



11, 1924, amended as shown in "Application to Amend Petition" filed October 27, 1925, amended as shown in "Application to Amend Petition" filed April 28, 1927, and made a part thereof, and consist of certain parts and portions of the electric generating, transmission and distribution properties of the Company, together with certain properties directly used in conjunction therewith within and adjacent to the City and County of San Francisco.

We have before us in this record widely divergent theories as to the proper method of indicating just compensation. It is necessary at the outset, therefore, to decide along which line it is proper to proceed.

The Company bases its claim for just compensation primarily upon the theory enunciated by its witness, Dr. A. T. Hadley, although it presented two alternative structures which will be discussed later in this opinion. Dr. Hadley maintained that the value of a public utility business should be measured by the income which it produces; that where the whole property is taken just compensation will be the permanent recovery of the total loss of prospective net earnings, and that where a part of the property only is taken just compensation is the permanent recovery of the prospective impairment of income of the whole investment.

The Company, in applying this theory, estimated the reduction in net revenue that would result from severance of the property during the first year after the date the City filed its application and capitalized this sum at 6.04%, which rate was determined to be the average yield to investors in all securities of utilities in the United States having characteristics similar to Pacific Gas and Electric Company and classified in the same proportion as like securities in its capital structure. To this was added amounts to cover temporary losses due to severance, reconstruction made necessary by the physical separation of the property with annual costs on the same, excess annual operating costs of the

Sierra and San Francisco system, and operating costs of Old Martin Substation. Deductions were made for working capital and because of the exclusion from the property to be taken of the tower line from Cooley Landing to San Francisco.

The following is a summary of these figures:

Capitalization at 6.04% of first year's loss of net revenue, . . . . .		\$52,929,431.
Deduct: Working Capital,	\$750,000.	
Tower Line Credit,	<u>426,000.</u>	
		<u>1,176,000.</u>
		\$51,753,431.
Add: Temporary Losses,	\$2,338,800.	
Cost of reconstruction,	4,638,728.	
Annual Costs on "	2,691,340.	
Excess Annual Costs on Sierra Sys.	172,559.	
Excess Annual Costs on Old Martin,	<u>262,900.</u>	
		<u>\$10,104,327.</u>
Total Just Compensation,		\$61,857,758.

The City took the position that value was best evidenced by finding a figure of reproduction cost new less depreciation of the physical property, to which should be added going value and severance damage. A summary of the figures developed by the City is as follows:

Reproduction Cost New - Including Overheads,	\$25,660,329.
Deduct Straight Line Depreciation,	<u>8,578,498.</u>
Reproduction Cost New - Less Depreciation,	\$17,081,831.
Money Expended on A's & B's prior to 2/11/24,	<u>594,152.</u>
Total,	\$17,675,983.
Add Going Concern Value,	1,600,000.
Add Severance Damage,	<u>457,360.</u>
Total,	\$19,733,343.
Add One-half Universal Property,	666,620.
Add One-half U.E. & G. Co. A's & B's prior to 2/11/24,	<u>465.</u>
Just Compensation, . . . . .	\$20,400,428.

X out  
~~(Just compensation, brought forward) . . . \$20,400,422.~~

The following deductions were made to the above figure for Just Compensation in the City's brief:

<u>Miscellaneous Service Equipment:</u>		
Pacific Gas & Electric Co.,	\$325,584.	
Universal Electric & Gas Co.,	44,888.	
Total,		\$370,472.
<u>A's &amp; B's Prior to Feb. 11, 1924:</u>		
Pacific Gas & Electric Co.,	\$594,152.	
Universal Electric & Gas Co.,	465.	
Total,		\$594,617.
<u>Use of 2 Year Pricing Period:</u>		
Pacific Gas & Electric Co.,	\$520,195.	
Universal Electric & Gas Co.,	21,139.	
Total,		\$541,334.
TOTAL DEDUCTIONS,		<u>\$1,506,423.</u>
TOTAL JUST COMPENSATION,		\$18,894,005.

