increasing the supply of power to many existing customers. Two new generating stations are now in process of construction and are expected to be in service early in 1949. One station, which will be known as the "Mitchell Station," is being built by West Penn Power Company on the west bank of the Monongahela River, at Courtney, Pennsylvania, and will have an initial installed capacity of approximately 80,000 kilowatts. The other new station is to be known as the "Willow Island Station" and is being built by Monongahela Power Company along the Ohio River below St. Marys, West Virginia. It will have an initial installed capacity of approximately 50,000 kilowatts. The addition to the Williamsport electric generating station of The Potomac Edison Company, at Williamsport, Maryland, is progressing satisfactorily so that the new generating unit of approximately 30,000 kilowatts is to be in service by the end of this year.

### *Transportation Properties*

The transportation properties continued in 1946 at about the same high level of operations prevailing in 1945, their gross operating revenues in 1946 of \$5,891,400 being less than 1% lower than for the previous year.

### *Dividends*

Four quarterly dividends of \$1.50 per share each were paid during the year on the \$6 Series, First Preferred Stock of the Company. No dividends were paid on the Common Stock.

## REORGANIZATION PLANS

### *Review of Proceedings*

As the stockholders have been advised, the Company's Board of Directors determined that it was not possible to complete the major steps in the Company's reorganization plan under the Public Utility Holding Company Act which had been approved by the Securities and Exchange Commission in 1937, and, accordingly, the Company filed with the Commission during February of 1946 new Plans designed to further the conformance of its system with the provisions of the Act which it believed could be carried out under present conditions.

Extensive public hearings were held before the Commission on the Plans during last spring. On December 23, 1946 the Commission issued its findings and opinion in which it found that certain modifications should be made in the Plans as filed and that, if so modified, the Plans would be fair and equitable and would be approved. The Company filed modified Plans on January 22, 1947, and on February 17 the Commission issued its supplemental findings and opinion and order approving such Plans. In accordance with the request of the Company, the Commission then made application to the United States District Court in Wilmington, Delaware, for an order approving and enforcing the Plans in accordance with the procedure provided for in the Act. A hearing on the Plans is to be held by the Court on March 19, 1947.

Copies of the Plans as so approved by the Commission have been mailed to all stockholders.

### *Brief Summary of Plans*

Under Plan I, the waterworks business of the Company's system will be segregated from its electric, gas, transportation and other businesses through the placing of control of all the waterworks companies in American Water Works Company, Inc. (a present subsidiary of the Company and referred to in the Plans as "Waterworks Holding Company"), the shares of common stock of which will then be disposed of by sale for cash and upon exchange with the holders of the publicly held shares of two of the present subsidiaries of that company, Community Water Service Company and Ohio Cities Water Corporation. This Plan provides that shares of common stock of the new waterworks holding company are to be offered on warrants to the common stockholders of this Company for subscription by them at the price at which any unsubscribed shares are to be sold to the public unless, in the opinion of the Board of Directors, concurred in by the Commission, market conditions then prevailing make it impracticable or inadvisable, from the standpoint of the successful consummation of the segregation plan, to issue such warrants. In that case, the shares to be sold for cash will be sold directly

to underwriters, upon competitive bidding, for public distribution. Additional funds for the purposes of the Plans will be obtained through the sale by the new waterworks holding company of \$15,000,000 of ten year 3% collateral trust bonds. The cash received by that company, upon the sale of its stock and bonds, in excess of that required for the purposes of the Plan and its working capital, will be paid to the Company as part of the purchase price of the waterworks companies transferred and will be available for the payment of this Company's bank loans and preferred stock.

Plan I also provides for the liquidation into the new waterworks holding company of Community Water Service Company and Ohio Cities Water Corporation.

Plan II provides for the dissolution and liquidation of this Company. On such liquidation, this Company will pay off and retire its outstanding bank loans and preferred stock. The Plan provides that the preferred stock shall be paid \$100 per share and accrued dividends,\* together with such additional amount (if any) as it shall ultimately be decided by the Commission or a court that such stockholders are entitled to receive upon the liquidation. After the liabilities of this Company have been determined and provided for, it will complete its liquidation by distributing to the common stockholders the shares of common stock of The West Penn Electric Company then held by it. This latter step may, however, await the taking of such action as may be necessary to conform The West Penn Electric Company's holding company system to the provisions of the Act.

#### *Consummation of Plans*

While the above Plans have been approved by the Commission, their ultimate consummation is dependent upon a number of factors, including approval by the United States District Court, the obtaining of satisfactory income tax closing agreements and rulings from the Treasury Department, and the receipt from underwriters of a satisfactory bid for the shares of common stock of the new waterworks holding company. Accordingly, while satisfactory progress is being made, it is not possible to state definitely when the Plans will be consummated.

The present Plans do not provide for such action as will be necessary in order to conform the holding company system of The West Penn Electric Company to the provisions of Section 11 of the Act. Their successful consummation will, however, in the opinion of the Company, constitute an important forward step in the conformance of this Company's system to such provisions.

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\*Under the stock provisions, the preferred stock of the Company is entitled on dissolution or liquidation, whether voluntary or involuntary, to \$100 per share and accrued dividends. The stock is redeemable at the option of the Company at \$110 per share and accrued dividends.



## WATERWORKS BUSINESS

### *General Description*

The waterworks companies which will be owned by American Water Works Company, Inc. (the new waterworks holding company) have been for many years under the management of the Company or its predecessor companies. Seventy waterworks companies are now controlled by the Company, of which thirty-five were grouped for operation in the period from 1886 to 1929, and the control of the remaining thirty-five companies was subsequently obtained by the acquisition of control of Community Water Service Company. The business of such waterworks companies is the sale of water for public and private use and for fire protection service purposes in a large number of communities in twenty-two states. There are about ninety of such communities with populations in excess of 5,000, the ten largest being:

Birmingham, Alabama	Huntington, West Virginia
Chattanooga, Tennessee	St. Joseph, Missouri
Wichita, Kansas	East St. Louis, Illinois
*Pittsburgh, Pennsylvania	Davenport, Iowa
Peoria, Illinois	Terre Haute, Indiana

\*Four wards and parts of five additional wards.

The total population served by all the companies is now estimated at 3,000,000. At December 31, 1946, their customers numbered 665,858, and their gross operating revenues for the year 1946 amounted to \$22,508,847. The total assets of the companies as shown by their combined balance sheets were approximately \$185,000,000.

### *Essential Nature of Business*

No other utility service is so essential as that furnished by a public water supply system. Each new home built within the area of service is a potential customer for the water company. The business is a stable one as the requirements of the residential user of water do not fluctuate violently with changes in the business cycle.

Since the average residential customer of the system pays approximately \$19 annually for his water supply, the water bill forms a small part of the family budget.

