

SIGNIFICANCE OF THE PUBLIC UTILITY HOLDING  
COMPANY ACT OF 1935 UPON TEXAS COMPANIES

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SIGNIFICANCE OF THE PUBLIC UTILITY HOLDING  
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## CHAPTER I

### INTRODUCTION

This study is concerned with the significance of the Public Utility Holding Company Act of 1935 on the public utility holding companies which were operating in Texas in 1935.

The President of the United States signed the Act on August 26, 1935. It was designed to provide for control and regulation of public-utility holding companies. The passage and signing of this law was the culmination of prolonged studies of the gas and electric public utility industry, its history, its inter-company relations, and the influences of holding companies thereon; studies which took the form of the Federal Trade Commission's investigation made in response to Senate resolution number eighty-three, which was passed by the 70th Congress in 1931, prolonged House and Senate Committee investigations and hearing prior to the passage of the bill itself. In all of these proceedings much weight was given to the none-too-savory history of the development of many holding company systems and to the financial machinations that had all too often accompanied those developments. Thus the enactment of this act may without dispute be described as a legislative act largely influenced by a history of specific

evils; an act whose design, in part, was to assure that those evils would not and could not recur.

#### Statement of the Problem

The main problem of interest in this investigation is the question of whether the Act, as applied specifically to companies in Texas, has had the effects anticipated. A sufficient number of years have now passed so that it should be possible to ascertain the degree to which each of the principal results expected has, in fact, been realized.

#### Purpose of the Study

All of the abuses which the Act seeks to correct and all the purposes sought to be accomplished seem to be directly related to effects produced on either the consuming public or the investors in utility securities or both. These effects will be considered at length in the following chapters. To illustrate, certain factors of obvious significance, as affected by the Act, include: (1) the economy of operation of operating companies; (2) economy of financial management of utilities; (3) economy in raising capital; and (4) effectiveness of utility regulation.<sup>1</sup>

This study is made with the consideration of the above factors in view. A comparison of company experiences regarding these factors before and after passage of the Act will be made.

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<sup>1</sup>Irston R. Barnes, The Economics of Public Utility Regulations, pp. 19-22.

### Limitations of the Study

Since the Act of 1935 applies only to gas and electric utility holding company systems, these are the only types of holding company systems considered in this study. No attempt will be made to trace the effect on every system represented in Texas in that year, for some systems have holdings in only one small operating company. Only the major companies will be studied. Neither will there be an attempt to make a statutory application or interpretation of the law except in minor instances of a few utility companies.

### Method of Procedure

The most important provisions of the Act of 1935 are those provisions which have to do with the geographical integration and the corporate simplification of holding company systems. The administration of the holding company act was placed in the Securities and Exchange Commission. This Commission in recent years has applied the integration and simplification requirements to the various utility systems throughout the nation.

Through a survey of several of these systems operating in Texas, the effects of the Act, and in particular the effects of the integration and simplification requirements, may be ascertained.

### Sources of Data

The material for this study is taken from books which have been written upon the subject of holding companies;

United States Government Publications concerning utilities and laws affecting these companies; actual court cases of utility companies, and the Annual Reports of several utility companies.

#### Order of Presentation of the Study

A summarized background of the Holding Company Act will first be necessary as a foundation for the analysis to follow. After the Act is considered, a study of some litigation concerning the Act, such as the registration and geographical integration of the companies, should contribute to the same purpose. Tying in with the previous considerations will be a study of the significance of the Act upon the major holding company systems in Texas. Properly following this study will be a discussion of the supervision over security issues; competitive bidding; and service relationships. From the foregoing findings, conclusions will then be drawn.



## CHAPTER II

### BACKGROUND OF THE PUBLIC UTILITY HOLDING COMPANY ACT OF 1935

A holding company may be defined as "any company, whether or not incorporated, which is able, presumably though not necessarily through the ownership of voting stock, to control or significantly influence the conduct and affairs of other companies."<sup>1</sup> A simpler definition given by Stein states that "a holding company is a corporation which controls other corporations by means of stock ownership."<sup>2</sup> The definition as given in the Holding Company Act states that "a holding company means any company which directly or indirectly owns, controls, or holds with power to vote, ten per centum or more of the outstanding voting securities of a public-utility company or of a company which is a holding company."<sup>3</sup>

The activities of the holding company are most closely associated with the first third of the twentieth century, although the origin of the holding company dates back to the latter part of the nineteenth century. The first holding

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<sup>1</sup>Ibid., p. 65.

<sup>2</sup>Emanuel Stein, Government and the Investor, p. 20.

<sup>3</sup>Public Utility Act of 1935, Section 2.(a) (7)(A).

companies in the utility field were found in the gas industry.<sup>4</sup> One of these early holding companies was the United Gas and Improvement Company which was incorporated in 1882. The year 1882 was also of significance to the electric utility industry, for in that year Thomas A. Edison constructed the first central station to distribute electric energy. Such installations form the basis for the utility operating company, which is the ultimate unit upon which the various holding companies must rest. In general, however, the holding company did not achieve its importance until the early part of the twentieth century.

In the electric utility industry, holding company systems trace their origins to finance companies organized by the manufacturers of electrical equipment to promote the sales of equipment, to investment banking houses engaged in the flotation of utility securities, and to engineering interests occupied with supplying technical services to the operating utilities.<sup>5</sup>

The General Electric Company was one of the early companies engaged in the manufacture of electrical equipment. During the latter part of the last century, the capacity to produce far exceeded the market for the product. Markets were therefore created by the General Electric Company and similar companies. Such markets generally consisted of the

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<sup>4</sup>Barnes, op. cit., p. 66.

<sup>5</sup>Ibid., p. 66.

various municipalities throughout the nation. Small electric utility companies were formed in these municipalities with the purpose of providing the community with electric power. It was difficult for these small companies to raise the necessary funds for the installation of electrical installations; thus the manufacturers of electrical equipment began the practice of selling them equipment and taking securities in return. It was the accepting of these securities which formed one basis for the holding company system in the electric utility field. In 1905 the General Electric Company organized the Electric Bond and Share Company, conveying to it all the securities accumulated in selling equipment to the small companies in the scattered municipalities.

"The building of utility plants calls for unusual technical competence and it is not surprising that firms of consulting and construction engineers developed to supply this service."<sup>6</sup> It was necessary that these engineering companies accept payment for their services in the form of securities, just as the electrical equipment manufacturers had done. In the course of time, these engineering firms acquired a varied selection of securities; such securities formed another basis for a holding company system. An outstanding example of such a holding company system was the Stone and Webster organization.<sup>7</sup>

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<sup>6</sup>Ibid., p. 69.

<sup>7</sup>For a discussion of the Stone and Webster, Inc., holding company system see Moody's Public Utilities, (1935), pp. 362-421. Further information may be found in Utility Corporations Report, Senate Document 92, pt. 66, 70th Congress, 1st Session, pp. 1-46.

A third source of formation of holding companies was the investment banking house. The electrical manufacturers, and the engineering organizations, when in need of funds, would issue their own securities to the public, using as collateral the securities of the various utility projects. The investment bankers would accept some securities as part of their commission. In due course a large accumulation of such securities, as in the case of the electrical manufacturers and the engineering organizations, formed the basis for a holding company system. The super holding company, The United Corporation, was organized in 1929 by J. P. Morgan and Company partly to provide an outlet for utility stocks accumulated by its Philadelphia branch, Drexel and Company."<sup>8</sup>

Such, in brief, is the origin of the holding company in the electric utility field. The degree of concentration and control which the holding company came to possess in the utility field, both gas and electric, was revealed by the Federal Trade Commission in its multiple-volume investigation concluded in 1934.<sup>9</sup> Most of the conclusions reached by the Federal Trade Commission were also reached in a study conducted by W. M. W. Splawn, who made such study primarily for the *House Committee on Interstate and Foreign Commerce*.<sup>10</sup> These

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<sup>8</sup>Barnes, op. cit., p. 70.

<sup>9</sup>Utility Corporation Report, Senate Document 92, 70th Congress, 1st Session.

<sup>10</sup>Report of the Committee on Interstate and Foreign Commerce, House of Representatives, 73rd Congress, 2nd Session.

investigations revealed the conditions present in the public utility industry during the early thirties and for the preceding decade. Both investigations revealed the excessive concentration and control that existed in the utility industry.

The device through which this control was maintained was the holding company, and by 1932 the holding companies had obtained control of the great bulk of the electric and gas utilities of the nation.<sup>11</sup> The Securities and Exchange Commission in summarizing its activities from 1934 through 1944 had the following comment on this concentration of control:

The vast concentration of control of the public utility industry was accompanied by methods which led to the creation of unsound and too-heavy financial structures, many of which could not weather slight declines in earnings. The pyramided capital and corporate structures and the arbitrary 'write-up' of the assets of operating and holding companies were two devices which enabled the promoters and bankers to acquire utility properties all over the country with a minimum of investment. . . . These complex overcapitalized structures resulted in huge losses to American investors and the bankruptcy of many holding company systems.<sup>12</sup>

Such losses and bankruptcies pointed out that the nation's vital interest in the electric and gas public utilities had been seriously jeopardized by financial practices conducted in the interest of a small group of promoters and bankers.<sup>13</sup> That such concentration and control was considered

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<sup>11</sup>Tenth Annual Report of the Securities and Exchange Commission, p. 84.

<sup>12</sup>Ibid., p. 85.

<sup>13</sup>Ibid., p. 87.

detrimental to the public interest is evident in the legislation directed against the holding company systems. The report by the Federal Trade Commission enumerated the principal abuses in the industry; the existence of such abuses was a focal point in the Congressional hearings concerning the proposed legislation against the holding companies. The principal abuses may be summarized as follows:<sup>14</sup>

(1) Pyramiding companies owning or controlling the operating companies for the purpose of enabling a minimum of investment to control a maximum of operating facilities, involving a greedy and highly speculative type of organization detrimental to the financial and economic welfare of the nation.

(2) Loading the fixed capital account of public utilities with arbitrary or imaginary amounts in order to establish a base for excessive rates.

(3) Writing up the fixed assets without regard to the cost thereof, with the result of watered stock or a large fictitious surplus.

(4) Exaction of payments from affiliated or controlled companies for services in excess of costs or value of such services.

(5) Gross disregard of prudent financing in excessive issues of obligations; imperiling the solvency of the company;

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<sup>14</sup>Public Utility Holding Company Act of 1935, Hearings  
 . . . on S. 1725, 75th Congress, 1st Session, pp. 82-84.

and involving excessive charges for interest, discount, commissions, redemption, etc.

(6) Manipulating the security markets to deceive stockholders, bondholders, or potential purchasers of securities.

(7) Issuing special voting or management stock, giving control at small cost in order to promote the interest of selfish cliques, against the interest and safety of the general stockholders.

The abuses listed above, together with many other less serious ones, invited governmental regulation. Legislation to correct such malpractices and abuses was embodied in the Public Utility Holding Company Act of 1935.

## CHAPTER III

### THE PUBLIC UTILITY HOLDING COMPANY ACT OF 1935

The holding company Act was passed despite a determined struggle on the part of the holding companies to prevent its passage. Senatorial comment during the period of the holding company lobby referred to this lobby as the most insidious, the most far-reaching, the most difficult to trace, the most dangerous, and the meanest form of all lobbying with which Congress had to deal.<sup>1</sup> However, insofar as preventing the passage of the Act was concerned, the efforts of the holding companies were to no avail. The law went into effect August 26, 1935.

The necessity for control of holding companies is set forth in Section One of the Act itself. The general purpose of the Act may be stated as follows:<sup>2</sup>

- (1) To prevent and correct over-capitalization and fictitious valuation of assets.
- (2) To eliminate the private profit in excessive management and construction charges.
- (3) To encourage the establishment of economically and geographically integrated operating systems.

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<sup>1</sup>For a description of holding company lobby activities see Kenneth G. Crawford, The Pressure Boys, pp. 55-72.

<sup>2</sup>N. R. Danielian, "Power and the Public," Harper, June, 1935, p. 45.



(4) To abolish utility holding companies except where they are useful; and then to simplify their corporate structure.

More specifically, certain of the important sections of the Act have to do with the following:

Section 5 provides for the registration of holding companies. Sections 6 and 7 deal with the supervision by the Securities and Exchange Commission of security transactions of holding companies and their subsidiaries. Supervision of acquisitions of securities and utility assets by holding companies and their subsidiaries is dealt with in Sections 9 and 10. Section 12 provides for supervision of the payment of dividends, solicitations of proxies, intercompany loans, and other intra-system transactions. Section 13 provides for the supervision of service, sales, and construction contracts. Section 15 has to do with the supervision of accounting practices. "The key provisions of the Act, however, are contained in Section 11, which requires the limitation of holding company systems to an integrated system or systems and related other businesses; and to corporate simplification and equitable distribution of voting power of companies in holding company systems."<sup>3</sup> Sub-section (b) (1) of Section 11 deals with the geographical integration requirements, while sub-section (b) (2) of Section 11 has to do with the corporate simplification requirements.

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<sup>3</sup>Tenth Annual Report of the Securities and Exchange Commission, p. 83.