That one or each of these methods is seriously at fault is indicated by the great difference in the results obtained. The income theory advanced by the Company, in substance, has been presented to this Commission in other proceedings and has been rejected. We cannot find where generally it has received any different treatment from other Commissions and the Courts. It is true that in most instances where it has been rejected by the Courts only the condemnation of land or real property was involved. But if it is objectionable when applied to land we fail to see how the objections are removed by adding to the problem other forms of physical property, going value and damages to the property not taken. This Commission has heretofore stated its general objections to the income theory. It is considered too unstable. It is based upon assumed constants which are in fact variables. It assumes for the indefinite future that this Commission will not change the rate of return; that the net return, the losses and the risks incurred will remain the same; that there will be a definite future program of building with deprecia-

tion charges and prices remaining the same; that future cost of financing will follow the present; that there will be a certain future population; that no other form or mode of heat, light or power will transplant, modify or compete differently with the present electric service; that certain estimated but unknown revenues and operating and maintenance expenses will accrue; and that many other indeterminable things will come to be realities.

Aside from these objectionable assumptions as to the future, there are other objections to this theory and its application in this proceeding. The yearly loss of net income as of 1924 which was set up by the Company to be capitalized was not an actual figure, nor an average figure, but was a figure built up and indicated by a normal trend line because of the contention that 1924 was not a normal year. Here, then, we have in the basic figure of this theory an assumed amount which very doubtfully points to the answer the law seeks, namely, a figure of compensation as of the day of the taking of the property. It is also very important to note that according to the testimony of the Company's witnesses this method ignores as such the value of the tangible and intangible property taken and the damage to the property not taken. And after arriving at an assumed net loss of income, which under various assumptions is to be projected as a perpetual capital loss, the actual application of the Company's theory is by means of a purely mathematical formula which determines the answer without the exercise of judgment.

This Commission in the instant proceeding, as in previous ones, is convinced that in order to act with that reason which the law imposes it must refuse to give any material weight to the conclusions developed under this theory advanced by the Company. The facts and figures developed in this record regarding this property from the standpoint of income will be fully considered, together

with other factors that form a basis for determining value. Therefore, the process of arriving at a figure of just compensation for the property involved will proceed in a general way along the lines indicated by the city, taking into consideration the other factors tending to establish value, and as heretofore adopted by the Commission in other similar cases. The matter of considering just compensation will be handled in detail under two main headings, "Property to be Taken" and "Severance Damages," the law requiring that these two items be set up separately.

#### PROPERTY TO BE TAKEN

The detailed inventory of the property to be taken as of February 11, 1924, was made in the field by engineers of the Commission, accompanied at all times and checked by representatives of the Company. The valuation engineers of the City also kept in constant touch with the work. The inventory and itemization of the physical, structural and real properties, as presented in this record by Commission engineers, were accepted by both the Company and the City.

The Commission engineers, in collaboration with the engineers of the City and the Company arrived at certain unit prices based upon a time average of material prices and wages prevailing during the estimated period of three and one-half years, ending on February 11, 1924, which unit prices were applied to the inventory in the process of arriving at the reproduction cost new of the property. These unit prices were also agreed upon by all parties. In addition to this, other price studies were likewise made covering periods of five, four, three, two and one years, ending on the same date, and also a spot price as of February 11, 1924, to which prices agreement was had.

During the hearing the City and Company appeared to be in agreement upon the following matters:

1. The inventory and description of property;
2. The unit prices applied in estimating the cost of reproduction during the three and one-half year period;
3. The ratios adopted for converting these estimates to price levels of the six alternative periods;
4. The market value of lands as of February 11, 1924;
5. The overhead charges, other than interest, during construction;
6. The tentative figures adopted for materials and supplies, engineering, operating and business records;
7. The allowance for installations on consumers' premises.

PRICING PERIOD:

The City and the Company, while agreeing upon the inventory amounts and upon the prices for the different periods, do not agree that the pricing period adopted by the Commission engineers is the proper one to be used in this proceeding.

The City contends that the three and one-half year period was selected arbitrarily as approximately the period of construction assumed by the Commission engineers; that it extends too far back into the period of high prices; that prices projected several years subsequent to the time of the application would be more applicable; and that the two year pricing period would more nearly represent a proper level of prices. The City does not take any particular exception to the construction period assumed by Commission engineers. The pricing period must of necessity conform reasonably to the construction period, making due allowance, at least, for the ordering and delivery of material with which to start. The two year pricing period is claimed by the City to represent a proper level projected into the future. This is very doubtful, however, as the two year period is the lowest sag in the period of prices tabulated, the one year period recovering to within one per cent of the three and one-

half year prices, and the one day period as of February 11, 1924 maintaining approximately that same level. But in any event, the projection into future prices, in our opinion, cannot be considered, because the cost is to be estimated as of February 11, 1924, upon which date the property is to be completed and taken. Prices subsequent to that date cannot enter into the determination of this proceeding.