### *Group Operation*

No business lends itself with more facility to a system of group management than a privately owned water company. Many of the individual companies are relatively small and the local staff required for physical operation

is limited in number. The many other services required to assure at all times a dependable supply of good water can best be supplied through a larger central organization available as required by the individual companies.

The Company's system of central management is based on the principle of applying the expert knowledge and experience gained because of the size of the system to the problems of the individual water company. There are maintained in the central service organization skilled departments in the field of waterworks operation embracing engineering, construction, sanitary engineering, accounting, financing, public relations, legal and other services. This organization's staff numbers in excess of two hundred people and has been trained over a long period of years, many of the individual members having had extensive operating experience in the field.

The new waterworks holding company will carry forward the present central organization and continue to furnish to this group of waterworks companies the type of service which has been so successfully applied in the past. The original organization was developed in the latter part of the last century and has been continually strengthened and made more useful to the subsidiary companies. The personnel of this organization includes many men who have spent their entire business lives in the waterworks industry. Their knowledge of its problems and years of experience could not be duplicated as there is no similar organization of comparable size in the United States. They provide these companies with the knowledge and experience which has made the operations successful over a long period of time. This organization will remain intact to serve the new company and its subsidiaries.

### *Personnel*

As a result of the segregation of the water properties, the executive staff will be divided so that those who were primarily engaged in the waterworks business will continue in that field and those principally concerned with the electric companies will continue as officers of the electric holding company.

Earle S. Thompson, President of the Company since 1937 and an officer since 1923, will serve as Chairman of the Board of the new waterworks holding company as well as the chief executive officer of the electric system.

Gilbert W. Chapman who has been an officer of the Company since 1927 will serve as President of the new waterworks holding company. Mr. Chapman has devoted practically all of his time in recent years to the waterworks operations of the Company.

## Earnings

The following statement shows the combined net income for the year 1946 applicable to securities and advances of subsidiaries to be acquired by American Water Works Company, Inc. (the new waterworks holding company) upon the consummation of Plan I, less estimated annual expenses, taxes and interest of that company.

### *Earnings of subsidiaries for 1946:*

Operating revenues:	
Residential .....	\$10,174,773.30
Commercial .....	5,106,932.34
Industrial .....	3,618,734.55
Municipal .....	989,559.26
Public fire protection .....	1,534,641.36
Other water utilities .....	765,789.79
Miscellaneous .....	318,416.51
Total operating revenues .....	<u>\$22,508,847.11</u>
Expenses:	
Operating expenses .....	\$ 7,504,387.79
Maintenance .....	1,412,484.86
Taxes, other than Federal taxes on income .....	2,735,912.68
Provision for depreciation and retirements .....	1,282,230.08
Amortization of property account adjustments .....	109,208.98
Total .....	<u>\$13,044,224.39</u>
Operating income before Federal taxes on income .....	\$ 9,464,622.72
Federal taxes on income .....	1,611,813.00
Operating income .....	<u>\$ 7,852,809.72</u>
Non-operating income .....	42,950.46
Gross income .....	<u>\$ 7,895,760.18</u>
Income deductions (exclusive of interest and preferred dividends to parent companies):	
Interest .....	\$ 3,365,921.12
Amortization of debt discount, premium (net) and expense .....	244,125.85
Preferred dividends .....	1,170,584.69
Miscellaneous .....	57,422.23
Total income deductions .....	<u>\$ 4,838,053.89</u>
Combined net income applicable to securities and advances to be acquired by American Water Works Company, Inc. upon consummation of Plan I .....	<u>\$ 3,057,706.29</u>
<i>Estimated annual expenses, taxes and interest of American Water Works Company, Inc.:</i>	
Expenses .....	\$ 200,000.00
Federal income taxes .....	122,000.00
Other taxes .....	10,000.00
Interest on Ten Year 3% Collateral Trust Bonds .....	450,000.00
Amortization of debt discount and expense .....	3,500.00
Total .....	<u>\$ 785,500.00</u>
<i>Pro forma consolidated net income applicable to common stock of American Water Works Company, Inc. ....</i>	<u>\$ 2,272,206.29</u>

### *Future Prospects*

Although in common with other utilities, the waterworks industry faces the problem of rising costs and stabilized rates, the future can be looked at with optimism. The new waterworks holding company will commence operations with a long record of stability in the earnings of its subsidiaries which have varied relatively little between years of depression and times of broad business activity. The new company faces today a period of tremendous residential construction with the opportunity to attach tens of thousands of new customers to its facilities. The use of water should gradually increase as the standard of living in the country improves along with the character of its domestic housing. In addition, the field of industrial water sales is broadening considerably as great strides are being made in the development of processes for the manufacture of synthetic materials. These growing industries use large quantities of purified water.

## ELECTRIC BUSINESS

The West Penn Electric Company, whose common stock is proposed to be distributed to the common stockholders of this Company as a final step in the liquidation of this Company, is a public utility holding company, registered as such under the Public Utility Holding Company Act of 1935. The Securities and Exchange Commission, in 1937, found that its public utility subsidiaries constitute a single integrated public utility system.

### *Subsidiaries*

The principal subsidiaries of The West Penn Electric Company are West Penn Power Company, Monongahela Power Company and The Potomac Edison Company. Over 94% of the common stock of West Penn Power Company and 100% of the common stocks of the other two principal subsidiaries are owned within The West Penn Electric Company System.

West Penn Power Company, the largest of the operating public utility subsidiaries, furnishes electric service to nearly 265,000 customers in western and north central Pennsylvania. The territory served includes many of the small industrial cities and towns in the general vicinity of Pittsburgh, as well as rural areas. Consolidated gross operating revenues of West Penn Power Company and subsidiaries for the year 1946 amounted to \$32,778,780 and the consolidated balance sheet shows total assets in excess of \$163,000,000.

Monongahela Power Company furnishes electric service and some gas service in northern West Virginia. Through wholly owned subsidiaries, electric service is also supplied in small parts of eastern Ohio, western Virginia and western Maryland and natural gas service in southwestern Pennsylvania contiguous to the company's territory in West Virginia. Approximately 140,500 electric customers are served. The territory is primarily industrial, and includes the cities of Parkersburg, Clarksburg, Fairmont and Morgantown, West Virginia and Marietta, Ohio. Consolidated gross operating revenues of Monongahela Power Company and its subsidiaries for the year 1946 amounted to \$15,584,287 and total assets, as shown by the consolidated balance sheet, exceed \$60,000,000.

The Potomac Edison Company is principally an electric utility company whose service area is substantially all of central and western Maryland. It is also engaged in the manufactured gas, electric railway and bus transportation businesses. Wholly owned subsidiaries of this company furnish electric service to adjoining parts of northern Virginia, northeastern West Virginia and south central Pennsylvania, and interurban bus transportation service and water service. Electric customers of The Potomac Edison Company and its subsidiaries number approximately 104,500. With the exception of commercial and industrial business in and near the few larger cities and a small number of isolated industrial enterprises, the general character of the service area is rural, general agriculture, dairy farming and fruit growing being the principal activities. Among the larger cities served are Cumberland, Hagerstown (which is also served by a municipally owned system) and Frederick, Maryland; Martinsburg, West Virginia; Waynesboro, Pennsylvania; and Winchester, Virginia. Gross operating revenues of this company and its subsidiaries aggregated \$14,400,743 for the year 1946 and total assets of over \$50,000,000 are shown in the consolidated balance sheet.