A special division, the Public Utilities Division, was created within the Securities and Exchange Commission for purposes of administration. It is through this division that supervision is maintained. However, the Commission itself, consisting of five members, has spent a large part of its time in administering certain provisions of the Act, especially the geographical integration and corporate simplification requirements. In the twelfth annual report of the Securities and Exchange Commission, the Commission, in its summary of progress, stated that:

The integration and simplification program has undergone three phases of development. The first phase, in which the public utility industry was invited to offer voluntary proposals for compliance with Section 11, had a limited success, due to failure of many companies to submit plans amounting to more than the preservation of existing systems. In the second phase, the Commission issued orders with respect to each holding company system directing compliance and indicating in general terms the changes which the systems must make to meet the geographical integration requirements of Section 11 (b) (1) and the corporate simplification and redistribution of voting power requirements of Section 11 (b) (2). With the exception of a few minor problems, this phase is now complete. The third phase has embraced the processing of voluntary plans for reorganization or recapitalization filed by nearly all of the systems looking towards compliance with the orders issued by the Commission under Section 11 (b) (1) and 11 (b) (2). This phase of the integration program has been the center of attention during the recent period.<sup>4</sup>

Reference has been made to the efforts of the holding company systems to prevent the passage of the Act. Failing in their attempt to escape statutory regulation, the systems

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<sup>4</sup>Twelfth Annual Report of the Securities and Exchange Commission, p. 46.

turned to other means aimed at preservation of existing conditions. In the above statement by the Securities and Exchange Commission, it was pointed out that, in the beginning, the holding company systems in making voluntary proposals for reorganization attempted to do little more than preserve the existing systems. From the viewpoint of the various systems the conditions of the Act had to be modified, ignored, or erased. To have the Act declared unconstitutional would have been the best solution to this new regulatory problem; consequently the holding companies took their case to the courts. It was not until 1946 that some of the issues were settled through decisions rendered by the United States Supreme Court, although the constitutionality of other controversial issues had been settled earlier. The following chapter deals with litigation concerning certain of the more important provisions of the Act.

Briefly, the Act of 1935 was designed to eliminate the abuses and evils disclosed by the Federal Trade Commission in its investigation of holding companies. The Securities and Exchange Commission was given wide supervisory powers, and in addition, was charged with administering the geographical integration and corporate simplification requirements.

## CHAPTER IV

### LITIGATION CONCERNING THE 1935 ACT

The registration provisions of the Act required that the various holding company systems should register with the Securities and Exchange Commission on or before December 1, 1935. There were certain exceptions to this general registration requirement; a holding company system that was predominantly intrastate in character was not required to register; if a holding company was only incidentally a holding company, it was exempt from registration; if a holding company was only temporarily a holding company, such as an underwriter, it was not required to register.<sup>1</sup> It can be seen that such exemptions did not apply to those utility holding company systems which operated on a national scale.

Certain of the holding company systems, having failed to defeat the passage of the Act, ignored the registration requirement. The Electric Bond and Share Company, together with its major subholding companies, was one of the larger holding companies to defy the law. The Electric Bond and Share system was not alone in its defiance of the law; but it was the system which carried the question of registration to the courts, and through the lengthy process was able to

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<sup>1</sup>Public Utility Act of 1935, Section 2 (a) (7) (B).

hold off registration until 1938. The Supreme Court held on March 28, 1938, that the registration requirement was not unconstitutional:

The section of the Public Utility Holding Company Act providing for the filing of a notification of registration, and for the filing by registered holding companies of a registration statement with documents and certain detailed information within reasonable time after registration, are valid as to companies having continuous and extensive operations in interstate commerce, in view of the declarations of Congress contained in the Act as to the need of federal supervision.

The fact that public utility holding companies conduct their transactions in interstate commerce through the instrumentality of subsidiaries cannot remove them from the reach of the federal power.<sup>2</sup>

Soon after the decision in the Electric Bond and Share Company case, the Electric Bond and Share Company, together with its subholding companies, and companies in other systems which had not complied with the registration provisions of the Act, registered with the Securities and Exchange Commission.

The greater part of the remaining litigation concerning the Act, and the constitutionality of certain of its provisions, had to do with the corporate simplification and geographical integration provisions of the Act. Section 11 contained the so-called "great-grandfather" or "death sentence" clause, which provided in effect that there could henceforth be only two layers of holding companies imposed upon an operating company. Section 11 (b) (2), the section

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<sup>2</sup>Electric Bond and Share Company et al. v. Securities and Exchange Commission et al., 58 Supreme Court Reporter, p. 678.

which deals with corporate simplification, reads in part as follows:

. . . the Commission shall require each registered holding company ( and any company in the same holding-company system with such holding company) to take such action as the Commission shall find necessary in order that such holding company shall cease to be a holding company with respect to each of its subsidiary companies which itself has a subsidiary company which is a holding company.<sup>3</sup>

The constitutionality of the geographical integration and corporate simplification requirements was first upheld by the United States Circuit Court of Appeals for the Second District in January 1943, in a case brought by the North American Company system.<sup>4</sup> In a unanimous decision the court upheld the Securities and Exchange Commission in its interpretation and application of Section 11 (b) (1), the section containing the geographical integration requirements. The constitutionality of this sub-section was also upheld by the Court of Appeals for the District of Columbia in a case brought by the Engineers Public Service Company.<sup>5</sup> The constitutionality of Section 11 (b) (2), the section relating to corporate simplification, was similarly upheld in joint

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<sup>3</sup>Public Utility Act of 1935, Section 11 (b) (2).

<sup>4</sup>North American Company v. Securities and Exchange Commission, 133 F. 2d., (C.C.A. 2, 1943), p. 148

<sup>5</sup>Engineers Public Service Company v. Securities and Exchange Commission, 138 F.(2d), (App. D. C. 1943), p. 936.

proceedings instituted by the American Power and Light Company and the Electric Power and Light Corporation.<sup>6</sup>

The Supreme Court granted petitions for writs of certiorari in the North American case, the Engineers Public Service Company case and the American Power and Light Company and Electric Power and Light Corporation case. The Court agreed to pass on the cases due to the fact that more than twenty proceedings were pending before the Securities and Exchange Commission concerning the geographical integration provisions, and more than forty proceedings were pending concerning the corporate simplification provisions. However, because of disqualification by certain justices of the Court, the decisions in these cases were delayed for over three years. When the final decision in the North American case was rendered, eleven years had elapsed since the passage of the Act. The decision in this case declared Section 11 (b) (1) constitutional under both the commerce and due process clauses. Constitutionality of this part of the Act was upheld by a unanimous decision of the Court (six justices participating).<sup>7</sup>

Again in November, 1946, by the same majority, the Supreme Court upheld the corporate simplification provisions.

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<sup>6</sup>American Power and Light Company and Electric Power and Light Corporation v. Securities and Exchange Commission, 141 F. (2d), (C. C. A. 1, 1944), p. 606.

<sup>7</sup>North American Company v. Securities and Exchange Commission, 90 U. S. Supreme Court, p. 737,

This decision came in the appeal case of the American Power and Light Company and the Electric Power and Light Corporation. The Court found that the holding company Act resulted from an effort by Congress to eliminate specific activities by utility systems in interstate commerce; among these activities were various abuses traceable to the use of the pyramiding device as set forth in Section 11 (b) of the Act.

"To deny that Congress has power to eliminate evils connected with pyramided holding company systems . . . is to deny that Congress can effectively deal with problems concerning the welfare of the national economy. We cannot deny that power."<sup>8</sup>

Section 11 (e) of the Act provides that the Securities and Exchange Commission may initiate in federal district courts proceedings designed to enforce and carry out voluntary plans of reorganization previously approved by the Commission. By the close of the fiscal year 1946 the Commission had instituted thirty-eight proceedings under this sub-section; twenty-eight of these proceedings had been closed while ten of the cases were still pending.<sup>9</sup>

The Circuit Courts of Appeals and the Supreme Court have upheld the constitutionality of the registration requirements and of the geographical integration and corporate simplification requirements. The decisions in almost every

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<sup>8</sup>American Power and Light Company and Electric Power and Light Corporation v. Securities and Exchange Commission, 91 U. S. Supreme Court, p. 89.

<sup>9</sup>Twelfth Annual Report of the Securities and Exchange Commission, p. 134.



instance have affirmed in virtually all respects the views of the Securities and Exchange Commission as to matters of statutory interpretations. Thus, the holding company systems have found that they must comply with the law. As the Commission has stated in its latest annual report, present activities center around the processing of the various plans of disintegration, recapitalization, and reorganization.

## CHAPTER V

### HOLDING COMPANY SYSTEMS IN TEXAS

The holding company systems formed by the financial, engineering, and manufacturing interests were nation-wide in scope. It is only natural that the operating companies in the cities of Texas were included within these vast systems. It is true that there were a number of municipally-owned systems prior to, and at the time of, the passage of the Act operating in Texas. In 1941, before the large-scale divestment programs of the holding company systems began to take effect, there were sixty-two municipal electric establishments in the State. The greater part of these establishments were operated in small towns: only seven cities of over ten thousand population (1940 census) and only two cities of over twenty thousand population (1940 census) owned their electric systems; only one city of over twenty-five thousand population (1940 census) owned its own electric system.<sup>1</sup>

From these figures it can be seen that there were relatively few municipally-owned utilities in the State in 1935. Thus, the majority of the people, especially those living in the larger towns and cities, were served by the

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<sup>1</sup>Ibid., pp. 48-50.

privately-owned utility companies. Only a few of these privately-owned utilities were free from the holding company domination.<sup>2</sup>

Table 1, page 24, lists the twelve major privately-owned electric utilities operating in Texas in 1945. With the exception of the Community Public Service Company and the Texas Power Corporation, all of these companies have been, or now are, units within a holding company system; and as such, they have been subject to the provisions of the Act of 1935. Two of these companies, the Houston Lighting and Power Company, and the Southwestern Public Service Company, have become, due to the operation of the law, independent operating units. In addition, another large operating company, the San Antonio Public Service Company, has been divested from the system of which it was a part and is now a municipally-owned utility. The other companies listed in the table are in the process of becoming independent units, or of becoming units within an integrated system as provided for in the law.

In addition to the electric utilities which are listed in Table 1, there are certain gas utility companies which are also to be considered in this study. These companies include: the Lone Star Gas Corporation, the Houston Natural

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<sup>2</sup>Moody's Public Utilities, (1935), reports on all the utility companies operating in the United States. These companies are discussed as to their independent or controlled status.

TABLE 1  
ELECTRIC OPERATING COMPANIES IN TEXAS

Total Production Plant  
(12/31/45)

Name of Company	Capacity (kw)	No. of Plants
Houston Lighting & Power Co.	252,500	5
Gulf States Utilities Co.	210,920	9
Southwestern Public Service Co.	141,789	32
Dallas Power & Light Co.	138,750	2
Texas Power & Light Co.	123,140	10
Central Power & Light Co.	108,748	19
Texas Electric Service Co.	107,558	11
West Texas Utilities Co.	75,242	22
El Paso Electric Co.	56,457	3
Southwestern Gas & Electric Co.	55,100	6
Community Public Service Co.	23,718	21
Texas Power Corporation	8,880	3

Source: Statistics of Electric Utilities in the United States, 1945, pp. 637-638.

Gas Corporation, the United Gas Corporation, and the Arkansas-Louisiana Gas Corporation.

Both the Lone Star Gas Corporation and the Houston Natural Gas Corporation were at one time units of a holding company system. Both companies have since undergone programs of reorganization with the net result that neither of the two companies is now registered as a holding company,

nor is either a member of a holding company system. The Lone Star Gas Corporation was the first major holding company system to comply with the requirements of the holding company Act.<sup>3</sup> The United Gas Corporation and the Arkansas-Louisiana Gas Corporation are members of two of the larger holding company systems, as shown in a later part of this chapter.

The following pages contain an examination of the major holding company systems which were represented in Texas in 1935. Through an analysis of each of these systems there may be obtained a general idea of the effect of the Act of 1935 on the various operating companies within the State, and on the systems of which they were or are a part. The major factors considered will be the capital structures and organization of the various companies. A comparison will be made of these factors before and after the Act. It has already been pointed out that the law has been relatively slow in its operation. Such slowness has been due in part to the attitude of the holding companies, and in part to the complexity of the problem involved. However, the Securities and Exchange Commission in its administration of the Act has caused a reduction in the number of existing holding companies.

#### Electric Bond and Share Company

The Electric Bond and Share system is the largest system.

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<sup>3</sup>Tenth Annual Report of the Securities and Exchange Commission, p. 139.

registered under the holding company Act.<sup>4</sup> At the time of the passage of the Act, the Electric Bond and Share Company, hereinafter referred to as Bond and Share, was a major holding company controlling five major sub-holding companies. These subholding companies, with the date of their incorporation were as follows:<sup>5</sup>

American Gas and Electric Company	1906
American Power and Light Company	1909
National Power and Light Company	1921
American and Foreign Power Co., Inc.	1925
Electric Power and Light Corporation	1925

Three of these subholding companies controlled other subholding companies or operating companies which were doing business in Texas in 1935. These three companies were the American Power and Light Company, the National Power and Light Company, and the Electric Power and Light Corporation.<sup>6</sup> Both the American Power and Light Company and the National Power and Light Company were primarily electric utility holding companies, while the Electric Power and Light Corporation controlled both electric utility and gas utility operating companies. The following outline indicates the extent of the interest of the Bond and Share system in companies operating in Texas in 1935. The figures in parentheses

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<sup>4</sup>Ibid., p. 119.