The Company contends for a pricing period of four years and a construction period of forty-two months, on the ground that that would more nearly be the period under practical conditions. As a practical matter, however, we would find no City of the size of San Francisco without a lighting system, and if we did no Company acquiring the franchise would allow four or even three and one-half years to elapse before essentially completing construction. It would seem, however, from this record that a much shorter period of construction would involve additional expenses which would offset shorter time economies, so that we are convinced the pricing and construction periods assumed by the Commission engineers are reasonable ones.

#### ALLOWANCES ON LAND:

The Company, while agreeing to the appraisal placed upon land and rights of way by the Commission staff as to market value on February 11, 1924, claims that in addition to this interest during construction should be added and also cost of acquisition should be considered. In our opinion the Company is in error in so contending. We are here striving for a composite figure to be used as a measure of value. If this property as a whole were, in a commercial sense, marketable, we would by expert testimony arrive at market value without regard to these many perplexing problems that enter into reproduction new. But as a whole it is not, in the accepted sense,



marketable. Land, a distinctive part of this property, is recognized as marketable, and when that market value is found, as in this instance by expert testimony and agreement, there is nothing to be added to further indicate value of land except it be that intangible value which attaches to the composite property in use. Nothing in this record indicates a reproduction cost new figure for land built up by the method used for structures and equipment, and therefore market value as ascertained will be used. As to cost of acquisition we believe the overheads allowed are sufficiently liberal to cover any such item.

CONSTRUCTION MANAGEMENT FEE:

The company maintains that a substantial element of cost has been omitted by the engineers of the Commission in not making an additional allowance for a construction management fee and costs to cover arrangement and oversight of the work to be accomplished. The Company's witness, who was the manager of an engineering firm, testified to the need of an additional amount of \$1,500,000.00 to take care of this part of the estimated cost. The Company, in the course of cross examination, admitted that \$900,000.00 should be deducted from this claimed amount because of duplication.

After examining and carefully considering the record and testimony on this subject we are convinced that the remaining \$600,000.00 of this claim should be disallowed. The allowance of a substantial sum for organization expense, which will be figured at \$250,000.00, and the liberal allowance for overheads and general engineering expense has amply covered all the costs necessary to take all initial steps and to perfect and maintain the organization needed in the adopted program.

INTEREST DURING CONSTRUCTION:

Considerable difference exists between the Commission staff and the Company in the estimates of interest during construction.

The Company advances four points of opposition which have not already been discussed in this opinion.

The Company objects that the method used by Commission engineers in making the estimate is inconsistent with the practices followed in arriving at unit prices, claiming that piecemeal design and installation is followed which disregards the time element necessary to accomplish the structural unity of the property. This conception of the method followed is more apparent than real. While the Commission engineers have segregated this estimate into a development and four construction periods, these periods are apparently in the natural sequence of a unified project and so arranged not only to give adequate opportunity to handle the work as a unity, but to complete the component parts in such manner as to allow the best utilitarian use for the benefit of both the capital invested and the waiting public. The Company's method requires that no part of the completed property be considered operating until it would be completely utilized. We believe these estimates should be handled in as practical a manner as reasonably possible. The record discloses that certain equipment is installed and included as operating property by the Commission engineers before it would be used under the program. Allowance will be made for this.

The company objects that the time allowed to design and construct Stations E and D is much less than the time actually experienced by the company in the case of Station L, San Francisco, Station L, Oakland, and Station E, Piedmont. However, when we consider the compelling necessity of serving a community of 750,000 people, and particularly when we realize that the regular construction program of the Company is undertaken deliberately and with no necessity for great acceleration, the time allowed is neither impossible nor unreasonable.

The Company objects that the interest rate of seven per cent used is below a time average of interest rates available to the Company during the assumed construction period. The Commission witness, on the basis of the actual experience of the Company and considering the assumed conditions under which the property would be produced, estimated that seven per cent was a fair and reasonable interest rate. The Company's witness did not consider the actual cost of money to the Company during the period. Instead he compiled the high and low market sales of Company's stocks and bonds on the stock exchange and took the average sales as a basis for determining what money would have cost the Company over this period after applying certain factors to allow for sale commissions and other incidental expenses. This method of the company in arriving at interest rate is subject to very serious objection on the ground that the stock and bond market is not a direct criterion of money costs for the financing of legitimate business enterprises because of the many peculiar elements that enter into exchange fluctuations and which do not directly affect interest in regular channels. A seven per cent interest rate will be accepted as reasonable. Using this interest rate and the program as outlined by Commission engineers, it would appear that the allowance of five per cent interest during construction is ample.