All three of these companies are in excellent financial condition. The West Penn Electric Company has a substantial equity in each of them. Their future, from the standpoint of growth and development and increased earning power, is bright.

Other important subsidiaries of The West Penn Electric Company are West Penn Railways Company, which furnishes electric railway transportation service in parts of western Pennsylvania, and White Star Lines, Inc., which operates an interurban bus transportation service in southwestern Pennsylvania extending into West Virginia.

## *Earnings*

A consolidated income account of The West Penn Electric Company and subsidiaries for the year ended December 31, 1946 setting forth the amount of consolidated net income applicable to the holdings of this Company in The West Penn Electric Company follows:

Operating revenues:	
Electric light and power .....	\$56,764,734.68
Electric railway .....	1,673,849.63
Gas .....	1,313,979.09
Bus .....	4,217,528.63
Other .....	105,808.72
Total operating revenues .....	<u>\$64,075,900.75</u>
Expenses:	
Operating expenses .....	\$25,956,865.14
Maintenance .....	5,527,861.48
Taxes, other than Federal taxes on income .....	4,502,547.89
Provision for depreciation, retirements and depletion .....	6,130,284.62
Amortization of property account adjustments .....	788,916.47
Total .....	<u>\$42,906,475.60</u>
Operating income before Federal taxes on income .....	<u>\$21,169,425.15</u>
Federal taxes on income .....	7,300,500.00
Operating income .....	<u>\$13,868,925.15</u>
Non-operating income .....	1,130,717.11
Gross income .....	<u>\$14,999,642.26</u>
Income deductions:	
Interest .....	\$ 3,755,152.13
Interest charged to construction .....	(49,705.91)
Amortization of debt discount, premium (net) and expense .....	804,634.87
Preferred dividends of subsidiaries .....	1,984,236.08
Minority interest .....	297,569.41
Miscellaneous .....	111,566.58
Total income deductions .....	<u>\$ 6,903,453.16</u>
Net income .....	<u>\$ 8,096,189.10</u>
Preferred dividend requirements on stock of The West Penn Electric Company held by the public .....	<u>2,281,762.00</u>
Balance of consolidated net income applicable to securities owned by American Water Works and Electric Company, Incorporated .....	<u>\$ 5,814,427.10</u>
Represented by:	
Interest to American Water Works and Electric Company, Incorporated ..	\$ 3,725.00
Dividends to American Water Works and Electric Company, Incorporated ..	2,410,161.00
Balance of consolidated net income not distributed .....	3,400,541.10
	<u>\$ 5,814,427.10</u>

### *Outstanding Securities*

The following tabulation sets forth the securities of The West Penn Electric Company held outside its system at December 31, 1946 and the shares of its capital stocks owned by this Company at that date:

	Held outside The West Penn Electric System	Owned by American Water Works and Electric Company
Gold Debentures, 5% Series due 2030....	\$5,000,000	—
7% Cumulative Preferred Stock.....	221,247 shs.	52,411 shs.
6% Cumulative Preferred Stock.....	119,853 shs.	300 shs.
Class A Stock (\$7 cumulative).....	59,126 shs.	4,470 shs.
Class B Stock (\$7 non-cumulative).....	165,742 shs.	165,742 shs.
Common Stock .....	1,312,602 shs.	1,312,602 shs.

In connection with the liquidation of this Company, all of the shares of 7% Cumulative Preferred Stock, 6% Cumulative Preferred Stock, Class A Stock and Class B Stock owned by this Company, as set forth above, are to be contributed to The West Penn Electric Company, and the common stock of The West Penn Electric Company is to be distributed to the common stockholders of this Company.

Such distribution of the common stock of The West Penn Electric Company may not be made until such action has been taken as will be necessary in order to conform the holding company system of The West Penn Electric Company to the provisions of Section 11 of the Public Utility Holding Company Act of 1935. It is not possible at this time to state definitely all of the action which may be necessary to effect this conformance. Subsequent to the segregation of the waterworks business of the Company from its electric and other businesses, the Company intends to propose additional plans to provide for such action.

### *Management*

The principal officers of The West Penn Electric Company hold the same offices in this Company, and the Directors of The West Penn Electric Company are all Directors of this Company. Accordingly, the effectuation of the reorganization plans will not result in any substantial change in the management of the electric system.

## CONCLUSION

The adjustment from wartime to peacetime basis of operations has been accomplished by the system with a minimum of difficulty. While many problems remain ahead, the progress made by the Company and its subsidiaries during 1946 may be viewed with satisfaction. The year 1947 is faced with confidence.

Appreciation is expressed to all of the employees throughout the Company's system for their cooperation and help in successfully operating the properties and maintaining the usual high standard of public service.

By Order of the Board of Directors,  
EARLE S. THOMPSON  
*President*

*Proxies for the annual meeting of stockholders to be held April 15, 1947, will be requested later, and the proxy statement will be mailed to stockholders on or about March 18, 1947. This annual report is not sent to you in connection with the solicitation of proxies for such annual meeting and is not part of the proxy statement or proxy soliciting material with respect to the meeting; it and the financial statements contained herein are submitted to the stockholders of the Company for their general information and not in connection with any sale, or offer to sell, or solicitation of an offer to buy any securities.*



**COMPARATIVE STATISTICAL SUMMARY**

**Electric Power and Light Properties**

	As of December 31,	
	1946	1945
<b>GENERATING STATIONS—KILOWATTS:§</b>		
Steam Stations .....	736,370	736,370
Hydro Stations .....	62,052	62,052
Oil and Gas Stations .....	5,319	5,319
	<hr/>	<hr/>
Total.....	803,741	803,741
<b>NET KILOWATT-HOUR OUTPUT*</b> .....	4,358,991,214	4,390,436,463
<b>NUMBER OF ELECTRIC CUSTOMERS</b> .....	509,476	481,646
<b>TRANSMISSION LINES—POLE MILES:</b>		
132,000 Volts .....	480	480
66,000 Volts .....	363	339
Less than 66,000 Volts.....	3,040	2,978
	<hr/>	<hr/>
Total.....	3,883	3,797

**Transportation Properties**

<b>ELECTRIC RAILWAYS:</b>		
Miles of Track .....	181	181
Number of Cars .....	106	111
<b>BUS LINES OPERATED:</b>		
Miles of Route .....	1,791	1,784
Number of Buses .....	214	195

**Water Works Properties**

—Excluding subsidiaries of Community Water Service Company—

MILES OF MAINS.....	6,408	6,313
GALLONS OF WATER SOLD*.....	78,803,905,000	77,781,241,000
NUMBER OF WATER CUSTOMERS.....	509,636	495,846

—Subsidiaries of Community Water Service Company—

MILES OF MAINS.....	2,044	2,015
GALLONS OF WATER SOLD*.....	18,965,572,000	18,495,375,000
NUMBER OF WATER CUSTOMERS.....	156,222	152,732

§Based on name-plate ratings.