<sup>5</sup>In the matter of Electric Bond and Share Company et al., Securities and Exchange Commission Decisions and Reports, Vol. IX, p. 982.

<sup>6</sup>Moody's Public Utilities, pp. 1432-1527.

indicate the extent of voting control held by the immediate parent:<sup>7</sup>

Electric Bond and Share Company	
National Power and Light Company	( 46.6)
Houston Lighting and Power Company	( 99.9)
South Texas Utilities Company	(100.0)
American Power and Light Company	( 31.1)
Texas Public Utilities Corporation	( 99.9)
Texas Electric Service Company	( 99.9)
Texas Power and Light Company	( 99.9)
Electric Power and Light Corporation	( 57.9)
Dallas Railway and Terminal Company	( 94.4)
Dallas Power and Light Company	( 90.9)
United Gas Corporation	( 48.5)
United Gas Public Service Company	(100.0)
Houston Gulf Gas Company	( 98.0)
Houston Gas & Fuel Company	( 98.0)
Northern Texas Utilities Company	( 98.0)
Southern Gas Utilities Company	( 98.0)
Houston Gas Security Company	( 99.9)

The indentation of the various companies indicates the relationship between the companies in the holding company system. For instance, the Houston Gulf Gas Company was in 1935 an operating company subsidiary of the United Gas Public Service Company, which was in 1935 a subholding company of the United Gas Corporation, which was in 1935 a subholding company of the Electric Power and Light Corporation, which was in 1935 a subholding company of the Electric Bond and Share Company.

Section 5 of the holding company Act called for the registration of all public utility holding companies with the Securities and Exchange Commission. The law became effective in August, 1935; but, as has been pointed out, neither Bond

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<sup>7</sup>Ibid., pp. 1405-1545.

and Share nor any of its subsidiaries registered at that time. The litigation which resulted in a decision by the Supreme Court holding the registration requirements to be constitutional was instituted by the Bond and Share system. Upon the decision of the Supreme Court, Bond and Share, together with its subholding companies and with other systems which had not complied with the registration requirements, registered with the Commission.<sup>8</sup>

On February 28, 1940, the Securities and Exchange Commission instituted integration proceedings against the entire Bond and Share system.<sup>9</sup> After exhaustive hearings and investigations, the Commission arrived at certain conclusions concerning the system. It described the Bond and Share system as a pyramid-like structure, of which Bond and Share itself constituted the apex, five subholding companies created an intermediate tier, and approximately two hundred and thirty-seven direct and indirect subsidiaries of the latter formed the base.<sup>10</sup>

National Power and Light Company.--The first subholding company of Bond and Share ordered to comply with the integration provisions of the Act was the National Power and

<sup>8</sup>Moody's Public Utilities, (1941), p. 1750.

<sup>9</sup>Tenth Annual Report of the Securities and Exchange Commission, p. 120.

<sup>10</sup>In the matter of Electric Bond and Share Company et al., Securities and Exchange Commission Decisions and Reports, Vol. IX, p. 982.



Light Company, hereinafter referred to as National.<sup>11</sup> The Securities and Exchange Commission found that at the time of investigation National had nine subsidiaries classified as public utility companies. In addition to the companies operating in Texas, it controlled companies which operated in Alabama, North Carolina, Pennsylvania, Tennessee, Virginia, and Florida.<sup>12</sup>

In its conclusions concerning the National system the Commission stated:

The corporate structure and continued existence of National unduly and unnecessarily complicate the structure and unfairly and inequitably distribute voting power among the security holders of the holding company system of Bond and Share.

Equally clear, we think, is the conclusion that to remedy these conditions it is necessary to terminate the continued existence of National. It is true that in some measure the unfair and inequitable distribution of voting power among the security holders of the system may be remedied by thorough-going revision in the corporate structures and voting power distribution of the subsidiaries. However, such measures cannot obviate the fact that National serves no useful function in the holding company system and that there is no function for it to serve.

We find that it is practicable to provide at the present time for the elimination of National, and that Section 11 (b) (2) so requires. Accordingly, we shall order that National be dissolved.<sup>13</sup>

On December 26, 1941, the Commission approved a step preparatory to the dissolution of National. This step

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<sup>11</sup>Tenth Annual Report of the Securities and Exchange Commission, p. 120.

<sup>12</sup>In the matter of Electric Bond and Share Company et al., Securities and Exchange Commission Decisions and Reports, Vol. X, p. 328.

<sup>13</sup>Ibid., p. 834.

involved the exchange of two shares of Houston Lighting and Power Company common stock, a majority of which was held by National, for each outstanding six dollar preferred share of National.<sup>14</sup> At that time National held all of the 500,000 shares of Houston Lighting and Power common, except thirteen shares which were director's qualifying shares. The proposed plan would eliminate 250,000 of the 279,716 shares of National's preferred stock outstanding at the time. To carry out the plan would also mean that the Houston Lighting and Power Company would be divested from the Bond and Share system. The Commission found that National had enough cash on hand to retire its outstanding debentures and concluded that the step, as outlined above, should greatly simplify the dissolution of National.<sup>15</sup>

The exchange, to the holders of the preferred stock of National, was purely on a voluntary basis; therefore, it was necessary for National to request various extensions of time for the exchange. At the time of the request for the third extension only thirty-six per cent of the stock had been voluntarily exchanged. In December, 1942, the Securities and Exchange Commission denied National a fourth extension, because adequate time had already elapsed for the exchange to

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<sup>14</sup>For the exact formula for such exchange see, In the Matter of National Power and Light Company, Securities and Exchange Commission Decisions and Reports, Vol. X, p. 828.

<sup>15</sup>Ibid., p. 834.

take place. Whereupon, National sold its remaining shares of Houston Lighting and Power common stock to an underwriting syndicate which in turn sold the shares to the public. National made a book profit of \$7,723,536 on the sale to the underwriters of these shares.<sup>16</sup>

The disposal of its interest in the Houston company removed National from the Texas scene, for in 1941 and 1942 all of the property in the South Texas Utilities Company, a small non-utility company also controlled by National, was sold and the company was dissolved in 1942. Thus, Houston Lighting and Power Company has been divested from the holding company system of Bond and Share. The company is an electric utility operating company, engaged in the generation, transmission, distribution, and sale of electric energy. The territory served includes Houston, Galveston, and approximately 150 adjacent communities. The aggregate population of the territory served is about 910,000 people. The franchise with the city of Houston is perpetual; the franchise with the city of Galveston expires in 1981. The company has four steam generating plants and at present is installing a fifth plant. In addition, it is under contract to buy electric energy from the Lower Colorado River Authority.<sup>17</sup>

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<sup>16</sup>Moody's Public Utilities, (1946), p. 1237.

<sup>17</sup>Annual Report of the Houston Lighting and Power Company, (1946), pp. 22-28.

Table 2 indicates that as of December 31, 1946, the company had outstanding: one issue of mortgage bonds, one class of preferred stock, and one class of common stock. This corporate structure reveals a decrease since 1935 in the number of issues of outstanding bonds and stocks. In

TABLE 2  
CAPITAL STRUCTURE OF THE  
HOUSTON LIGHTING AND POWER COMPANY

Type of Security	Jan. 1, 1935		Dec. 31, 1946	
	No. of Issues	Amount	No. of Issues	Amount
Funded Debt	3	\$27,500,000.	1	\$30,000,000.
Preferred Stock	2	5,000,000.	1	9,739,700.
Common & Surplus	1	11,265,202.	1	17,843,029.
Total	6	\$43,765,202.	3	\$57,582,729.

1935 the voting power of the Houston Lighting and Power Company was held almost 100 per cent by the National Power and Light Company. Now, because of the distribution of National holdings, the voting power is widely distributed. Table 2 indicates that in 1935 the Houston Lighting and Power Company had three outstanding bond issues; now it has only one. In 1935 there were two classes of preferred stock outstanding, where now there is only one. Such changes in the capital structure are attributable to the Act of 1935.

American Power and Light Company.--In 1942, after a most comprehensive examination of the system of American Power and Light Company, hereinafter referred to as American, the Securities and Exchange Commission reached certain conclusions. It found that "voting power is unfairly and inequitably distributed among the holders of the American system."<sup>18</sup> Control of the system rested in the hands of Bond and Share through a disproportionately small investment. Bond and Share owned only 3.42 per cent of the total capitalization of the subsidiaries of American. At that time these subsidiaries operated in fourteen states serving approximately 2,740,000 people. Dividend arrearages for American on its preferred stock amounted to more than \$35,000,000.<sup>19</sup>

After a survey of earnings reports and market valuation figures, the Commission concluded that American was a company suffering from a deep-seated malady, the effects of which were communicated to the entire system of which it was a part. The statute described such malady as additional and undue complexity within the meaning of Section 11 (b) (2). Furthermore, "it is indisputable that American is not only an undue complexity but also a wholly unnecessary one, inasmuch as there is not now, nor has there ever been, reason or

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<sup>18</sup>In the matter of Electric Bond and Share Company et al., Securities and Exchange Commission Decisions and Reports, Vol. XI, p. 1207.

<sup>19</sup>Ibid., p. 1155.

purpose for its existence, except as an instrumentality through which Bond and Share is able to control its system wholly repugnant to the statute."<sup>20</sup>

Upon the basis of such findings, the Commission concluded that the most appropriate action to relieve such condition would be the dissolution of American.<sup>21</sup> The dissolution order was issued August 22, 1942. The company contested the validity of the order through an appeal to the courts. The decision and conclusion of the Commission was upheld by both the Circuit Court of Appeals and the Supreme Court, as was pointed out in the previous chapter.

Even though American contested the order of the Commission, it nevertheless went ahead with a program of disintegration and simplification. In September, 1945, with the approval of the Securities and Exchange Commission, the Texas Utilities Company was incorporated in Texas. This company acquired from its parent company, American Power and Light Company, all the common stock of the Texas Power and Light Company and all of the common stock of the Texas Electric Service Company held by the parent company. In addition, the new company received from its parent sufficient cash to purchase ninety-one per cent of the common stock of the Dallas Power and Light Company from the Electric Power and Light Corporation.<sup>22</sup>

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<sup>20</sup>Ibid., p. 1207.

<sup>21</sup>Ibid., p. 1223.

<sup>22</sup>Twelfth Annual Report of the Securities and Exchange Commission, p. 52.

The Commission approved the formation of the Texas Utilities Company on condition that the American Power and Light Company dispose of its interest in said company within one year from the time of formation. In 1946, pursuant to a request by American, the Commission granted American an extension until June 30, 1947, to dispose of its common stock interest in the new Texas Utilities Company. Furthermore, the Commission has recently approved an application by American and Texas Utilities Company which would change American's holdings in Texas Utilities from 2,001,000 shares of common stock to 4,000,000 shares of common stock. This step is to facilitate the retirement by American of certain of its outstanding obligations whose retirement is necessary to the dissolution of American.

Upon the divestment by American of its holdings in Texas Utilities Company, the original order of the Securities and Exchange Commission will have been fulfilled. The result of the integration program will be a holding company, Texas Utilities Company, controlling three operating companies, the Texas Power and Light Company, the Texas Electric Service Company, and the Dallas Power and Light Company. These three operating companies form an integrated electric utility system extending through north, central, west, and southwest Texas.

The Texas Power and Light Company is an operating utility generating and distributing electric Energy. The

territory served is located in central and north Texas.<sup>23</sup> The population in the area served by the company is about 725,000 people. The company generates most of its own power, but power is also available under contract from the Lower Colorado River Authority. In addition, the company obtains part of the output generated at the Denison Dam on the Red River. The lines of the company are physically interconnected with those of the Dallas Power and Light Company and those of the Texas Electric Service Company.

Table 3 shows the capital structure of the Texas Power and Light Company as it was in 1935 and 1945. As of

TABLE 3  
CAPITAL STRUCTURE OF THE  
TEXAS POWER AND LIGHT COMPANY

Type of Security	Jan. 1, 1935		Dec. 31, 1945	
	No. of Issues	Amount	No. of Issues	Amount
Funded Debt	3	\$45,405,000.	1	\$31,500,000.
Preferred Stock	2	13,378,600.	2	13,443,976.
Common & Surplus	1	22,804,588.	1	16,592,281.
Total	6	\$81,588,188	4	\$61,536,257

Source: 1935 figures, Moody's Public Utilities, (1935), p. 1511.  
1945 figures, Annual Report of the Company, (1945), p. 11.

<sup>23</sup>Moody's Public Utilities, (1946), p. 1281.