The city objects both to the inclusion of \$250,000.00 as organization expense, and to the allowance of interest during construction on such amount. We have decided that the engineers for the Commission have omitted an element of cost in their figures which would come under the general head of organization expense and that said amount should be included. As to interest on this sum during the construction period, we can see no reason why this should not be treated the same as other capital. Interest on the full amount for the total period, however, will not be allowed, but only in proportion

as the construction capital remains out of operation during and in accordance with the adopted program.

CONSTRUCTION WORK IN PROGRESS:

The Company raises the point that construction work in progress as of February 11, 1924, which was not included in the reproduction cost new estimate as of that date, may not legally be included in property to be taken by means of the supplemental petitions filed under section 47(b) of the Public Utilities Act. We are of the opinion that the Company is technically right in its position and that to legally and properly protect its interests, construction work in progress as of February 11, 1924, should be added to and treated as part of the appraisal made by the Commission's engineers. We find that this amount is the sum of \$594,151.70.

MISCELLANEOUS SERVICE EQUIPMENT:

A new inventory of miscellaneous service equipment, which the Company claims as part of its property to be taken, was not attempted in detail because of the time and expense necessary. Only a partial spot check was made by Commission engineers. An agreement among parties was had regarding this property which resulted in establishing reproduction cost new at \$413,220.00 and a depreciated value of \$272,000.00, which amount is included in the Commission engineers' figures. There was no agreement, however, that this property should be included as property owned by the Company and to be taken and paid for by the City. Out of the somewhat uncertain and conflicting testimony on this subject we gather what appear to be the following controlling facts:

The property in question is that equipment between the property line ~~xxx~~ and the meters inside the premises of the owner. The total was arrived at by taking from the Company's records the amount of work of this character from time to time installed under work orders. It was admitted that these work orders may have in-

cluded other than the particular property sought. There was nothing to determine what amount may have been wholly removed, substituted, captured by competing companies, or left in permanent disuse. It was fairly well established that much of this work/<sup>was</sup>put in by the Company as an inducement to get business, and under urge of competition. The record also indicates that ordinarily the equipment in question is installed by the owner of the premises and would not be included in estimating construction costs. We are convinced under the record before us that it would be erroneous to include the amount set up, or any amount, for this class of property in the figure for reproduction cost new, but that consideration should be given it as one of the elements of going concern value.

UNIVERSAL ELECTRIC AND GAS COMPANY PROPERTIES:

Prior to the beginning of these proceedings the system of the Universal Electric and Gas Company in San Francisco was taken over and operated by the Great Western Power Company through agreement with the Pacific Gas and Electric Company, which latter Company subsequently, on October 28, 1924, became the legal owner of one-half of a portion of such properties. These properties were appraised along with the properties of the Great Western Power Company which the City seeks to acquire under Application 9767, now pending before this Commission. On December 8, 1927, as shown by this record, the City and the two Companies entered into a stipulation under which one-half of the distribution properties, exclusive of substation properties, of the former Universal Company was to be excluded from the amount of the appraisal under Application No. 9767 and included in the appraisal under the instant Application No. 9768. This one-half interest on a basis of reproduction cost new was estimated by the Commission engineers at \$858,864.00. The Companies claimed a reproduction cost new of \$885,270.00. The difference in the amounts is an amount added by the Companies for additional overheads and management fee which, as previously noted in this opinion, should be disallowed. To the acceptable figure will be added the amount of work

in progress on February 11, 1924, totaling \$465.00, and miscellaneous service equipment will be deducted.

DEPRECIATION:

In the matter of depreciation the City contends for the application of the straight line method after arriving at estimated probable useful lives. The Company maintains that the inspection method should be used. The Commission engineers used the inspection method on portions of the visible property and on the balance, while setting up the results on the age and life basis, using both the sinking fund and straight line methods, contend that the closest approximation of value is obtained by the sinking fund method.