\*Twelve months ended December 31.

**PRICE, WATERHOUSE & CO.**

**56 PINE STREET**

**NEW YORK 5**

**March 14, 1947.**

**TO THE BOARD OF DIRECTORS OF  
AMERICAN WATER WORKS AND ELECTRIC COMPANY, INCORPORATED:**

We have examined the balance sheet of American Water Works and Electric Company, Incorporated, the parent company, and of American Water Works and Electric Company, Incorporated, and consolidated subsidiary companies, as of December 31, 1946, and the related statements of income and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances, and included such tests of the accounting records and other supporting evidence and such other procedures as we considered necessary.

In February, 1946, the Company filed with the Securities and Exchange Commission certain Plans designed to further the conformance of the Company's holding company system to the requirements of Section 11 of the Public Utility Holding Company Act of 1935. Such Plans, as amended, have been approved by the Commission and provide for (1) the segregation of the Company's waterworks business into a separate waterworks holding company and (2) the eventual liquidation of American Water Works and Electric Company, Incorporated. The Plans do not provide for such action as will be necessary in order to conform to the provisions of Section 11 the holding company system of The West Penn Electric Company, which is the intermediate holding company through which the electric, gas and transportation businesses are controlled. The extent to which the accounts of the Company and of its intermediate holding company subsidiaries will be affected in the future in the consummation of the Plans is not determinable at present.

In our opinion, subject to the reservation in the preceding paragraph, the accompanying balance sheets and related statements of income and surplus present fairly the position of American Water Works and Electric Company, Incorporated, and of that company and its consolidated subsidiary companies at December 31, 1946, and the results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

**PRICE, WATERHOUSE & CO.**

**American Water Works and Electric Company, Incorporated**  
(A DELAWARE CORPORATION)

BALANCE SHEET AS OF DECEMBER 31, 1946

*Assets*

Investments and advances:

Securities and notes of subsidiary companies.....		\$53,606,618.11
Open account advances to subsidiary companies.....		5,064,500.00
Other security investments.....		444.21
		\$58,671,562.32*

Current assets:

Cash in banks and on hand.....		\$5,268,578.59
Accounts receivable from subsidiary companies.....		670,205.71
Accrued interest and dividends receivable from subsidiary companies .....		94,657.42
Other current assets.....		9,175.47
		6,042,617.19

Total assets .....		\$64,714,179.51
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\*This amount does not purport to be the present value of the investments or the amount which could be realized upon the sale thereof.

**American Water Works and Electric Company, Incorporated**  
(A DELAWARE CORPORATION)

BALANCE SHEET AS OF DECEMBER 31, 1946

*Liabilities, Capital and Surplus*

Current liabilities:

Notes payable to banks—due December 28, 1947 (see Note D) .....	\$10,000,000.00	
Accounts payable to others.....	238,874.35	
Taxes accrued, including Federal taxes on income.....	221,765.40	
Interest accrued .....	1,458.32	
Dividend declared on preferred stock payable January 2, 1947 .....	299,802.00	
Other current liabilities.....	23,361.78	
Prior years' Federal taxes on income.....	163,175.24	
Total current liabilities.....		\$10,948,437.09

Capital stock:

First Preferred Stock (see Note D):		
Authorized 500,000 shares—no par value		
Issued 200,000 shares—\$6 Series		
(cumulative) .....	\$20,000,000.00	
Less: 132 shares held in treasury	13,200.00	\$19,986,800.00
Common Stock:		
Authorized 2,500,000 shares—no par value		
Issued 2,352,950 shares.....	\$23,529,500.00	
Less: 9,792 shares held in treasury	97,920.00	23,431,580.00
Total capital stock.....		43,418,380.00

Surplus:

Capital surplus (no change during year) .....	\$ 562,888.86	
Earned surplus of American Water Works and Electric Company, Incorporated (of Virginia), predecessor company (no change during year) .....	1,969,101.20	
Earned surplus of American Water Works and Electric Company, Incorporated (of Delaware) .....	7,815,372.36	
Total surplus .....		10,347,362.42
Total liabilities, capital and surplus.....		\$64,714,179.51

See Notes on pages 26 to 30.

# American Water Works and Electric Company, Incorporated

## COMPARATIVE INCOME ACCOUNT

	For Year Ended		Increase or Decrease*
	Dec. 31, 1946	Dec. 31, 1945	
<b>Earnings:</b>			
From The West Penn Electric Company and subsidiaries:			
Interest .....	\$ 3,725.00	\$ 3,725.00	\$ —
Dividends .....	2,410,161.00	1,481,831.64	928,329.36
	<u>\$2,413,886.00</u>	<u>\$1,485,556.64</u>	<u>\$ 928,329.36</u>
From directly owned waterworks operating subsidiaries:			
Interest .....	\$ 137,796.67	\$ 145,133.67	\$ 7,337.00*
Dividends .....	2,174,450.55	1,670,295.35	504,155.20
	<u>\$2,312,247.22</u>	<u>\$1,815,429.02</u>	<u>\$ 496,818.20</u>
Other income§ .....	\$ 6,708.79	\$ 138,352.97	\$ 131,644.18*
Total earnings .....	<u>\$4,732,842.01</u>	<u>\$3,439,338.63</u>	<u>\$1,293,503.38</u>
<b>Expenses:</b>			
Salaries, rents and other expenses.....	\$ 596,861.16	\$ 549,642.02	\$ 47,219.14
Federal income taxes.....	188,600.00	128,880.00	59,720.00
General taxes .....	16,870.62	24,510.22	7,639.60*
Total expenses .....	<u>\$ 802,331.78</u>	<u>\$ 703,032.24</u>	<u>\$ 99,299.54</u>
Net earnings .....	<u>\$3,930,510.23</u>	<u>\$2,736,306.39</u>	<u>\$1,194,203.84</u>
<b>Income deductions:</b>			
Interest on debentures.....	\$ —	\$ 624,750.00	\$ 624,750.00*
Interest on bank loans.....	175,000.00	73,227.04	101,772.96
Amortization of debt discount and expense.	—	66,411.28	66,411.28*
Miscellaneous .....	6,565.33	17,089.74	10,524.41*
Total income deductions.....	<u>\$ 181,565.33</u>	<u>\$ 781,478.06</u>	<u>\$ 599,912.73*</u>
Net income .....	<u>\$3,748,944.90</u>	<u>\$1,954,828.33</u>	<u>\$1,794,116.57</u>
<b>Reconciliation with consolidated net income:</b>			
Net income of American Water Works and Electric Company, Incorporated, as above .....	\$3,748,944.90	\$1,954,828.33	
Balance of consolidated net income of The West Penn Electric Company and subsidiaries, not distributed.....	3,400,541.10	4,303,316.58	
Balance of combined net income of waterworks subsidiaries, not distributed....	55,840.00	263,122.96	
Consolidated net income.....	<u>\$7,205,326.00</u>	<u>\$6,521,267.87‡</u>	

‡Includes \$3,877,938 representing reduction in Federal taxes on income due to amortization, on a shortened basis to September 29, 1945, of certain facilities under Necessity Certificates issued by the Federal Government. Such reductions are not available after 1945.