December 31, 1945, the capital structure of the company included one mortgage bond issue, two classes of preferred stock, and one class of common stock. In regard to number of security issues the only difference in the capital structure in 1935 and 1945 was the number of outstanding mortgage bond issues.

The Dallas Power and Light Company generates and distributes electric energy wholly within Dallas county. The total population in the area served is around 450,000. The franchise with the city of Dallas extends indefinitely. The company owns its own generating plants, and the fuel used, as in most generating plants in Texas, is natural gas.

The present capital structure of the company consists of one mortgage bond issue, one class of preferred stock, and one class of common stock. Table 4 compares the

TABLE 4  
CAPITAL STRUCTURE OF THE  
DALLAS POWER AND LIGHT COMPANY

Type of Security	Jan. 1, 1935		Dec. 31, 1945	
	No. of Issues	Amount	No. of Issues	Amount
Funded Debt	4	\$12,600,000.	1	\$16,000,000.
Preferred Stock	2	7,927,134.	1	7,443,000.
Common & Surplus	1	5,324,527.	1	8,132,843.
Total	7	\$25,851,661	3	\$31,575,843

Source: 1935 figures, Moody's Public Utilities, (1935), p. 1442.  
1945 figures, Annual Report of the Company, (1945),  
p. 13.

present capital structure with that which existed in 1935. The most significant changes are the reductions which have occurred in the number of mortgage bond issues outstanding and the elimination of one class of preferred stock.

The Texas Electric Service Company supplies electric power and light service to the west-central and southwest part of Texas. The principal city served is Fort Worth. The company has an indefinite franchise with this city. In addition, the company serves Wichita Falls, Big Spring, Sweetwater, Odessa, and numerous other smaller cities and towns. The company generates most of its own power, but secures some power from the Southwestern Power Authority which obtains its power from the Denison Dam. As of December 31, 1945, the capital structure of the company consisted of one mortgage bond issue, one issue of serial notes, one class of preferred stock, and one class of common stock.<sup>24</sup>

Electric Power and Light Corporation.--The holdings of the Electric Power and Light Corporation, as they existed in 1935, have been outlined on page twenty-seven. In 1937, the United Gas Corporation, a subholding company, made certain changes within its system. Most notable of these changes was the elimination of the United Gas Public Service Company and certain other of the subsidiaries. Such a program of

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<sup>24</sup>Annual Report of the Texas Electric Service Company, (1945), p. 7.

simplification, however, did not greatly affect the Electric Power and Light system as a whole.

The Securities and Exchange Commission made its investigation of the Electric Power and Light system concurrently with that of the American Power and Light system. Generally speaking, the findings were the same as in the case of the American Power and Light system. The Commission found that Bond and Share, with an 8.27 per cent investment in the capitalization of the subsidiaries of the Electric Power and Light system, was able to control the entire system. The Commission concluded that the Electric Power and Light Corporation was no more than a set of books in Bond and Share's office and was wholly unnecessary. In August, 1942, the Securities and Exchange Commission ordered that the existence of the Electric Power and Light Corporation be terminated and that the company be dissolved.<sup>25</sup>

American Power and Light Company and Electric Power and Light Corporation made a joint appeal to the courts. As has been pointed out, the courts upheld the order of the Securities and Exchange Commission; but Electric Power and Light Corporation, while the appeal was before the courts, under terms of Section 11 (e) of the Act, filed its program of integration and simplification with the Commission.

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<sup>25</sup>In the matter of Electric Bond and Share Company et al., Securities and Exchange Commission Decisions and Reports, Vol. XI, p. 1223.

Basically the plan envisaged a new Southern Electric holding company system. Such a plan did not include the holdings of Electric Power and Light in and around Dallas, namely, its interest in the Dallas Power and Light Company and in the Dallas Railway and Terminal Company. Consequently, Electric Power and Light disposed of its interest in these two companies. The Dallas Power and Light Company was sold to the Texas Utilities Company, a subsidiary of the American Power and Light Company as described above, for \$17,350,000.<sup>26</sup> In January, 1946, the interest of the Electric Power and Light Corporation in the Dallas Railway and Terminal Company was sold to the public through an underwriting syndicate headed by The First Boston Corporation.<sup>27</sup>

The divestment of these two companies, located in Dallas county, leaves the Electric Power and Light Corporation with only its interest in the United Gas Corporation of the original companies carrying on business in Texas.<sup>28</sup> The Section 11 (e) plan, i. e., the corporation's voluntary plan of reorganization, filed with the Securities and Exchange Commission, includes the disposal of the interest in

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<sup>26</sup>Twelfth Annual Report of the Securities and Exchange Commission, p. 52.

<sup>27</sup>Holding Company Act Release No. 6377, Securities and Exchange Commission.

<sup>28</sup>Twelfth Annual Report of the Securities and Exchange Commission, p. 53.

the United Gas Corporation through the exchange of the common stock of the United Gas Corporation now held by Electric Power and Light for certain outstanding preferred shares of Electric Power and Light.

United Gas Corporation.--The Securities and Exchange Commission in 1944 approved the reorganization of the United Gas Corporation, hereinafter referred to as United Gas. Briefly, the plan provided for the reorganization of United Gas, with the elimination of its entire existing debt from its security structure. The first and second preferred stocks, and the accumulated dividend arrearages thereon, were also eliminated from the securities outstanding. The only securities outstanding after the reorganization were a new \$100,000,000 mortgage bond issue and 10,653,302 shares of common stock. Electric Power and Light Corporation, as the immediate parent of United Gas, received 94.9 per cent of the reorganized company's common stock.<sup>29</sup>

At present United Gas owns and operates all of the retail distribution properties formerly owned by its subsidiaries. These operations are carried on in certain parts of Texas, parts of Louisiana, and in certain states east of the Mississippi River. In addition, the business of producing and transmitting gas, formerly under the supervision of the United Gas Public Service Company and its subsidiaries, is

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<sup>29</sup>Moody's Public Utilities, (1946), p. 1237.

carried on by two direct subsidiaries of United Gas, the Union Producing Company, and the United Gas Pipe Line Company.<sup>30</sup>

Upon completion of the divestment by Electric Power and Light of its interest in the United Gas Corporation and of the divestment by the American Power and Light Company of its interest in the Texas Utilities Company, there will be no Texas operating company remaining within the Electric Bond and Share system. Insofar as its purpose was to reduce the pyramiding of holding companies such was the intent of the Act of 1935. Out of all the former units in the Bond and Share system in the State of Texas there have come forth two independent companies, the Houston Lighting and Power Company, and the Dallas Railway and Terminal Company; and there have come forth two integrated holding company systems, one a gas utility system controlled by the United Gas Corporation, and the other an electric utility system controlled by the Texas Utilities Company.

The following outline indicates the extent of the Electric Bond and Share system as it is now manifested in the control of electric and gas utility companies operating in the State of Texas:

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<sup>30</sup>Ibid., p. 1236.

Electric Bond and Share Company  
 American Power and Light Company  
 Texas Utilities Company  
 Dallas Power and Light Company  
 Texas Power and Light Company  
 Texas Electric Service Company  
 Electric Power and Light Corporation  
 United Gas Corporation  
 Union Producing Company  
 United Gas Pipe Line Company

A comparison of the outline above with that on page twenty-six indicates the changes that have been made within the Bond and Share System. Upon the completion of the present divestment programs of the two major subholding companies of the Electric Bond and Share Company, the former largest utility holding company system in the nation will no longer be represented in Texas.

Stone and Webster, Inc.

The Stone and Webster holding company system emerged as a result of the engineering activities of Stone and Webster, Inc. The Engineers Public Service Company was formed by Stone and Webster, Inc. as a holding company for the various utility interests throughout the nation which had been accumulated by Stone and Webster, Inc. At one time the Stone and Webster system extended from the Puget Sound area on the west coast to Key West, Florida. To reduce such a widespread system to a more integrated one was one of the avowed purposes of the holding company Act. As of January 1, 1935,

the Stone and Webster system, as it affected Texas, can be outlined as follows:<sup>31</sup>

Stone and Webster, Inc.	
Engineers Public Service Company	( 91.3)
Eastern Texas Electric Company	( 96.0)
Gulf States Utilities Company	(100.0)
El Paso Electric Company (Delaware)	( 94.8)
El Paso and Juarez Traction Company	(100.0)
Stone and Webster Service Corporation	(100.0)
Galveston-Houston Electric Company	(100.0)
Galveston-Houston Securities Corp.	(100.0)
Galveston-Houston Electric Ry. Co.	(100.0)
Galveston Electric Company	(100.0)
Houston Electric Company	(100.0)
Northern Texas Electric Company	(100.0)
Northern Texas Traction Company	(100.0)

The figures in parentheses in the above outline indicate the extent of voting control exercised by the immediate parent. Of the companies contained in the outline, there are only two operating companies which are relatively important, namely, the Gulf States Utilities Company, and the El Paso Electric Company of Texas.

In 1936 the system was somewhat simplified with the organization of the Galveston-Houston Company. This new company was organized to acquire the assets of the Galveston-Houston Electric Company and the Galveston-Houston Securities Corporation, both of which were holding companies. At the time of this voluntary reorganization the Stone and Webster system had not registered as a holding company system, having refrained from registering along with the members

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<sup>31</sup>For a discussion of the history and organization of the Stone and Webster system see Utility Corporations Report, Senate Document 92, pt. 66, 70th Congress, 1st Session, pp. 1-46.



of the Electric Bond and Share system. Since it was not a registered holding company, the system was excluded from the necessity of securing the approval of the Securities and Exchange Commission in connection with the above reorganization.

In December, 1937, Stone and Webster, Inc. distributed substantially all of its ninety-one per cent interest in the Engineers Public Service Company.<sup>32</sup> In February, 1938, the Eastern Texas Electric Company (Delaware) was dissolved. Shortly thereafter, following the Supreme Court decision concerning the registration requirement in the Electric Bond and Share case, the Engineers Public Service Company and the El Paso Electric Company of Delaware registered as holding companies. The Galveston-Houston Electric Railway Company was dissolved in 1938. A new company, Texas Bus Lines Company, was incorporated in 1936, coming into the system as a subsidiary of the Galveston-Houston Company. The North Texas Transit Company was organized in 1938, acquiring the securities of the Fort Worth Transit Company. Texas Motor Coaches, Inc. was also a subsidiary of the North Texas Company until its dissolution in 1945.

The companies described in the paragraph above, which were not under the control of the Engineers Public Service Company but were under the supervision of the Stone and

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<sup>32</sup>Moody's Public Utilities, (1939), p. 1635. Also see Stein, op. cit., p. 176.

Webster Securities Corporation, were principally electric transit companies and are only incidentally connected with this study.

Engineers Public Service Company.--Upon the distribution by Stone and Webster, Inc. of its interest in the Engineers Public Service Company in 1937, Engineers Public Service Company, hereinafter referred to as Engineers, became the top holding company of a system of its own. Since that time it has been the subject of considerable attention on the part of the Securities and Exchange Commission.<sup>33</sup> Reference has already been made to the fact that Engineers carried the Commission's integration order to the courts, but Engineers also maintained that, even if the law were constitutional, it was worded in such a way that Engineers could maintain integrated systems in more than one area. The courts upheld the Securities and Exchange Commission in every instance.<sup>34</sup>

Engineers acquired, from its former parent, interests in various widely scattered states. Its principal operations were in Florida, Georgia, Virginia, Texas, certain of the midwestern states, and the Puget Sound area of the west coast. In July 1939, the system, as it affected Texas, was as follows:<sup>35</sup>

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<sup>33</sup>Twelfth Annual Report of the Securities and Exchange Commission, pp. 134-135.

<sup>34</sup>Ibid., p. 68.

<sup>35</sup>Moody's Public Utilities, (1941), p. 754.

Engineers Public Service Company  
 Gulf States Utilities Company  
 El Paso Electric Company (Delaware)  
 El Paso Electric Company (Texas)  
 El Paso and Juarez Traction Company

It was the system as outlined above that became the subject of the integration proceedings instituted by the Securities and Exchange Commission in 1940. The Commission ordered that the company reduce itself to a geographically integrated system. The order was carried out to a certain degree in that Engineers divested itself of its interests in all but three areas. These areas were in the states of Virginia and Texas, with one system in southeast Texas, Gulf States Utilities Company, and one system in west Texas, El Paso Electric Company. Considerable litigation developed when the Commission, because of the refusal of the company to choose which properties it desired to keep, ordered the company to divest itself of the Texas properties. The company maintained that the law allowed it to retain an integrated system in both Virginia and Texas, and to retain other properties within the two states. The case was carried to the Court of Appeals of the District of Columbia where the interpretations of the Commission were upheld.<sup>36</sup>

"On September 10, 1945, Engineers filed a plan under Section 11 (e) for the divestment of its interests in two of its utility subsidiaries, viz., Gulf States Utilities

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<sup>36</sup>Tenth Annual Report of the Securities and Exchange Commission, p. 115.