In the tables following are shown the character and extent of the property, with the results obtained by the different methods:

	C. R. C. Account	Reproduction Cost New	Sinking Fund	Age and Life
<u>IN SAN FRANCISCO - OPERATIVE:</u>				
304. Steam Power Plant Land,	\$ 121,532.	\$ 1		
305. Steam Power Plant Structures,	569,892.	4		
306. Boiler Plant Equipment,	1,140,920.	7		
307. Steam Power Plant Equipment,	2,825,381.	1,4		
311. Misc. Power Plant Equip. - Steam,	56,994.			
342. Distribution Land,	393,966.	3		
343. Distribution Structures,	589,253.	5		
344. Distribution Substation Equipment,	2,542,579.	2,4		
346. Dist. Poles, Towers and Fixtures,	1,032,455.	6		
347. Dist. Overhead Conductors,	1,076,727.	8		
348. Dist. Underground Conduit,	2,759,159.	2,5		
349. Dist. Underground Conductor,	2,542,717.	2,5		
350. Line Transformers,	776,373.	6		
351. Services,	1,431,427.	1,3		
352. Consumers Meters,	1,778,728.	1,4		
353. Misc. Distribution Capital,	144,945.			
355. Installation on Cons. Premises,	73,222.			
357. Street Lighting Equipment,	856,297.	7		
362. General Office Equipment,	125,000.			
366. Other General Structures,	33,146.			
382. Communication System Equipment,	845.			
Material and Supplies,	100,000.	1		
<u>IN SAN FRANCISCO - NON-OPERATIVE,</u>	138,269.			
<u>IN SAN RAFAEL - OPERATIVE:</u>				
331. Transmission Land,	48,500.			
332. Transmission Structures,	30,015.			
333. Transm. Subst. Equipment,	201,483.	2		
346. Dist. Poles, Towers and Fixtures,	2,480.			
347. Dist. Overhead Conductors,	3,492.			
348. Dist. Underground Conduit,	15,460.			
349. Dist. Underground Conductors,	21,232.			
GRAND TOTAL (EXCLUDING OVERHEADS),	\$21,432,489.	\$16,8		
GRAND TOTAL (INCLUDING OVERHEADS),	25,660,329.	20,2		
GRAND TOTAL - INCLUDING UNIVERSAL,	\$26,519,193.	\$21,0		

NOTE: None of the above figures include allowance for February 11, 1924, on Work in Progress on February

The City's method of estimating useful lives without inspection and depreciating on the straight line basis is not acceptable to this Commission as the best indication of value where there are other data available, such as exist in this record. Some of the testimony of the City, however, is valuable as to probable lives, especially where the inspection method cannot be or has not been adequately or properly applied.

In the matter of generating property occurs the greatest discrepancy between the figures of the Company and Commission engineers. The reproduction cost new of this property, including land, is \$4,714,719.00. The Company claims a value, including land, of \$6,500,000.00. The Company agrees to the inventory and unit prices making up this cost new of structures and equipment and also to the market value of the land for general industrial purposes. It contends that the land is worth more than the market value arrived at because of the peculiar and singular adaptability of this location for the purpose to which it is put. There is nothing in this record indicating specifically what that additional value is. There is nothing indicating that the Company paid any more for it because of that reason when it actually made the purchase, or that it would have been forced to pay any more than industrial market value if it had purchased it as of February 11, 1924. But, even granting an unreasonable allowance for this claimed land value, still the total value claimed is far in excess of that for which the property reasonably could be reproduced. This difference of figures, together with a perusal of the testimony of the principal witnesses of the Company, indicates that their estimates on this and other physical property by the substitutional method and the so-called inspection knowledge of the property-service performance method carry with them a consideration over and above the value of the property in place.

In this proceeding we will determine the going value that attaches to the property by considering the property as a whole rather than in piecemeal. This we believe is the only sound procedure. It is therefore apparent that the Company's estimates may be grievously at fault.

The record discloses that outside of structures and equipment much of the other visible property, such as meters, over-head conductors, poles, cross-arms and line transformers, received from all parties only a cursory inspection to determine depreciation.

The estimates of the engineers of the Commission are based upon the age and life method on property not visible; on property not readily adapted to inspection records of the Company and other available data were used to determine a basis to apply age and life tables; on structures inspection was made, taking into consideration accrued maintenance, observed obsolescence and adaptability; and on equipment, part was by inspection and part was by the age and life method, using the six per cent sinking fund basis. In their detailed treatment of this property the record discloses that some correction for the following items should be made:

For over allowance of accrued maintenance on steam power plant and other structures;

For over allowance of depreciation on structures practically new; on equipment depreciated on basis of Company's future tentative plans instead of conditions on February 11, 1924; on stations because of obsolescence and lack of adaptability; on cross-arms and poles; and on overhead conductors;

For lack of allowance for additional equipment on substituted motor generator sets;

For under depreciation on street lighting equipment.