§1945 includes \$108,045.67 representing dividend and interest income from subsidiaries no longer owned or in liquidation.

# American Water Works and Electric Company, Incorporated

## EARNED SURPLUS ACCOUNT (DELAWARE)

YEAR ENDED DECEMBER 31, 1946

Balance at January 1, 1946.....	\$ 6,133,314.46
Add:	
Net income for year ended December 31, 1946.....	3,748,944.90
Reduction of provisions for Federal taxes on income for the years 1942 to 1945, inclusive (see Note G).....	191,830.00
	<u>                    </u>
	\$10,074,089.36
Deduct:	
Dividends on \$6 Series, First Preferred Stock.....	\$ 1,199,208.00
Balance of unamortized debt discount and expense charged off.....	1,000,000.00
Sundry adjustments (net).....	59,509.00
	<u>                    </u>
	\$ 2,258,717.00
Balance at December 31, 1946.....	<u><u>\$ 7,815,372.36</u></u>

See Notes on pages 26 to 30.

**American Water Works and Electric Company, Incorporated**  
AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 1946

*Assets and Deferred Charges*

Property, plant and equipment (see Note A) .....		\$381,996,764.33
Excess of carrying value of the investments of the Company and of its subsidiaries in securities of their respective subsidiaries over the underlying book equity of such subsidiaries at their respective dates of acquisition, as subsequently adjusted .....		22,426,442.10
 Investments and other assets:		
Investments in securities of Community Water Service Company, a non-consolidated subsidiary .....	\$ 1,456,879.91	
Investments in and advances to associated and other non-consolidated subsidiary companies, and miscellaneous investments, less reserves .....	2,574,690.60	
Loans to superannuated employees secured by life insurance policies .....	163,830.00	4,195,400.51
 Current and working assets:		
Cash in banks and on hand .....	\$22,378,736.09	
United States Government securities—at cost .....	12,264,072.59	
Tax refunds receivable from United States Government .....	388,168.64	
Special deposits with trustees and others .....	999,796.64	
Accounts receivable from non-consolidated subsidiaries .....	332,567.07	
Customers accounts receivable .....	\$6,137,458.51	
Miscellaneous accounts receivable .....	404,894.33	
	\$6,542,352.84	
Less reserves for doubtful accounts receivable ..	299,448.67	6,242,904.17
Operating and construction materials and supplies and appliance merchandise—at cost or less .....	7,144,465.55	
Prepaid insurance, taxes, etc. ....	386,878.42	50,137,589.17
 Deferred charges:		
Prepaid royalties on coal properties .....	\$ 308,042.20	
Unamortized debt discount, call premium and expense (see Note B) .....	5,623,249.30	
Unamortized commission, redemption premium and expense on capital stock .....	363,888.02	
Other deferred charges .....	543,855.43	6,839,034.95
Total assets and deferred charges .....		\$465,595,231.06

See Notes on pages 26 to 30.

**American Water Works and Electric Company, Incorporated**  
AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 1946

*Liabilities, Capital and Surplus*

Long-term debt of subsidiaries (see Note C) .....		\$173,890,000.00
Preferred capital stocks of subsidiaries (see Note C) .....		92,271,900.00
Premium on preferred capital stocks of subsidiaries .....		588,822.21
Current and accrued liabilities:		
Notes of American Water Works and Electric Company, Incorporated payable to banks, due December 28, 1947 (see Note D) ..	\$10,000,000.00	
Note of subsidiary payable to bank .....	500,000.00	
Accounts payable to non-consolidated subsidiaries .....	274,500.44	
Accounts payable to others, including payrolls of \$665,057 .....	4,118,396.61	
Taxes accrued, including Federal taxes on income .....	11,551,483.06	
Interest accrued .....	1,630,259.93	
Preferred dividends accrued .....	103,843.49	
Dividends declared on preferred stocks, payable after Dec. 31, 1946 ..	1,230,452.49	
Customers' deposits .....	1,330,393.86	
Long-term debt of subsidiaries due in 1947 .....	416,000.00	
Other current and accrued liabilities .....	376,966.48	
Prior years' Federal taxes on income (see Note G) .....	4,910,253.26	36,442,549.62
Customers' advances for construction .....		1,357,373.71
Deferred credits:		
Unamortized premium on debt (see Note B) .....	\$ 1,489,682.13	
Other deferred credits .....	425,443.48	1,915,125.61
Reserves:		
Depreciation, retirements and depletion (see Note E) .....	\$70,196,827.61	
Utility plant acquisition adjustments (see Note A) .....	2,577,519.53	
Claims and other purposes .....	1,223,715.60	73,998,062.74
Contributions in aid of construction .....		2,157,754.15
Minority interests in common stocks and surplus of subsidiaries .....		2,097,340.13
Capital stock of American Water Works and Electric Company, Incorporated:		
First Preferred Stock (see Note D):		
Authorized 500,000 shares—no par value		
Issued 200,000 shares—\$6 Series (cumulative) ..	\$20,000,000.00	
Less: 132 shares held in treasury .....	13,200.00	\$19,986,800.00
Common Stock:		
Authorized 2,500,000 shares—no par value		
Issued 2,352,950 shares .....	\$23,529,500.00	
Less: 9,845 shares held in treasury .....	98,450.00	23,431,050.00
Capital surplus (no change during year) .....	\$ 1,349,465.86	
Earned surplus, including earned surplus of predecessor company, American Water Works and Electric Company, Incorporated (of Virginia) and subsidiaries (see Note H) .....	36,108,987.03	37,458,452.89
Total liabilities, capital and surplus .....		<u>\$465,595,231.06</u>

See Notes on pages 26 to 30.