Company, and El Paso Electric Company, the two remaining subsidiaries of Engineers ordered divested by the Commission."<sup>37</sup> Following the divestment of these two companies, the plan calls for the liquidation and dissolution of Engineers. On January 9, 1947, the Commission approved an amended plan of Engineers which calls for substantially the same result insofar as divestment and dissolution are concerned. The approved plan calls for the distribution by Engineers of its holdings of the common stock of El Paso Electric Company to the common stockholders of Engineers. Both common and preferred stockholders of Engineers will be permitted to exchange their shares for the holdings of Engineers in Gulf States Utilities common stock. Upon the completion of this program Engineers is to file a certificate of dissolution. The plan is expected to be consummated in 1947.

Upon the completion of the above plan of reorganization Gulf States Utilities Company and the El Paso Electric Company will become independent operating companies. The once widely scattered Stone and Webster system will be represented in Texas only by the supervision contracts which the Stone and Webster Service Corporation holds with certain operating transit companies.

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<sup>37</sup>Twelfth Annual Report of the Securities and Exchange Commission, p. 68.

The Gulf States Utilities Company is engaged principally in the generation and distribution of electric energy in an area in southeastern Texas and south central Louisiana. The company owns five steam and four internal combustion plants; in addition, interconnection with other systems is maintained. The approximate population of the territory served is 573,000. The principal cities served include Beaumont, Port Arthur, Lake Charles, and Baton Rouge.<sup>38</sup>

Table 5 summarizes the capital structure of the company as it existed in 1935 and 1945. The simplification of the

TABLE 5  
CAPITAL STRUCTURE OF THE  
GULF STATES UTILITIES COMPANY

Type of Security	Jan. 1, 1935		Dec. 31, 1945	
	No. of Issues	Amount	No. of Issues	Amount
Funded Debt	3	\$20,262,000	1	\$27,300,000
Preferred Stock	2	9,194,512	1	12,000,000
Common & Surplus	1	8,198,377	1	15,743,034
Total	6	\$37,654,889	3	\$55,043,034

Source: 1935 figures, Moody's Public Utilities, (1935) p. 380.  
1945 figures, Annual Report of the Company, (1945), p. 17.

<sup>38</sup>Annual Report of the Gulf States Utilities Company, (1945), pp. 12-13.

corporate structure, as indicated by the table, may be largely attributed to the 1935 Act. As of December 31, 1945, the company had outstanding: one issue of funded debt, one class of preferred stock, and one class of common stock. Such a capital structure is much more simplified than the capital structure of January 1, 1935. At the earlier date the company had three classes of outstanding mortgage indebtedness, and two classes of preferred stock, in addition to one issue of common stock.

The El Paso Electric Company generates and distributes electric energy in and around El Paso. The population in the area served is estimated at 190,000. Most of the power requirements are generated by the company, though it also purchases from the Federal Bureau of Reclamation, power generated at the Elephant Butte Dam in New Mexico. As of January 1, 1946, the capital structure consisted of one mortgage bond issue, one class of preferred stock, and one class of common stock.<sup>39</sup>

#### Lone Star Gas Corporation

The Lone Star Gas Corporation registered as a public utility holding company on December 1, 1935. As of January 1, 1935, the system included the following subsidiaries

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<sup>39</sup>Annual Report of the El Paso Electric Company, (1946),  
p. 11.

operating or carrying on business in Texas:<sup>40</sup>

Lone Star Gas Corporation  
 Lone Star Gas Company  
 Municipal Gas Company  
 Texas Cities Gas Company  
 Lone Star Gasoline Company  
 Dallas Gas Corporation  
 County Gas Company  
 Dallas Gas Company  
 Galveston Gas Shares, Inc.  
 Galveston Gas Service Company  
 Community Natural Gas Company  
 Stamford and Western Gas Company  
 Northwest Texas Gas Company

The Lone Star Gas Corporation controlled in excess of ninety-nine per cent of the voting stock of all the companies in the above outline.<sup>41</sup> Prior to the passage of the holding company Act in 1935, but during the time in which discussion was under way in Congress, the Lone Star Gas Corporation, through a voluntary reorganization of the system structure, eliminated the following companies from the system:<sup>42</sup>

Municipal Gas Company  
 Dallas Gas Corporation  
 Galveston Gas Shares, Inc.  
 Galveston Gas Service Company  
 Northwest Texas Gas Company

After such reorganization, the system, as it affected Texas, included the parent holding company and six operating subsidiaries. In addition to the holdings in Texas, the

<sup>40</sup>Moody's Public Utilities, (1935), p. 1558.

<sup>41</sup>Ibid., p. 1558.

<sup>42</sup>Moody's Public Utilities, (1939), p. 296.

system held gas interests in other states, but such holdings did not form an integrated system.

In 1937 the Lone Star Gas Corporation and its subsidiaries, Lone Star Gas Company and Community Natural Gas Company, applied to the Securities and Exchange Commission for approval to acquire the gas production, transportation, and distribution assets in the San Angelo area. The Commission granted its approval, based on the fact that the properties to be acquired were connected with a portion of the properties owned by the acquiring companies; and that by construction of a pipeline the properties which were to be acquired could be connected with the main pipeline system of the company. The Commission reasoned that such acquisition would "serve the public interest by tending toward the economical and efficient development of an integrated public utility system."<sup>43</sup>

In 1938 the Lone Star Gas Corporation filed with the Commission a plan which would result in the subsidiaries of the corporation becoming wholly owned by the parent. At the same time there would be some simplification of the corporate structure of certain of the subsidiaries. The Commission approved the plan which called for the issuance of fifteen year debentures by the corporation and also for the

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<sup>43</sup>In the matter of the Lone Star Gas Corporation et al., Securities and Exchange Commission Decisions and Reports, Vol. II, p. 911.



issuance of several bank loan notes. The proceeds, \$31,300,000 were to be used to redeem all the outstanding bank loan notes of the corporation. The balance of the proceeds was to be distributed to the subsidiary companies. In addition, secured bonds and debentures held by the parent were to be returned to certain of the subsidiaries including the Dallas Gas Company and the Texas Cities Gas Company. In turn, the subsidiaries would issue notes to the parent for the cash, and in the case of the two subsidiaries named above for the bonds and debentures. With the cash received from the parent corporation the subsidiaries would redeem stock and outstanding debt in the hands of the public. In December 1938, the Commission approved the application of the Lone Star Gas Corporation and its subsidiaries to engage in the following transactions:<sup>44</sup>

(1) The issuance of  $4\frac{1}{2}$  per cent notes to the parent in exchange for 6 per cent notes already held by the parent.

(2) The issuance of par value common stock to the parent in exchange for a like amount of indebtedness in the form of bonds and debentures.

The result of such a program was the recapitalization of certain of the subsidiaries. The outstanding debt of those subsidiaries was modified, and the interest rate was reduced.

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<sup>44</sup>In the matter of the Lone Star Gas Corporation et al., Securities and Exchange Commission Decisions and Reports, Vol. IV, p. 264.

A further minor simplification of the Lone Star system was effected in 1941. The County Gas Company was sold to two other members of the system. The greater part of the assets were purchased by the Dallas Gas Company, and the remainder were purchased by the Community Natural Gas Company. Thereupon, the County Gas Company was dissolved. The total consideration paid on the part of the Dallas Gas Company was \$3,515,020, while the total paid by the Community Natural Gas Company was \$152,163.<sup>45</sup>

In regard to the geographical integration proceedings of the Lone Star Gas Corporation the Securities and Exchange Commission had the following to say in its Tenth Annual Report:

On March 4, 1942, the SEC instituted integration proceedings under Section 11 (b) (1) with regard to the Lone Star Gas holding company system and consolidated such proceedings with a plan filed by Lone Star under Section 11 (e) providing for a comprehensive system reorganization. By order dated October 22, 1942, the Commission approved such plan and directed Lone Star to divest itself of its interests in the Council Bluffs Gas Company, Northern Natural Gas Company, and the Galveston and El Paso properties of the Texas Cities Gas Company. Prior to the past fiscal year Lone Star effectuated the major portion of its reorganization program including the mentioned divestments and during the year consummated the remainder of its plan.

As a result of the effectuation of its Section 11 (e) plan, Lone Star's operations are now confined to an integrated natural gas system, including production, transmission, and distribution facilities.

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<sup>45</sup>In the matter of the Dallas Gas Company et al., Securities and Exchange Commission Decisions and Reports, Vol. IX, pp. 178-196.

Its corporate structure has been greatly simplified; the Delaware holding company, Lone Star Gas Corporation has been eliminated, and, in place of five operating subsidiaries the system now consists of a single transmission and distribution company (Lone Star Gas Company, a Texas corporation) which has only one subsidiary (Lone Star Producing Company, also a Texas corporation) operating all the producing facilities of the system. Lone Star's capitalization now consists only of bank loans and a single class of common stock. In addition, in pursuance of its plan, Lone Star eliminated approximately \$20,000,000 of questionable items from its property accounts. The company was the first major holding company to comply completely with Section 11 (b) and is now no longer subject to the Act.<sup>46</sup>

In 1935 the system included the parent holding company and twelve subsidiary companies within the State of Texas. At the close of 1946 the system consisted of two operating companies, one a subsidiary of the other. The out-of-state holdings have all been divested so that only the integrated system remains. The Section 11 geographical integration and corporate simplification requirements were applied to the system by the Securities and Exchange Commission. The net results of such application satisfied the intent of the law and served as a model for other system reorganizations.

#### Community Power and Light Company

The Community Power and Light Company<sup>47</sup> and its subsidiary, General Public Utilities, Inc., were holding

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<sup>46</sup>Tenth Annual Report of the Securities and Exchange Commission, p. 139.

<sup>47</sup>The Community Power and Light Company was formerly a subsidiary of the American Community Power Company which went into receivership in January, 1932. In the matter of Community Power and Light Company, Securities and Exchange Commission Decisions and Reports, Vol. X, pp. 212-234.

companies as defined in the Act and registered in the latter part of 1935 with the Securities and Exchange Commission. At the time of registration, the system of Community Power and Light operated in Texas through the following utility holding or operating companies:<sup>48</sup>

Community Power and Light Company  
 Texas Utilities Company  
 General Public Utilities Company  
 Consolidated Power and Light Company  
 Southwestern Public Service Company  
 Gulf Public Service Company  
 New Mexico Utilities Company

In December, 1936, the Securities and Exchange Commission approved the proposed plan of Texas Utilities Company whereby said company would acquire the assets and properties of the New Mexico Utilities Company. On December 30, 1936, the name Texas-New Mexico Utilities Company replaced that of Texas Utilities Company.

The second preferred stock of the Texas Utilities Company was held principally by the customers of the territory served, so-called "customer-owners."<sup>49</sup> The sale of the New Mexico Utilities Company to the Texas Utilities Company was urged as a step in taking care of these "customer-owners" by reason of the tendency to improve the margin of earnings available to meet dividend requirements on this stock. The

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<sup>48</sup>Moody's Public Utilities, (1935), pp. 2279-2286.

<sup>49</sup>In the matter of Community Power and Light Company et al., Securities and Exchange Commission Decisions and Reports, Vol. I, p. 947.

properties involved were already physically interconnected and operated as a single system, and were in other respects within the definition of an integrated public utility system. It was the opinion of the Commission that the acquisition would serve the public interest by tending toward the economical and commercial development of the system.<sup>50</sup>

In 1939 the Community Power and Light Company filed with the Commission a plan for the corporate simplification of the parent company. The Commission approved such plan, for it was found fair and equitable for all concerned. Among other things, the plan called for an increased voice for the holders of the old preferred stock. Under the plan they would receive ninety-five per cent of the new common stock; such new stock to be issued to replace all outstanding preferred and common stock.<sup>51</sup>

In 1940 as a part of the corporate simplification of the Gulf Public Service Company, the Commission approved the issue and sale of a mortgage bond issue. Part of the bonds were to be sold to the Equitable Life Assurance Society, and part to the parent of the Gulf Public Service Company, General Public Utilities Company, in exchange for certain outstanding bonds. Also, Gulf Public Service Company was

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<sup>50</sup>Ibid., p. 953.

<sup>51</sup>In the matter of Community Power and Light Company, Securities and Exchange Commission Decisions and Reports, Vol. VI, p. 204.

to be recapitalized to eliminate a substantial portion of its unsecured debt.<sup>52</sup>

In the latter part of 1940 the Community Power and Light system filed with the Securities and Exchange Commission its voluntary Section 11 (e) plan for reorganization and integration. The plan proposed the divestment of all properties except those forming an integrated public utility system in the Panhandle area of Texas. In September, 1941, the Commission gave its approval to the first major step toward the formation of an integrated system. This step concerned the divestment by Community Power and Light Company of its interest in the Missouri Utilities Company and related subsidiaries, the Arkansas Utilities Company, and the Kansas Utility Company.<sup>53</sup>

The following month the Commission approved another phase of the plan covering the divestment by the Community Power and Light Company of its properties in the State of South Dakota. Among the disposals concerned was the Consolidated Power and Light Company, a subholding company within the system incorporated in South Dakota. The Commission considered

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<sup>52</sup>In the matter of General Public Utilities Inc., et al., Securities and Exchange Commission Decisions and Reports, Vol. VII, p. 1026.