With corrections made as above indicated we are of the opinion, after a detailed examination and consideration of the record that the figures presented by the Commission engineers on the sinking



fund basis indicate more nearly value of the property in place as of February 11, 1924 than the figures of either the City or the Company.

GOING CONCERN VALUE:

The Commission's staff presented no evidence as to going value. The Company did not set up a figure for total claimed going value, but did present two separate items, one advanced as an estimate of excess expenses due to employees' turn-over or to cover excess expense of accidents to new employees amounting to the sum of \$1,000,000.00, and the other the cost of development totaling \$4,476,281.00. It seems hardly necessary to discuss these estimates in much detail. The excess cost due to employees' turn-over and accidents is very highly speculative as to amount and extremely doubtful as to propriety if an amount could be deduced. The estimate of cost of development is likewise subject to severe criticism. As an instance, one portion of it is made up of a payroll of \$409,860.00 which is to cover costs in the period of eighteen months preceding any construction work (and entirely outside of any construction costs) for a general study of commercial organization, public relations, general working methods of utilities, accounting methods and a survey of the city (entirely separate from the engineering studies made) to determine prospective demand and probable load centers. The claim that such expense should be incurred at such a time, or that costs in any such amount for such purposes above the ordinary costs of the Company should be necessary or provident, closely approaches the ridiculous.

The rest of the estimate is highly speculative. The gross figures of this estimate are also illuminating. The total estimated costs (entirely aside from construction) over this five year construction and development period is slightly over \$10,000,000.,

the total gross revenue is slightly more than \$5,500,000., and the loss (or claimed development cost) is slightly less than \$4,500,000. In such a fertile field as San Francisco and under reasonable assumptions such results would indicate gross errors of judgment and mismanagement in a property of this nature, of which neither the Pacific Gas and Electric Company nor any other similar organization would be guilty.

The City presented an estimate of going value, which includes cost of developing the business, in the amount of \$1,600,000. This was based upon the theory of going value as advanced by Dr. W. F. Durand, witness for the City. Dr. Durand defines going value as that worth attached to an operating business over and above the cost of the property and material in place, the total over all being the market value. He lays down the following premises which form the ground work upon which to arrive at an answer. The rate base and the historical investment will be practically identical, which means that return received and interest paid will be figured upon the same capital amount. To the owner, therefore, going value will be the capitalization at market rate of money of the difference between return and cost of money. The buyer will be willing to accept a somewhat lower return on his capital, but what this will be depends upon the attractiveness of the enterprise, the over-all rate of return from his investment, and the obligations, risks (including condemnation) and cares which must be assumed. The cost of attaching the business is included in the going value. And, lastly, while some of the elements of going value may be arrived at mathematically, the final answer is the result of the exercise of judgment.

Another witness for the City, in a general way, adopted the theory outlined above. In arriving at the figure of \$1,600,000.00 he took into consideration the past and possible future growth of the

City; the rate base and attitude of this Commission toward rate base and rate fixing; cost of connecting up the business, which includes loss of profit or earning during the necessary time to connect up the business after construction; possible risks of the business, including municipal condemnation and competition, but no consideration to present competition; and the fact that earnings in San Francisco are greater than for the average of the whole system. One of the checks made by the witness to test his estimate was to multiply the San Francisco historical rate base by the difference between the rate of return considered to be presently allowed by the Commission, 7.6%, and the probable cost of money to the Company, 6.2%, capitalize this result at 6.2% and divide by three. The difference between the whole amount obtained by capitalization and the one-third of such amount is explained by the witness to be largely due to the risks of the business and the fact that capital must be encouraged in California. The risks include those due to possible municipal competition and condemnation and changing attitude of the Commission.

The Commission has recently considered this theory and method of its application in Decision No. 20707, Application No. 10882, application of City of Los Angeles for valuation of certain properties of Southern California Edison Company, and what was said there is applicable to the instant proceedings. We quote as follows:

"One can follow to a considerable extent the formula for going value herein laid down and followed by the city, but it would seem impossible to agree with all of it and particularly with the extraordinary effect given to the fact that the property in question is subject to condemnation and paralleling. I fail to see how ordinarily the liability of being condemned substantially affects the going value of a public utility. A public utility is not usually bartered and sold as are other businesses. The possibility of being condemned facing an ordinary business quite likely might seriously affect the property adversely, although this would not always be so. But in the case of a utility which occupies a definite field in a monopolistic way, whose financing, income, rates and service are regulated, and whose taking must be compensated, it would seem that any possible buyer would not depreciate its already restricted going value. The possibility of paralleling would have a

very definite effect, but even there we must be aware that usually the municipality is the only party that might do this and that it would be disadvantageous to the city as well as the company."