**American Water Works and Electric Company, Incorporated**  
**AND SUBSIDIARY COMPANIES**

**COMPARATIVE CONSOLIDATED INCOME ACCOUNT**

	For Year Ended		Increase or Decrease*
	Dec. 31, 1946	Dec. 31, 1945	
<b>Operating revenues:</b>			
Electric .....	\$56,732,170.80	\$54,677,537.55	\$2,054,633.25
Water .....	16,995,332.49	16,571,455.46	423,877.03
Gas .....	1,313,737.43	1,181,616.45	132,120.98
Railway .....	1,673,849.63	1,737,110.92	63,261.29*
Bus .....	4,217,528.63	4,193,219.38	24,309.25
Other .....	105,808.72	92,661.11	13,147.61
<b>Total operating revenues .....</b>	<b><u>\$81,038,427.70</u></b>	<b><u>\$78,453,600.87</u></b>	<b><u>\$2,584,826.83</u></b>
<b>Expenses:</b>			
Operating expenses .....	\$32,184,392.32	\$28,976,562.05	\$3,207,830.27
Maintenance .....	6,624,389.47	6,066,299.16	558,090.31
Taxes, other than Federal taxes on income	6,752,183.84	6,549,064.80	203,119.04
Provision for depreciation, retirements and depletion (see Note E).....	7,127,282.83	6,468,030.30	659,252.53
Amortization of property account adjust- ments (see Note F).....	892,975.45	990,393.58	97,418.13*
<b>Total .....</b>	<b><u>\$53,581,223.91</u></b>	<b><u>\$49,050,349.89</u></b>	<b><u>\$4,530,874.02</u></b>
Operating income before Federal taxes on income .....	<u>\$27,457,203.79</u>	<u>\$29,403,250.98</u>	<u>\$1,946,047.19*</u>
Federal taxes on income .....	<u>\$ 8,658,258.00</u>	<u>\$ 9,739,712.19</u>	<u>\$1,081,454.19*</u>
Reduction resulting from refinancing.....	—	1,613,900.00	1,613,900.00*
Federal taxes after reduction (see Note G)	<u>\$ 8,658,258.00</u>	<u>\$ 8,125,812.19</u>	<u>\$ 532,445.81</u>
Operating income .....	<u>\$18,798,945.79</u>	<u>\$21,277,438.79</u>	<u>\$2,478,493.00*</u>
Non-operating income .....	1,187,326.11	869,037.66	318,288.45
<b>Gross income .....</b>	<b><u>\$19,986,271.90</u></b>	<b><u>\$22,146,476.45</u></b>	<b><u>\$2,160,204.55*</u></b>
<b>Income deductions:</b>			
Interest .....	\$ 6,372,598.29	\$ 7,379,139.49	\$1,006,541.20*
Interest charged to construction .....	(57,498.38)	(300,897.85)	243,399.47
Amortization of debt discount, premium (net) and expense (see Note B).....	989,537.37	1,034,842.01	45,304.64*
Debt discount, premium and expense charged off—equivalent to tax reduction resulting from refinancing.....	—	1,613,900.00	1,613,900.00*
Preferred dividends of subsidiaries.....	5,020,960.77	5,242,573.93	221,613.16*
Minority interests .....	297,808.41	404,473.32	106,664.91*
Miscellaneous .....	157,539.44	251,177.68	93,638.24*
<b>Total income deductions.....</b>	<b><u>\$12,780,945.90</u></b>	<b><u>\$15,625,208.58</u></b>	<b><u>\$2,844,262.68*</u></b>
Net income, including special tax adjust- ment in 1945—see below.....	<u>\$ 7,205,326.00</u>	<u>\$ 6,521,267.87</u>	<u>\$ 684,058.13</u>
Net income before special tax adjustment...	<u>\$ 7,205,326.00</u>	<u>\$ 2,643,329.87</u>	<u>\$4,561,996.13</u>
Tax adjustment† .....	—	3,877,938.00	3,877,938.00*
Net income transferred to Earned Surplus..	<u>\$ 7,205,326.00</u>	<u>\$ 6,521,267.87</u>	<u>\$ 684,058.13</u>

\*Equivalent to \$2.56 per share on the common stock after preferred dividends.

†Reduction in Federal taxes on income due to amortization, on a shortened basis to September 29, 1945, of certain facilities under Necessity Certificates issued by the Federal Government. Such reductions are not available after 1945.

See Notes on pages 26 to 30.

# American Water Works and Electric Company, Incorporated

AND SUBSIDIARY COMPANIES

## CONSOLIDATED EARNED SURPLUS ACCOUNT

YEAR ENDED DECEMBER 31, 1946

Balance at January 1, 1946, including consolidated earned surplus of predecessor company .....	\$29,894,100.87
<b>Add:</b>	
Net income for year ended December 31, 1946.....	7,205,326.00
Reduction of provisions for Federal taxes on income for the years 1942 to 1945, inclusive (see Note G).....	2,829,220.00
Reduction (net) in certain reserves and clearing accounts to approximate requirements at December 31, 1946.....	743,248.99
Receipt, from a non-consolidated subsidiary, of advance written off in prior year .....	105,000.00
	<u>\$40,776,895.86</u>
<b>Deduct:</b>	
Dividends on \$6 Series, First Preferred Stock of American Water Works and Electric Company, Incorporated.....	\$ 1,199,208.00
Balance of unamortized debt discount and expense of American Water Works and Electric Company, Incorporated, charged off.....	1,000,000.00
Excess of carrying value of the investments of a subsidiary, West Penn Power Company, in securities of its subsidiaries consolidated over the underlying book equity of such subsidiaries at their respective dates of acquisition .....	1,500,000.00
Call premiums, duplicate dividends, cash adjustments, etc. incurred in refinancing preferred stocks of a subsidiary, The Potomac Edison Company	893,425.26
Amortization of commission, redemption premium and expense on capital stock issues .....	35,468.24
Sundry adjustments (net) .....	94,046.47
Proportion of certain surplus adjustments applicable to common stocks of subsidiaries held by public.....	(54,239.14)
	<u>\$ 4,667,908.83</u>
Balance at December 31, 1946, including consolidated earned surplus of predecessor company (see Note H).....	<u>\$36,108,987.03</u>

See Notes on pages 26 to 30.

**NOTES TO FINANCIAL STATEMENTS**

Reference is made to page 6 of this report for comments on plans filed in February, 1946 under Section 11 of the Public Utility Holding Company Act with the Securities and Exchange Commission.

The consolidated financial statements included in this annual report are presented on the basis followed in previous years and include all subsidiary companies over 50% of whose voting stock is owned, directly or indirectly, except four minor companies and Community Water Service Company and its subsidiaries. At December 31, 1946, the equity applicable to the investments of the Company and a consolidated subsidiary in the net assets of Community Water Service Company and its subsidiary companies, based on the consolidated accounts of that group, amounted to \$4,269,761.40; and the equity of the Company and a consolidated subsidiary in the consolidated net income of Community Water Service Company and its subsidiaries, on that basis, was \$307,182.57 for 1946 and \$177,111.09 for 1945. There is a substantial accumulated deficit in the corporate surplus account of Community Water Service Company and no dividends have been declared or paid on its preferred or common stocks since 1932, prior to acquisition of control in 1936 by American Water Works and Electric Company, Incorporated.