<sup>53</sup>In the matter of Community Power and Light Company et al., Securities and Exchange Commission Decisions and Reports, Vol. X, p. 212.

such steps as being necessary toward the eventual integrated system to be located in the Panhandle area of Texas.<sup>54</sup>

In July, 1942, the Commission approved the final integration plan of the Community Power and Light system. Briefly stated, this integration and simplification plan included the following steps:<sup>55</sup>

(1) Sale of certain properties, viz., all of those not in the Panhandle area of Texas.

(2) Elimination of unnecessary companies in the system, namely:

Community Power and Light Company  
 General Public Utilities Company  
 Southwestern Electric Company (non-utility)  
 Texas-New Mexico Utilities Company

(3) Combination of properties into a single operating system, under the name of Southwestern Public Service Company.

(4) Acquisition from non-affiliated systems of certain connecting properties.

(5) Refinancing of Southwestern Public Service Company after the completion of the above transactions.

The Commission found that the plan, as outlined above, was necessary to fulfill the requirements concerning geographical integration and corporate simplification. Furthermore,

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<sup>54</sup>Ibid., p. 387.

<sup>55</sup>In the matter of Community Power and Light Company et al., Securities and Exchange Commission Decisions and Reports, Vol. XI, pp. 762-819.

it found that the plan was fair and equitable to all parties.

In September, 1942, the Community Power and Light Company and General Public Utilities, Inc. were merged into the Southwestern Public Service Company. As a result, the operating company acquired all the assets of the merged companies, including their holdings in other subsidiaries, thus causing the Southwestern Public Service Company to become a holding company. In August, 1944, the interest of Gulf Public Service Company was sold to the Louisiana Public Utilities Company. In August, 1945, the east Texas properties were sold to a newly formed company, the Southwestern Electric Service Company.<sup>56</sup> In 1943, the Southwestern Public Service Company disposed of its Arizona properties, the Arizona Electric Power Company, and the Flagstaff Electric Light Company, to an individual for \$775,000.

Due to the integration requirements of the Act, the Southwestern Public Service Company was forced to dispose of its interests in certain of its properties. However, it has continued to acquire from time to time additional groups of properties already interconnected or capable of interconnection with the principal system. In March, 1944, the Securities and Exchange Commission approved the purchase for \$62,500 of the electric properties in Morton County, Kansas, located just north of the Oklahoma Panhandle. These properties

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<sup>56</sup>The principal cities served by this new company are Jacksonville, Marlin, and Mexia.



were purchased from the Kansas City Power and Light Company, a non-affiliated company. Early in 1946 the Southwestern Public Service Company purchased from the West Texas Utilities Company, another non-affiliated company, the electric, water, and ice properties in the Panhandle serving Dalhart, Dumas, and Stratford. These properties, which were referred to as the Dalhart group, had been served by the Southwestern Public Service Company for several years.<sup>57</sup>

Now an operating company solely, the Southwestern Public Service Company is engaged primarily in the generation and distribution of electric energy in the Panhandle area. The electric properties of the company form an integrated system, which extends from the southern boundary of Kansas south about three hundred miles through the Oklahoma and Texas Panhandles, and into the South Plains region of Texas. In addition, this system is connected with other electric properties of the company which are located in the Pecos Valley in New Mexico. Exclusive of these latter properties, the territory served is over 45,000 square miles, larger than the State of Pennsylvania. The total population of the area served is approximately 300,000. The larger cities served include Amarillo, Pampa, Borger, and Lubbock. The company generates over ninety per cent of its power requirements, purchasing the remainder from non-affiliated companies.

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<sup>57</sup>Annual Report of the Southwestern Public Service Company, (1946), p. 7.

Over eighty-eight per cent of the revenues of the company come from its electricity sales, while the remainder come from the sale of natural gas, water, and ice.<sup>58</sup>

As of August 31, 1946, the company had outstanding one mortgage bond issue, an issue of serial notes, two classes of preferred stock, and one class of common stock.<sup>59</sup> No stockholder owns more than three per cent of the company, and control no longer rests in the hands of stockholders in distant cities; for, according to a news comment, "Nobody in an ivory tower overlooking Wall Street has to be taken into consideration. No Chicago banker has to be dragged in from a golf game and given the picture before the wheels start turning."<sup>60</sup> Whereas in 1935 the Southwestern Public Service Company had three holding companies imposed upon it, it is now an independent operating company. The operations of the company are integrated into one system, which is a direct result of the Public Utility Holding Company Act of 1935.

#### Middle West Corporation

The Middle West Corporation is the top holding company in a system which was formerly a part of the vast Insull

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<sup>58</sup>Ibid., p. 1.

<sup>59</sup>Ibid., p. 23.

<sup>60</sup>Texas Week, February 1, 1947, p. 37.

empire.<sup>61</sup> On December 31, 1935, the Middle West Corporation, and its subsidiary, Central and South West Utilities Corporation, registered as holding companies under the holding company Act. At the time of registration the Middle West system as it affected Texas, may be outlined as follows:<sup>62</sup>

Middle West Corporation  
 Central and South West Utilities Company  
 American Public Service Company  
 West Texas Utilities Company  
 Central Power and Light Company  
 Southwestern Gas and Electric Company

The first three companies contained in the above outline were holding companies, the latter three companies were, and are, operating companies. Although the system is in the midst of its integration program, there has as yet been relatively little change in the system holdings in Texas.

The Securities and Exchange Commission instituted integration proceedings against the Middle West system in March, 1940.<sup>63</sup> In June, 1942, the Commission directed that either the Central and South West Utilities Company or the American Public Service Company be dissolved, and that the securities

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<sup>61</sup>Report of the Committee on Interstate and Foreign Commerce, House Report No. 827, pt. 5, 73rd Congress, 2nd Session.

<sup>62</sup>Moody's Public Utilities, (1935), p. 1869ff. On November 21, 1935, the Middle West Corporation had succeeded the Middle West Utilities Company which had gone into receivership in 1932.

<sup>63</sup>Tenth Annual Report of the Securities and Exchange Commission, pp. 132-133.

of the remaining company be reduced to an all-common-stock basis. It was not until February, 1947, that a merger agreement between the two companies became effective. The reorganization plan, as approved by the Commission, involves an exchange of all outstanding \$7 preferred stock of Central and South West Utilities Company, and all seven per cent preferred stock of the American Public Service Company, for the common stock of a new corporation to be known as the Central and South West Company. Under the plan, the parent company, Middle West Corporation, is to receive fifty-one per cent of the common stock of the new corporation. Middle West Corporation will then comply with the orders of the Commission to the effect that it will make an early distribution of such stock to its stockholders of both common and preferred stock as part of its divestment program.

Upon completion of such program, the system will consist of a parent holding company, Central and South West Company, and, in Texas, three operating companies, viz., West Texas Utilities Company, Central Power and Light Company, and Southwestern Gas and Electric Company. Another operating company, the Public Service Company of Oklahoma, is also owned by the Central and South West Company. These four operating companies form a cane-shaped integrated electric utility system, extending from Shreveport north and west into Oklahoma, thence down through west Texas into the Rio Grande Valley area served by the Central Power and Light

Company. This integrated utility system is of the type visualized in the integration provisions of the Act of 1935.

The Southwestern Gas and Electric Company is engaged in the sale of electric energy and natural gas. The territory served is northeastern Texas, southwestern Arkansas, and northwestern Louisiana. The population of the area served is about 350,000. The principal cities served include Longview, Marshall, Texarkana, and Shreveport. The company generates the majority of its own power, and in addition, is entitled to purchase power from the Texas Power and Light Company and the Public Service Company of Oklahoma. As of January 1, 1946, its capital structure included one issue of mortgage bonds, one class of preferred stock, and one class of common stock. In regard to number of securities outstanding such a capital structure represents a distinct modification from that which existed at the time of the passage of the holding company Act. In 1935, the company had three outstanding issues of mortgage bonds, two outstanding classes of preferred stock, and one class of common stock. This modification is in line with the corporate simplification provisions of the holding company Act.

The Central Power and Light Company is an electric utility operating company, engaged in the generation and distribution of electric energy. The territory served, with a population of about 500,000, is in the south and southwest part of the State, and the principal cities served are

Corpus Christi, Laredo, Del Rio, and Harlingen. The company generates the major portion of its power requirements. The transmission system is interconnected with those of the Houston Lighting and Power Company, the West Texas Utilities Company, and the Lower Colorado River Authority. As of January 1, 1946, the capital structure of the company consisted of one issue of mortgage bonds, one series of serial notes, one class of preferred stock, and one class of common stock. In 1935, the structure had consisted of three mortgage bond issues, two classes of preferred stock, and one class of common stock. In the twelve years since the passage of the holding company Act the three issues of mortgage bonds have been reduced to one issue, and the two classes of preferred stock have been reduced to one class.<sup>64</sup>

The West Texas Utilities Company is engaged in the generation and distribution of electricity in central western Texas. The total population in the area served is about 300,000. The principal cities served include San Angelo, Abilene, and Vernon. The company has four steam generating plants, and the transmission system is interconnected with those of the Southwestern Public Service Company, Texas Electric Service Company, Central Power and Light Company, Public Service Company of Oklahoma, and the Lower Colorado

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<sup>64</sup>Annual Report of the Central Power and Light Company, (1946), p. 15.

River Authority. As of June 1, 1946, the capital structure consisted of one issue of mortgage bonds, one class of preferred stock, and one class of common stock. In regard to number of security issues outstanding a similar capital structure had existed in 1935.<sup>65</sup>

#### Houston Natural Gas Corporation

The Houston Natural Gas Corporation (Delaware) was classified as a holding company under the holding company Act. As of January 1, 1935, the company controlled the following companies operating in Texas through the ownership of one hundred per cent of the voting stock of each:<sup>66</sup>

Houston Natural Gas Company  
Texas Natural Gas Utilities  
Gulf Cities Natural Gas Company  
Tex-Mex Natural Gas Company

Houston Natural Gas Corporation, however, did not register as a public utility holding company until January, 1940. (The company had claimed exemption as a holding company subject to regulation by the Securities and Exchange Commission because the business of the operating companies was wholly intrastate in character.) Since 1928, the corporation had owned one hundred per cent of the outstanding securities of its subsidiaries. The underlying properties

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<sup>65</sup>Annual Report of the West Texas Utilities Company, (1946), p. 7.

<sup>66</sup>Moody's Public Utilities, (1935), p. 884.

of the corporation constituted an integrated gas utility system located in the southeastern or Gulf Coast region of Texas.

In May, 1940, the Securities and Exchange Commission approved the merger of the Houston Natural Gas Corporation with its four subsidiaries through security and property transfers.<sup>67</sup> The Delaware corporation absorbed Houston Natural Gas Company of Texas, Texas Natural Gas Utilities, Gulf Cities Natural Gas Company, and Tex-Mex Natural Gas Company. The Delaware corporation was then replaced by a new corporation, Houston Natural Gas Corporation of Texas. The transfer of ownership was effected July 31, 1940. Under the plan of merger, preferred and common stocks of the former Delaware parent corporation were exchanged on a share for share basis for preferred and common stocks of the new Texas corporation. The new corporation assumed the mortgage bond issue of the former parent, and later refunded this issue through a mortgage bond issue of the former parent, and later refunded this issue through a mortgage bond issue of the Texas corporation.

The consummation of the entire program resulted in a Texas corporation operating public utility properties wholly within the State of Texas. The present corporation is

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<sup>67</sup>In the matter of Houston Natural Gas Corporation, Securities and Exchange Commission Decisions and Reports, Vol. VII, pp. 323-330.



engaged in the production and distribution of natural gas, though the bulk of the gas distributed is purchased from others. The territory served includes the city of Houston and seventy other cities and towns in the Texas Gulf Coast area with an estimated population of 1,200,000. The capital structure as of July 31, 1945, consisted of one mortgage bond issue, one class of preferred stock, and one class of common stock.<sup>68</sup>

#### Arkansas Natural Gas Corporation

As of January 1, 1935, the Arkansas Natural Gas Corporation was 74.15 per cent owned by the Cities Service Company. The corporation registered as a holding company under the Act, for at that time the Arkansas-Louisiana Gas Company was a wholly-owned subsidiary. This subsidiary was engaged in the production, purchase, transmission, and distribution of natural gas. Operations now extend into Louisiana, Arkansas, and Texas.

In 1944, the Cities Service Company was ordered by the Securities and Exchange Commission to dispose of all of its utility properties.<sup>69</sup> Since such order, Cities Service Company has been engaged in the divestment of certain of its properties and in the refinancing of other properties

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<sup>68</sup>Financial Facts on Texas Corporations, Moroney, Beissner and Company, (1946), p. 8.

<sup>69</sup>Tenth Annual Report of the Securities and Exchange Commission, p. 125.

preparatory to the divestment of these other properties. The company continues to maintain its control over the Arkansas Natural Gas Corporation, though, in carrying out the order of the Commission, it must divest itself of this subholding company.