And generally regarding going value we quote the following from the above Decision No. 20707 as also applicable to the instant matter:

"As intimated above, the going value of a public utility is much less elastic and perhaps more stable within its limitations than that of a private business. The private concern takes on no public responsibility, but by means of its wares, service and public relations develops a going value (aside from a good will) wholly by its own efforts and upon which it may trade without limitation. The utility assumes an obligation to serve which it cannot escape, except by consent of governmental authority, and acquires the right to continue with a certain protection. It, in effect, enters into a contract with the public, the result of which is to allot to some extent the value of going concern as well as good will between the contracting parties. The methods of arriving at going concern for a private business, therefore, cannot be applied in full to a public utility."

The element of value defined as "Going Concern" exists in this property to a substantial amount and will be considered in the final figure of just compensation.

#### MARKET VALUE:

The Company presented an estimate of market value, or value in operation, of the property in San Francisco through its witness Mr. Alex. Dow. Mr. Dow assumed that the property was purchasable and separable as of February 11, 1924; that for at least a number of years in the future it would be operated as a separate and independent property; that its gross income to start with would be 7½ million dollars per annum; that the population of San Francisco would increase about 20,000 people per year; that the business would increase at not less than 10% per annum; that he could buy hydroelectric power from across the bay at reasonable prices to supplement the steam plant; that he could work out economies in operation; and that the readjustment period after the purchase would be two or

three years. Under the study made and relying wholly upon the future he was confident he could persuade his financial backers to pay \$40,000,000.00 for the property.

The Company, as has heretofore been shown, claims an extravagant physical value on this property of \$26,000,000.00. That on top of such physical value there could be found an intangible value of \$14,000,000.00, or over 50%, of the physical value, does not appear within reason. Under the policy pursued by this Commission for the safeguarding of consumers and investing public, financing of a public utility through issuance of securities is limited to the historical or prudent investment in the properties. In this instance, that policy would limit securities to a much lesser amount than \$26,000,000.00. Even if the Commission liberalized its policy on financing and pursued its last announced policy of allowing not more than 7.6% return to this Company there would still, with safety to investor and consumer, remain many millions of dollars to be charged to surplus or carried in suspense account. Instead of the two or three years of recovery period provided by Mr. Dow, we fear many years would elapse before the money backers of the proposed purchase could recover even a meager return upon all of their capital. We find that the market value fixed by Mr. Dow is not reasonable.

We recommend, after considering all the evidence, that the Commission finds as a fact that the just compensation, not including severance damages, which the City should pay to the Company for the land and property to be taken under this Application, including going concern, is the sum of \$23,830,000.00.

SEVERANCE DAMAGES

The Commission engineers did not present any estimate or testimony as to damage caused by severance. The California Farm Bureau Federation presented an estimate through exhibits and testimony as to severance damage. Because of the fact that this estimate of the Bureau's engineer was founded upon a basis similar to that advanced by the Company for just compensation, which we have heretofore rejected, we deem it unnecessary to consider his results.

The City and company presented estimates of severance which are summarized in the following table:

	P. G. & E. Calculation		City of S.F. Calculation	
Cost of Reconstruction, etc.,	Exh. 14	\$4,638,728.	Exh. 10	None
Annual Costs of Above,	" 23A	2,691,340.	" 10	None
Reduced Usefulness of Bldgs.,	" 24	488,999.	" 10	None
Reduced Employees Efficiency,	" 25	4,469,016.	" 10	None
Cordelia-Marin Line,	(	(398,200.	(	(\$53,580.
Marin Substation,	" 26	(101,200.	" 10	( 52,360.
Golden Gate Cables,	(	(136,800.	(	( 84,710.
Newark-San Francisco Line,	" 27A	(715,200.	" 10	(226,210.
Old Martin Substation,	(	(277,000.	(	( 40,500.
Reduced Usefulness of Hydro and Transmission System,	" 28	14,837,371.	" 10	None
Credit for Part that Remains,	" 29A	1,517,710.	" 10	None
<b>NET TOTAL SEVERANCE DAMAGE,</b>		<b>\$27,236,144.</b>		<b>\$457,360.</b>

The City in its estimates is clearly in error through failure to recognize a lessening in the intrinsic value of the remaining property which would undoubtedly take place because of severance. It has, through the use of historical cost figures, greatly underestimated the present value of the several integral parts remaining and rendered permanently or temporarily idle. It has allowed nothing for physical reconstruction in San Francisco and nothing for the loss to the outside property of the use of steam power from San Francisco. The figure offered by the City is therefore inadequate.