\* \* \* \* \*

*Note A—Property, Plant and Equipment:*

Property, plant and equipment comprises electric generating stations, electric and gas transmission and distribution systems, electric railways, buses, water pumping stations, reservoirs, water distribution systems, real estate, intangibles, etc.

The following tabulation is a general classification of the property accounts as of December 31, 1946:

*Subsidiary electric group*

Electric, gas and water plant:		
"Original cost" .....	\$222,286,978	
Utility plant acquisition adjustments .....	8,073,189	\$230,360,167
Electric railway .....		16,118,892
Bus .....		2,784,888
Miscellaneous .....		3,412,320
Total—subsidiary electric group .....		<u>\$252,676,267</u>

*Subsidiary water group*

Subject to "original cost":		
As to companies which have filed studies—		
"Original cost" .....	\$ 40,184,142	
Utility plant acquisition adjustments .....	5,514,450	
Utility plant adjustments .....	1,927,168	
	\$ 47,625,760	
As to companies which have not filed studies .....	4,335,167	\$ 51,960,927
Presently not subject to "original cost" .....		77,359,570
Total—subsidiary water group .....		<u>\$129,320,497</u>
Total consolidated property, plant and equipment .....		<u><u>\$381,996,764</u></u>

The status of subsidiaries under "original cost" requirements of the uniform systems of accounts prescribed by appropriate regulatory commissions is generally as follows:

**SUBSIDIARY ELECTRIC GROUP**

The property accounts of the electric (including their gas and water departments) and gas subsidiaries are stated on the basis of "original cost" in accordance with the provisions of the uniform systems of accounts prescribed by the Federal and State commissions having jurisdiction over the companies. Pursuant to orders received from appropriate regulatory commissions, amounts aggregating \$6,878,490 included in Account 100.5—Utility Plant Acquisition Adjustments are being amortized over a period of fifteen years beginning in 1945 by charges to income, with the right in the companies, of acceleration at any time during such period either through charges to income or to earned surplus. An additional amount of \$1,194,699 in Account 100.5 has been recorded as a result of studies made by certain other subsidiary companies, the results of which have been filed with appropriate regulatory commissions. These companies, through charges to income, have been voluntarily providing for amortization of the major portion of the amount of \$1,194,699 in Account 100.5. The amount of such amortization charges has not been approved by any regulatory body having jurisdiction. Following is a summary showing the total of Account 100.5 and the amount of reserves provided as of December 31, 1946:

	Utility plant acquisition adjustments	Reserves for utility plant acquisition adjustments
Amounts recorded in Account 100.5 pursuant to orders of appropriate regulatory commissions.....	\$6,878,490	\$ 836,897
Amounts recorded in Account 100.5 for which reserves have been voluntarily provided.....	1,194,699	980,234
	<u>\$8,073,189</u>	<u>\$1,817,131</u>

The electric railway, bus, and miscellaneous property are not subject to the "original cost" requirements. Miscellaneous property represents chiefly land acquired for future hydro-electric development.

**SUBSIDIARY WATER GROUP**

Twelve of the subsidiary water companies are subject to "original cost" requirements. Nine of these companies have filed the results of their studies with the respective State commissions. As of December 31, 1946, \$760,389 had been provided in reserves for amortization of the amount of \$5,514,450 included in Account 100.5—Utility Plant Acquisition Adjustments.

In February, 1946, the Pennsylvania Public Utility Commission issued a tentative draft of a proposed new uniform system of accounts for water utilities having annual operating revenues of \$100,000 or more. Such tentative draft includes provision for "original cost" accounting and requires that "original cost" studies shall be submitted to the Commission not later than two years after the effective date of the new system of accounts if they become effective. Six of the companies presently not subject to "original cost" requirements are Pennsylvania companies having over \$100,000 annual revenues. The property accounts of said companies total \$23,406,229 at December 31, 1946. Based upon partial studies made in connection with certain financing proceedings and other preliminary reviews, it is estimated that the "original cost" of the six companies may be determined to be from \$2,800,000 to \$3,200,000 less than the aggregate plant accounts.

**Note B—Unamortized Debt Discount, Call Premium and Expense:**

**Unamortized Premium on Debt:**

The balance of unamortized debt discount, call premium and expense includes \$3,670,325 which is being amortized in equal annual installments over the remaining lives of the various bond issues, it being the general policy of the companies, where bonds are refunded in advance of their maturity dates, to continue the amortization of debt discount and expense applicable to such issues to the original maturity dates thereof and to amortize call premiums and interest, incurred in connection with the refundings, over the life of the new bonds. Also included therein are balances of \$608,139 and \$1,344,785 of certain subsidiaries the original amounts of which are being amortized in accordance with regulatory commission orders over periods of five years ending in 1949 and six years ending in 1951, respectively.

In the consolidated income accounts for the years 1945 and 1946 the amortization of debt discount, premium (net) and expense under income deductions includes an amount of \$220,971 in each year in respect of unamortized debt discount and expense applicable to certain refunded issues of a subsidiary which, under an order of the Federal Power Commission, became fully amortized over the five-year period ended December 31, 1946.

The deferred credit of \$1,489,682 representing balance of unamortized premium on debt, less expenses, on the presently outstanding bonds of the principal operating subsidiaries is being amortized in equal annual installments over the remaining lives of such bonds.

**Note C—Data on Subsidiaries' Long-Term Debt and Preferred Stock:**

Long-term debt of consolidated subsidiaries includes \$2,546,500 due within five years. At December 31, 1946, there were no arrears in dividends on preferred stocks of consolidated subsidiaries held by the public.

**Note D—Data Relating to Notes Payable and Preferred Stock of American Water Works and Electric Company, Incorporated:**

The notes payable to banks are unsecured, are due December 28, 1947, and bear interest at the rate of  $1\frac{3}{4}\%$  per annum to maturity. Such bank loans may be renewed, subject to the approval of the Securities and Exchange Commission, for an additional three-year period at increased interest rates and may be prepaid in whole or in part at any time without premium unless so paid out of the proceeds of other borrowings made at a lower annual rate of interest.

Under the stock provisions, the preferred stock is redeemable by the Company on 30 days' notice at \$110 per share and accrued dividends and on any liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, the holders thereof are entitled to receive \$100 per share and accrued dividends before any distribution or payment on the common stock.

**Note E—Depreciation, Retirements and Depletion:**

The companies' provisions for depreciation, retirements and depletion are presently determined for the various classes of operating companies in accordance with the following general principles:

1. In the case of the waterworks properties, provisions for depreciation and retirements are based upon the application of fixed rates to depreciable property. For certain of the companies, the rates used are determined by officers and engineers of the companies while for others the rates are prescribed by or agreed upon with State regulatory commissions or other public agencies. Certain of the companies have mortgages or indentures under which they are required to provide, for depreciation and retirements, amounts not less than the difference between a percentage of operating revenue, ranging from 9% to  $12\frac{1}{2}\%$ , and the amounts expended for maintenance.