By order of the Commission, the Arkansas Natural Gas Corporation has been directed to confine its operations to the natural gas business and to dispose of its non-utility assets, none of which are located in Texas. The corporation appealed to the courts where the order of the Commission was upheld.<sup>70</sup>

Upon the completion of the reorganization programs of both Cities Service Company and the Arkansas-Louisiana Gas Corporation, the latter company will become the top unit in a gas utility holding company system operating in the same area which the company now serves, viz., the northeastern area of Texas and parts of Louisiana and Arkansas.<sup>71</sup>

#### United Light and Power Company

The United Light and Power Company was formerly the top holding company superimposed upon two tiers of subholding company in an excessively pyramided holding company system.<sup>72</sup>

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<sup>70</sup>Arkansas Natural Gas Corporation v. Securities and Exchange Commission, 154 F. (2d), (1946), p. 597.

<sup>71</sup>Twelfth Annual Report of the Securities and Exchange Commission, p. 56.

<sup>72</sup>Tenth Annual Report of the Securities and Exchange Commission, p. 133.

In 1935, the United Light and Power system controlled the following holding and operating companies having interests in Texas; the degree of control exercised by the immediate parent is represented by the figures in parentheses:<sup>73</sup>

United Light and Power Company	
United Light and Railways Company	(100.0)
American Light and Traction Company	( 37.8)
San Antonio Public Service Company	(100.0)
South Texas Ice Company	(100.0)
Continental Gas and Electric Company	( 99.4)
Panhandle Power and Light Company	(100.0)

In 1940, the Securities and Exchange Commission instituted integration proceedings against the United Light and Power system.<sup>74</sup> In a report dated March 20, 1940, the Commission found that "the liquidation and dissolution of the United Light and Power Company . . . are steps necessary to comply with . . . the Act."<sup>75</sup>

In a decision of August 5, 1941, the Commission found that the San Antonio Public Service Company and the South Texas Ice Company would have to be disposed of by the American Light and Traction Company.<sup>76</sup> On April 9, 1942,

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<sup>73</sup>Moody's Public Utilities, (1935), p. 2172.

<sup>74</sup>This system is not to be confused with the system headed by The United Corporation, a J. P. Morgan creation.

<sup>75</sup>In the matter of the United Light and Power Company et al., Securities and Exchange Commission Decisions and Reports., Vol. VIII, p. 837.

<sup>76</sup>In the matter of the United Light and Power Company et al., Securities and Exchange Commission Decisions and Reports., Vol. IX, p. 845.

the Commission under Section 11 (c) of the Act granted the United Light and Power system an additional year to comply with the integration requirements of the Act. The sale of the Panhandle Power and Light Company to the Community Power and Light Company, a non-affiliated company, was approved by the Commission in 1942.<sup>77</sup>

In October, 1942, the American Light and Traction Company sold the San Antonio Public Service Company to the city of San Antonio. The overall price on the sale was \$33,950,000. The city acquired the common stock for the price of \$10,000,000., while the preferred stock, serial debentures, and the first mortgage bonds were to be redeemed later. The sale of the utility company to the city was later the subject of considerable investigation. The Guadalupe-Blanco River Authority had competed with the city for the purchase of the properties; and in order to get the money necessary to the purchase the Authority proposed to float a \$42,000,000. bond issue, but the Attorney General disapproved the issue. This ruling held that the approval of the bond issue would open the way for the Authority to become a stockholder of the utility and acquire property outside the district to which the Authority was limited, both of which would have been unconstitutional. This ruling

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<sup>77</sup>In the matter of the United Light and Power Company et al., Securities and Exchange Commission Decisions and Reports, Vol. XI, p. 878.

opened the way for the sale to the city. The Guadalupe-Blanco Authority appealed to the State Supreme Court, but the court upheld the opinion of the attorney general. Publicity concerning the sale was wide-spread, and the issue was the subject of considerable attention in the state legislature.

The United Light and Power system has been completely removed from the Texas scene. The sale of the electric properties in the Panhandle area was made to the Southwestern Public Service Company system which combined these properties with those already owned to form an integrated system. The San Antonio Public Service Company was sold to the city which thus acquired the largest municipal electric utility system in the state. More important, San Antonio was the only city to obtain a private utility system in many years.<sup>78</sup> Disposition was also made of the small non-utility property, South Texas Ice Company. The elimination of its holdings in Texas was only a part of the dissolution program of the extensive holding company system of the United Light and Power Company, but such dissolution was a significant result of the operation of the holding company Act.

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<sup>78</sup>Other cities and towns throughout the State have on various occasions considered municipal ownership. See Gregory, op. cit., pp. 19-58.

### Peoples Light and Power Corporation

On August 28, 1935, the Peoples Light and Power Corporation was a holding company with four principal subsidiaries operating in California, Oregon, Idaho, Nevada, Utah, Wyoming, and Texas. The subsidiary in Texas was the Texas Public Service Company.<sup>79</sup> The parent company had gone into receivership in 1931 and in 1934, had commenced reorganization proceedings. Peoples Light and Power Company succeeded Peoples Light and Power Corporation upon its incorporation in Delaware in 1937. In accordance with the plan of reorganization, it acquired all of the assets of the old corporation, including the Texas Public Service Company and its subsidiary, the Texas Public Service Farm Company.<sup>80</sup>

In April, 1943, the Securities and Exchange Commission approved the sale of the water and irrigation properties of the Texas Public Service Company to the Lower Neches River Authority for approximately \$3,000,000.

In 1946, the Peoples Light and Power Company became the Texas Public Service Company of Delaware. The latter company is not a holding company at present for the remaining companies in the former Peoples Light and Power system were

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<sup>79</sup>Federal Power Commission National Power Survey, (1935),  
p. 61.

<sup>80</sup>In the matter of Peoples Light and Power Corporation et al., Securities and Exchange Commission Decisions and Reports, Vol. II, pp. 829-850.

disposed of. The activities of the company are now confined to the purchase and distribution of natural gas and the leasing of oil lands.<sup>81</sup>

#### Summary of integration and simplification

The application of the holding company Act has caused certain definite changes in the systems which were operating in Texas at the time of the passage of the Act. In its latest annual report the Securities and Exchange Commission has stated that the integration and simplification program is now in its final phase. The primary purposes of the Act, as has been pointed out, were contained in the geographic integration and corporate simplification requirements. Such requirements are contained in Section 11 (b) (1) and Section 11 (b) (2), respectively. A great part of the work of the Commission during the past nine years has been concerned with the administration of this Act, and especially the problems involved in enforcing the geographical integration and corporate simplification requirements. The holding company systems were reluctant to make voluntary proposals for effective reorganizations of their systems, so it was necessary in almost every case for the Commission to make a lengthy study of the system involved and then to initiate integration proceedings. Many of the systems appealed at

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<sup>81</sup>Securities and Exchange Commission,  Holding Company Act Release No. 6890.

one time or another to the courts, thus further slowing down the operation of the law. Such retardation is apparent for certain of the systems have progressed but little in any program of integration or simplification. Other companies have already concluded their programs of geographical integration and corporate simplification and are now no longer subject to the requirements of the holding company Act.

The following paragraphs contain a brief summary of the effects of the integration and simplification phases of the Act on the major holding company systems now, or formerly, operating in Texas.

Electric Utilities Subject to Section 11 (b) (1).--

The United Light and Power Company, a holding company, through subsidiary holding companies formerly controlled two electric utility operating companies in the State, the San Antonio Public Service Company and the Panhandle Power and Light Company. The San Antonio Company is now a municipally-owned utility, while the properties of the Panhandle company were purchased by a non-affiliated company, the Southwestern Public Service Company, and now form an integral part of that company's properties. By virtue of having divested these two operating companies, the United Light and Power system no longer controls any utility company operating in Texas.

The Southwestern Public Service Company was formerly an operating company located deep within the holding company



system controlled by the Community Power and Light Company. The Community Power and Light Company disposed of its widely scattered holdings and then merged itself, along with certain of its subsidiary holding and operating companies interconnected with the Southwestern Public Service Company, into the Southwestern Public Service Company. The result is an independent operating company located in the Panhandle and South Plains area of the State.

The Peoples Light and Power Corporation controlled a holding company system having operating companies located in various of the Rocky Mountain states and one operating company in Texas. The parent holding company disposed of all its holdings outside of Texas and then merged itself into its subsidiary, the Texas Public Service Company. This company is no longer subject to the Act due to the fact that the system has been reduced to an integrated unit operating within one state.

The companies described above have completed their integration programs. Other electric utility holding company systems are still engaged in their integration and simplification programs. The Electric Bond and Share system is in the process of dissolution; certain orders of the Securities and Exchange Commission already have been carried out, while compliance with others has not yet been effected. Through its subsidiary, the National Power and Light Company, Electric Bond and Share formerly controlled the Houston

Lighting and Power Company. The National Power and Light Company was ordered by the Commission to dissolve, and one of the necessary steps in such dissolution was the disposal of the interest of the National Power and Light Company in the Houston Lighting and Power Company. Part of the voting stock of the Houston company was distributed by National Power and Light to certain of its own stockholders, according to a plan approved by the Commission, while the remainder of the stock was sold to the public through an underwriting syndicate. Now the Houston Lighting and Power Company is an independent operating company.

Another of the subsidiary holding companies of the Electric Bond and Share Company is the American Power and Light Company. This subholding company has a subsidiary holding company, Texas Utilities Company, which, through its common stock holdings, controls the following operating companies: Texas Electric Service Company, Texas Power and Light Company, and Dallas Power and Light Company. The American Power and Light Company has been ordered by the Securities and Exchange Commission to dispose of its interest in the Texas Utilities Company by June 30, 1947. Upon the completion of such divestment, the Texas Utilities Company will be a holding company controlling three operating companies whose operations are all within the State, and whose transmission systems are interconnected.

The Electric Power and Light Corporation is another of the subsidiary holding companies in the Electric Bond and Share system. Electric Power and Light Corporation formerly controlled the Dallas Power and Light Company and the Dallas Railway and Terminal Company. In carrying out the orders of the Commission, Electric Power and Light Corporation has divested itself of both of these companies. The Dallas Power and Light Company is now a member of the Texas Utilities Company system. The Dallas Railway and Terminal Company is now an independent operating company, its common stock having been sold by the Electric Power and Light Corporation to an underwriting group, which in turn offered the securities to the public.

The Engineers Public Service Company is another of the major holding company systems which is in the process of dissolution. The company still has control over two Texas operating companies, the El Paso Electric Company, and the Gulf States Utilities Company. The dissolution plan which has been approved by the Securities and Exchange Commission provides that both of these electric utility subsidiaries will become independent operating subsidiaries.

The Middle West Corporation, through its subsidiary holding companies, the Central and South West Utilities Company, and the American Public Service Company, controls three operating companies in Texas. These companies are the Central Power and Light Company, the West Texas Utilities Company, and the Southwestern Gas and Electric Company. The two

subsidiary holding companies are at present in the process of consolidation. The new company, Central and South West Company, will in turn become the holding company for the three operating companies. Another phase of the integration and simplification plan involves the distribution by the Middle West Corporation of its common stock in the new Central and South West Company. Upon the completion of the integration program there will be within Texas and Oklahoma an interconnected system, containing the properties of the Central Power and Light Company, the West Texas Utilities Company, the Public Service Company of Oklahoma, and the Southwestern Gas and Electric Company.

Gas Utilities Subject to Section 11 (b) (1).--As has been pointed out, the Lone Star Gas Corporation was the first major gas or electric holding company system to comply with the integration and simplification requirements of the Act. Properties in areas other than in north central and central Texas were disposed of by the corporation. The remaining operating companies in this area of Texas were then consolidated into an integrated operating system. The capital structure of the Lone Star Gas Corporation has been simplified to the extent that there is no long-term debt outstanding, nor does the corporation have any outstanding preferred stock.

The Houston Natural Gas Corporation is another corporation which has complied fully with the requirements of the

Act. Formerly, there was a parent holding company controlling four operating companies. In 1940, a new corporation was incorporated in Texas, taking over all the properties of the former Delaware corporation and combining these properties into an integrated system in the Texas Gulf Coast area.

Since its immediate parent is the Electric Power and Light Corporation, the United Gas Corporation is a subsidiary holding and operating company within the Electric Bond and Share system. Under the dissolution plan of the Electric Power and Light Corporation, the United Gas Corporation is to become an independent operating unit with properties in Texas, Louisiana, and other Gulf Coast states.

The Arkansas Natural Gas Corporation is a subsidiary holding company in the Cities Service Company system. The Arkansas Natural Gas Corporation controls operating subsidiaries engaged in the production and distribution of natural gas in parts of Texas, Louisiana, and Arkansas. In addition to its gas company subsidiaries, the corporation also controls certain non-utility subsidiaries which have been ordered divested by the Securities and Exchange Commission. An appeal by the company to the courts resulted in the upholding of the Commission's order.

Electric Utilities Subject to Section 11 (b) (2).--

Notable progress has been made in the simplification of the corporate structures of the various holding company systems. In addition to the elimination of the intermediate holding

companies, there has been a considerable reduction in the number of outstanding bond issues and in the number of outstanding issues of preferred and common stocks. The Electric Bond and Share holding company system, including only the operating companies in Texas and the holding company parents of these operating companies, had thirty-one issues of long-term indebtedness in 1935. In 1945 this number had been reduced to seven. In 1935 there were twenty-four issues of preferred stock outstanding; in 1945 there were thirteen. Common stock issues in 1935 totaled sixteen; by 1945 this number had been reduced to eleven.