The Company, with the exception perhaps of its estimate to bind its properties together in San Francisco has approached the matter of severance damage in a manner as extravagant as its claim for total just compensation, if not more so. Its claim of loss of nearly \$500,000.00 in reduced usefulness of office buildings in San Francisco not only lacks force from the standpoint of sound business and economic practice, but gives no good basis for establishing any such substantial diminution in value of the property remaining. We can not follow from a practical standpoint the claim of the Company of damages amounting to nearly \$4,500,000.00 because of reduced efficiency in use of employees. The best that can be said of this is that it was most ingeniously conceived and presented.

The Company claims net damages of nearly \$15,000,000.00 arising from permanently reduced usefulness of hydro-electric generating system and main transmission system. This amount is the sum of two estimates, one based on the destruction of diversity between the severed load and the remaining system load, and the other based on damage from the seasonal shifting of the load after severance. We cannot see wherein these estimates are related directly to the damage sustained because of production and transmission property rendered useless and the diminution of value of the remaining property. Furthermore, if there is any such relationship, the methods used are open to criticism because of their highly uncertain and speculative character.

It is therefore evident that the two parties concerned have not been very helpful in directing our minds to a reasonable figure for severance damages. Fortunately, however, the record is replete with data upon which a proper judgment may be based.

The Company in this proceeding is entitled to an award of severance damages for loss sustained in binding together the physical property remaining after severance, and for all damages sustained through diminution in value of the property not taken, including carrying costs on property rendered permanently and temporarily less useful. For the guidance of the Commission in this proceeding in thus fixing severance damages evidence has been introduced showing the loss sustained because of the necessity of binding together of the physical property not taken, showing diminution in value of the property remaining suffered by reason of loss to outside system of services of steam power plant in San Francisco, carrying costs on property rendered permanently and temporarily less useful, and loss sustained by reason of many other costs tending or purporting to establish diminution in the value of the remaining property.

We recommend, after a thorough sifting of the evidence, that the Commission find as a fact that the total just compensation to be paid by the City to the Company as severance damages, after the taking of the land and property described in the application and amendments thereto, is the sum of \$3,050,000.00.

#### F I N D I N G S

The City and County of San Francisco, a municipal corporation, having filed with the Railroad Commission on the 11th day of February, 1924, a petition as above entitled, and the Commission having proceeded in accordance with the provisions of section 47(b) of the Public Utilities Act to fix and determine the just compensation to be paid by the City and County of San Francisco to Pacific Gas and Electric Company (a corporation) for the taking of the land and property described in Exhibit "A", attached to the application herein and amended as shown in "Application to Amend Petition" filed October 27, 1925, and in "Application to Amend Petition" filed April 28, 1927, attached hereto, public hearings having been held, the matter having



been submitted and briefs filed thereon, and the Railroad Commission being fully apprised in the matter, makes the following findings:

1. IT IS HEREBY FOUND AS A FACT that the just compensation to be paid by the City and County of San Francisco to Pacific Gas and Electric Company (a corporation) for the land and property described in Exhibit "A" attached to the application as amended, not including severance damages, is the sum of \$23,830,000.00.

2. IT IS HEREBY FOUND AS A FACT that the just compensation to be paid by the City and County of San Francisco to Pacific Gas and Electric Company (a corporation) as severance damages after the taking of the land and property described in Exhibit "A" attached to the application as amended, is the sum of \$3,050,000.00.

3. IT IS HEREBY FOUND AS A FACT that the total just compensation to be paid by the City and County of San Francisco to Pacific Gas and Electric Company (a corporation) for the taking of the land and property described in Exhibit "A" attached to the application as amended, is the sum of \$26,880,000.00.

We concur in the foregoing opinion and findings and the same are hereby approved and ordered filed as the opinion and findings of the Railroad Commission of the State of California.

Dated at San Francisco, California, this 17<sup>th</sup> day of June, 1929.

David J. Lovell  
W. J. ...  
Leon ...  
M. J. ...  
Commissioners.