2. In the case of electric and gas subsidiaries, the uniform systems of accounts prescribed by Federal and State commissions having jurisdiction require generally that

each utility shall record as of the end of each month the estimated amount of depreciation accrued during that month on depreciable utility plant. Such subsidiaries are providing reserves for depreciation by charges to income determined from time to time by officers and engineers of the companies.

3. In the case of bus properties, provisions for depreciation are based upon the estimated service life of the equipment.

4. In the case of electric railway properties, specific amounts are provided, based on the provision estimated to be necessary for the retirement of equipment and rolling stock. Abandonments of railway properties are generally not charged to reserves provided from income but are charged to capital surplus or reserves resulting from unrealized appreciation in investments in a system company. Since 1942, no such charges were made for abandonments but in prior years the effect of such treatment has been to (1) decrease property, plant and equipment with (2) a corresponding increase in "Excess of carrying value of the investments of the Company and of its subsidiaries in securities of their respective subsidiaries over the underlying book equity of such subsidiaries at their respective dates of acquisition, as subsequently adjusted." The amount of electric railway properties as shown on the books of subsidiaries at December 31, 1946 was \$12,407,248 after deducting reserves of \$3,711,644.

5. One subsidiary company owns certain gas wells and provides a reserve for depletion based on the requirements of the mortgage covering the subsidiary's property.

The companies' provisions for depreciation, retirements and depletion have been less than the amounts claimed or to be claimed as deductions for Federal income tax purposes. For 1945 Federal income tax purposes, \$5,340,672 was claimed by certain subsidiaries in respect of amortization of facilities under Necessity Certificates issued by the Federal Government (see Note G). In the consolidated income accounts, depreciation on these facilities has been provided in accordance with the usual practice of the subsidiaries. The aggregate amounts claimed or to be claimed by the companies as depreciation deductions in their Federal income tax returns for the years 1945 and 1946, exclusive of the claim in 1945 for amortization of facilities referred to above, were \$7,483,801 and approximately \$7,768,000, respectively.

*Note F—Amortization of Property Account Adjustments:*

"Amortization of property account adjustments" includes amounts provided for amortization of utility plant acquisition adjustment accounts (see Note A). It also includes special appropriations of \$200,000 in both 1945 and 1946 from earnings of the principal electric street railway subsidiary.

*Note G—Federal Taxes on Income:*

The Federal income tax liability of the Company and its subsidiaries has been determined by the Bureau of Internal Revenue and the accounts closed through 1941. The years 1942 and 1943 have been examined and, except in the case of Monongahela Power Company and its subsidiaries, have been reported upon by the revenue agents.

The Company and certain of its subsidiaries have filed or will file, as members of a consolidated group, consolidated returns for the years 1942 to 1946, inclusive. However, as the excess profits tax credit of the consolidated group had not been agreed upon with the Bureau of Internal Revenue, the members of such group made provisions for Federal taxes on income generally on a separate return basis for the years 1942 to 1945, inclusive. Accordingly, such provisions for Federal taxes on income for those years were in excess of the companies' proportionate share of the tax liability shown by the consolidated returns filed. During 1946, the consolidated returns for the years 1942 and 1943 were examined by revenue agents of the Bureau as a result of which the principles to be applied in the determination of the excess profits credit of the consolidated group for the years 1942 to 1945, inclusive, were generally agreed upon. In view of this, in 1946 the provisions for Federal taxes on income for the consolidated group were reduced, and the consolidated tax liability, as so reduced, has been allo-

cated to the members of the consolidated group on the basis provided for in the rules of the Securities and Exchange Commission. As a result of this action, the provisions previously made by the Company and its subsidiary members of the consolidated group for the years 1942 to 1945, inclusive, have been reduced \$707,570 for 1942, \$636,385 for 1943, \$356,335 for 1944, and \$1,128,930 for 1945; and the total (\$2,829,220) of such reductions has been credited to earned surplus.

For the year 1946, provisions for Federal taxes on income were computed on a consolidated basis, which amounted to approximately \$530,000 less than such taxes would have been without the benefit from participation in the consolidated Federal income tax return.

West Penn Power Company, a subsidiary, has filed with the Commissioner of Internal Revenue applications for relief from Federal excess profits taxes under Section 722 of the Internal Revenue Code for the years 1940, 1941, 1942 and 1943, and intends to file similar claims for 1944 and 1945. The claims filed have been examined by agents of the Commissioner and the Commissioner has made his final determination for the years 1940 and 1941, allowing the relief claim in part and applying the allowance against deficiencies in taxes determined on other grounds. If relief under Section 722 is allowed for the other excess profits tax years on the basis indicated in agents' reports received to date, it is estimated that the tax reduction would offset any liability for deficiencies in income and excess profits taxes on other grounds, and approximately \$430,000 of the liability shown on the consolidated balance sheet for prior years' Federal taxes on income would be transferred to consolidated earned surplus.

For the year 1945, Monongahela Power Company, a subsidiary, had the benefit for Federal tax purposes of special deductions consisting of redemption premium, discount and expense from refunding outstanding bonds which had the effect of reducing Federal taxes on income by \$1,613,900.

The provisions for Federal taxes on income for the year 1945 were less by \$3,877,938 than would have been required if subsidiaries had not been permitted to claim as deductions for Federal tax purposes amortization of certain facilities on a shortened basis under Necessity Certificates issued by the Federal Government.

*Note H—Restrictions on Earned Surplus:*

Under dividend restrictions contained in indentures under which bonds of certain subsidiaries have been issued, \$9,052,374 included in consolidated earned surplus is restricted against the payment of dividends on their common stocks.

Orders of the Securities and Exchange Commission authorizing refinancings contain the following provisions restricting common stock dividends: (a) common stock dividends of Monongahela Power Company are limited to \$800,000 in any calendar year so long as its 2% Ten-Year Serial Notes remain outstanding, (b) common stock dividends of Monongahela Power Company and The Potomac Edison Company are limited to 75% of consolidated net income in any twelve months' period if the ratio of common stock capital and consolidated surplus to total consolidated capitalization is less than 25%, and to 50% of consolidated net income if such ratio is less than 20%, and (c) West Penn Power Company may not pay common stock dividends if such payment would reduce the aggregate of the stated value of its common stock and its surplus below \$27,750,000. At the present date, the ratio of common stock capital and consolidated surplus to consolidated capitalization exceeds 25% in the case of both The Potomac Edison Company and Monongahela Power Company; and the aggregate of the stated value of the common stock and the surplus of West Penn Power Company exceeds \$27,750,000. The foregoing conditions are subject to modification or rescission by the Commission upon application by the companies to which they respectively apply.

Reference is made to such dividend restrictions and orders for the detailed terms and provisions thereof.

*Note I—Contingent Liability of American Water Works and Electric Company, Incorporated:*

The Company is the guarantor of the payment of principal and interest on bonds of a subsidiary water company in the principal amount of \$726,000.