The former Stone and Webster system, including only the operating companies in Texas and the holding company parents thereof, had outstanding eleven issues of mortgage indebtedness in 1935; in 1945 this number was three. Preferred stock issues in 1935 totaled eleven, compared with a total of five in 1945. Common stock issues aggregated thirteen in 1935; in 1945 this number had been reduced to four.

The capital structure of the Community Power and Light system in 1935 consisted of five issues of long-term indebtedness, five issues of preferred stock, and six issues of common stock. Through various mergers and consolidations this number had been reduced by 1945 to two issues of long-term indebtedness, two classes of preferred stock, and one class of common stock.

In 1935 the United Light and Power system in Texas had outstanding ten issues of long-term indebtedness, eight issues

of preferred stock, and six issues of common stock. Although there are no longer any operating companies of this system within the State, certain of the holding companies are still in existence. These holding companies now have outstanding three issues of mortgage indebtedness, five issues of preferred stock, and five issues of common stock.

The Middle West Corporation and its subholding and operating subsidiaries having interests in Texas had outstanding eight issues of long-term indebtedness in 1935. In 1945 this number had been reduced to three, one mortgage bond issue in the name of each of the three operating companies. In 1935, there were ten issues of preferred stock outstanding where now there are only seven. The number of issues of common stock outstanding has not changed; there were six such issues in 1935, and there were still six such issues in 1945.

The Peoples Light and Power Corporation and its subsidiary Texas Public Service Company had, in 1935, four issues of long-term debt, three issues of preferred stock, and three issues of common stock. At present there is outstanding one issue of mortgage indebtedness and one class of common stock.

Gas Utilities Subject to Section 11 (b) (2).--In 1935, the capital structure of the Lone Star Gas Corporation system included five issues of long-term debt, five issues of preferred stock, and thirteen issues of common stock. The present structure consists of only two issues of common

stock, with one of these issues being the common stock of the parent Lone Star Gas Corporation and the other being the common stock of the subsidiary company, Lone Star Producing Company. The system has been reduced from thirteen organizations in 1935 to the present two; hence, the reduction in the number of securities in the capital structure.

The Houston Natural Gas Corporation, through its simplification program, has reduced its outstanding bonded indebtedness from five issues to one issue, its preferred stock issues from five classes to one class, and its common stock issues from six issues to one issue.

The comparison of the capital structures of these eight holding company systems reveals an overall decrease in the outstanding issues of preferred and common stocks. Table 6 shows that for these eight systems just described there were outstanding, in 1935, seventy-nine issues of long-term debt. By the end of 1945 there were outstanding for these same systems, or for the remnants of these systems, twenty issues of long-term indebtedness. This represents an approximate seventy-five per cent decrease in the number of issues of outstanding long-term indebtedness.

For the same period, Table shows that the number of preferred stock issues outstanding for these same companies decreased from seventy-one issues in 1935 to thirty-three issues in 1945. These figures indicate a fifty-four per cent reduction in the number of preferred stock issues outstanding.



TABLE 6

**CAPITAL STRUCTURES OF PUBLIC UTILITY HOLDING COMPANY  
SYSTEMS OPERATING IN TEXAS, 1935 AND 1945  
(Number of Issues)**

Name of Company	Long-term Debt		Preferred Stock		Common Stock	
	1935	1945	1935	1945	1935	1945
Houston Natural Gas Corp. <sup>1</sup>	5	1	5	1	6	1
Lone Star Gas Corp. <sup>2</sup>	5	0	5	0	13	2
Electric Bond & Share <sup>3</sup>	31	7	24	13	16	11
Stone and Webster <sup>4</sup>	11	3	11	5	13	4
Community Power & Light <sup>5</sup>	5	2	5	2	6	1
Peoples Light & Power <sup>6</sup>	4	1	3	0	3	1
Middle West Corporation <sup>7</sup>	8	3	10	7	6	6
United Light and Power <sup>8</sup>	10	3	8	5	6	5
Total	79	20	71	33	69	31

Source: Moody's Public Utilities, (1935), and (1945).

<sup>1</sup>Includes Houston Natural Gas Corporation and four former subsidiaries operating in Texas.

<sup>2</sup>Includes Lone Star Gas Corporation and former subsidiaries operating in Texas.

<sup>3</sup>Includes Electric Bond and Share Company and subsidiaries operating in Texas.

<sup>4</sup>Does not include the parent, Stone and Webster, Inc., otherwise includes Engineers Public Service Company and its subsidiaries operating in Texas and the former subsidiaries of Stone and Webster Service Corporation operating in Texas.

<sup>5</sup>Includes the parent and subsidiaries operating in Texas.

<sup>6</sup>Includes the parent and its one Texas subsidiary.

<sup>7</sup>Includes the parent, its subholding companies, and the operating subsidiaries in Texas.

<sup>8</sup>Includes the parent and its former subsidiaries doing business in Texas.

During the corresponding period, there was a fifty-seven per cent decrease in the number of common stock issues. In 1935, there had been outstanding a total of sixty-nine issues of common stock compared with a total of thirty such issues outstanding in 1945.

The changes in the capital structures of the holding company systems, described in the preceding paragraphs, indicate the progress which has been made toward the elimination of corporations detrimental to the proper functioning of utility holding companies. The elimination of such unnecessary corporations, according to the holding company Act of 1935, is designed to benefit the national public interest, the interest of investors, the consumers of electric energy and natural gas, and the holding companies themselves.

## CHAPTER VI

### THE ADMINISTRATION OF THE REMAINDER OF THE ACT

In addition to the integration and simplification powers given by the holding company Act to the Securities and Exchange Commission there are other broad powers of a supervisory nature delegated by the Act to this Commission. The Commission may not permit a security to be issued if the terms and conditions thereof are detrimental to the public interest or to the interest of investors and consumers; nor may the commission give its approval to a security issue if the proposed financing is unnecessary or inappropriate to the efficient operation of the applicant's business. If the proposed security is not reasonably adapted to the earning power or to the security structure of the applicant, the Commission may refuse to give its approval to the proposed issue.<sup>1</sup>

Such broad powers give the Commission regulation over almost every security issue proposed by any of the various utility companies. As a consequence, a considerable number of the decisions and reports of the Commission have dealt with the issuance and sale of securities. All refunding issues must be approved by the Commission and all issues for

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<sup>1</sup>Tenth Annual Report of the Securities and Exchange Commission, p. 98.

the purpose of expansion and new construction must first have approval of the Commission. Furthermore, no stock dividend may be declared without the prior approval of the Commission. Companies desiring to secure bank loans for working capital or for other reasons must also file an application with the Commission. The refinancing or financing of all the utilities operating in Texas has in recent years first been approved by the Securities and Exchange Commission.

In 1941, the Commission adopted Rule U-50 which requires competitive bidding in the sale of securities by registered holding companies and their subsidiaries.<sup>2</sup>

Prior to the adoption of Rule U-50 the customary method of selling utility securities involved a sale by the issuing corporation to an underwriting syndicate at a price determined by private negotiation with the principal or so-called originating underwriter. It was an established policy of investment bankers not to compete among themselves for the securities business of any issuer which had a continuing investment banking relationship with a particular firm. Similarly, with very few exceptions, the issuing corporation made no attempt to seek competitive bids . . . for better terms than those offered by its customary banker.<sup>3</sup>

A specific case may be cited to show the closeness of the relationship between the utility companies and the investment bankers. In 1938, the San Antonio Public Service Company sought approval for the issuance and sale of some

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<sup>2</sup>John Frederick Weston, The Economics of Competitive Bidding in the Sale of Securities.

<sup>3</sup>Tenth Annual Report of the Securities and Exchange Commission, p. 105.

mortgage bonds to be used in a refunding program. The Securities and Exchange Commission granted its approval for the issue, but only after certain facts had been brought to light. The Commission found that in connection with the issue there had been no competitive bidding, and no negotiation except with two investment banking houses, Mellon Securities Corporation, and Dillon, Read and Company. It also found that there was an interlocking directorate between the issuer of securities and the underwriting bankers. Upon investigation the Commission had found that:

Persons controlling Mellon Securities Corporation directly and indirectly hold a substantial amount of Koppers United Company whose wholly-owned subsidiary Koppers Company owns 28.4 per cent of the voting stock of United Light and Power Company in whose holding company system the San Antonio Public Service Company, and its parent American Light and Traction Company are subsidiaries. Furthermore two persons, directors of American Light and Traction Company, United Light and Railways Company, and the United Light and Power Company are also trustees of Koppers United Company, and one is also a director of Koppers Company and president of Koppers United Company. Two directors of Dillon, Read and Company are members of an investment trust which owns 9.5 per cent of the voting power of United Light and Power Company, and another officer of Dillon, Read and Company was a director thereof prior to March 11, 1938, and a director of American Light and Traction Company prior to August 30, 1937.<sup>4</sup>

Such situations led to the introduction of Rule U-50. Since its introduction the Commission has found that the competitive bidding rule has functioned with marked success,

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<sup>4</sup>Securities and Exchange Commission Decisions and Reports, Vol. III, p. 417.

aiding both the Commission in its determination in passing upon the proposed issuance of certain securities, and the issuers of the securities.

"One of the most serious of all the holding company abuses was the exploitation of their operating subsidiaries through unwarranted service fees, commissions, and other charges."<sup>5</sup> Section 13 of the Act gives the Commission regulatory powers over the servicing relationships of the holding company systems. The majority of the service companies have voluntarily adjusted their practices to conform to the practices prescribed by the Commission.

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<sup>5</sup>Tenth Annual Report of the Securities and Exchange Commission. p. 107.

## CHAPTER VII

### CONCLUSION

Section One of the Public Utility Holding Company Act of 1935 stated that the public utility holding company had become an agency, which, through the practice of various abuses, had become injurious to investors, consumers, and the general public. It was the avowed purpose of the Act to meet the problems and eliminate the evils created by the holding company in the electric and gas utility field. The public agency to which the task of administration was the Securities and Exchange Commission, which had previously been charged with enforcing the Securities Act of 1933 and the Securities Exchange Act of 1934.

Each year the Commission submits a report of its activities to the Congress. In its latest report the Commission stated that the administration of the provisions of the Act dealing with geographical integration and corporate simplification was in its final stage. Those who had examined the injurious effects of the holding company systems on investors, consumers, and the general public, adopted these provisions to correct the various abuses practiced by holding companies.

The Securities and Exchange Commission has operated on a case-by-case method and dealt with each holding company

system as the situation has demanded. With respect to the holding company systems operating in Texas, various degrees of success have been achieved.

The purpose of this study has been to determine the significance of the Act upon the economy of operation of the operating companies, the economy of financial management of utilities, the economy in raising capital, and the effectiveness of utility regulation. From the findings of this study the following conclusions have been drawn:

1. A few companies such as The Southwestern Public Service Company and the Peoples Light and Power Corporation, once members of extensive holding company systems, are now independent operating units. Others are now in the process of becoming independent units or becoming units within an integrated system. The geographical integration and simplification of the holding companies have brought about more economy in the management and operation of the companies by drawing them closer together and cutting down administration costs.

2. The capital structures of the companies studied are more financially sound than before. The pyramid-like structures constructed of holding companies, sub-holding companies, and scores of direct and indirect subsidiaries have been terminated by the Act. The corporate structure was thus simplified and the voting power was more equally distributed. Whereas, in the past, a few scattered investors controlled



the actions of the company, it has now distributed these securities and voting powers. The Company does not now have to get the approval of a small controlling group before it can act. The law requires that the Commission approve all financing and refinancing of the utility business. If the security is not adapted to the earning power or to the security structure of the applicant, the Commission may refuse to give its approval. Utility securities are more readily accepted in the investment market because of the foregoing facts.

3. Utility companies are now in a financial environment more healthy than twelve years ago. As has been shown, their capital structures are stronger, their securities are more readily accepted in the investment market because of their apparent safety, and there is more economy in management and operation due largely to the integration and simplification of the companies.

The holding company Act was passed to remove from the future the abuses of the past. The Securities and Exchange Commission

. . . can only enforce high standards for the future; it cannot repair all the damages which unscrupulous holding company promoters have perpetrated in the past. The unfortunate victims of past excesses cannot look to the Securities and Exchange Commission for financial reparation; they can, however, look forward to protection from the Commission for such real interests as they retain in the reorganization of the industry which impends, and they may confidently look to the Act to prevent repetition of the abusive practices by which they were victimized.<sup>1</sup>

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<sup>1</sup>Merle Fainsod and Lincoln Gordon, Government and the American Economy, p. 356.

The public utility security may now be considered as a relatively safe security by the investor. Through the cessation by the holding company of the "milking" of the earnings of the operating company, the consumer is benefited by efficient service at more reasonable rates. The general public, including the investor and the consumer, is benefited through the decentralization of the economic power formerly resting in the hands of the oligarchy in control of the holding company systems.

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