Decision No. 6537.

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

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In the Matter of the Application of THE CITY OF REDDING to fix the just compensation to be paid by the City of Redding to NORTHERN CALIFORNIA POWER COMPANY, CONSOLIDATED, for its property owned and used by it in said city for the purpose of distribution of electric energy in said city.	Application No.3718.

W. D. Tillotson, for Applicant,

Allan P. Matthew, for Northern California Power Company, Consolidated.

BRUNDIGE, Commissioner.

O P I N I O N

The City of Redding (hereinafter referred to as the City) on May 2, 1918, filed its application asking that the Commission, under the provisions of the Public Utilities Act, fix the just compensation to be paid by the City to the Northern California Power Company, Consolidated, (hereinafter referred to as the Company) for the property owned and used by the Company in the City of Redding for the purpose of distribution of electrical energy in the city. A description of the property involved is attached to this Opinion and marked as "Exhibit A."

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Hearings were held in Redding on February 27, 1919, and in San Francisco on March 18, 1919. All of the exhibits and reports filed, as also the briefs of counsel, are now available, and a decision can be rendered by the Commission.

There are at issue in this proceeding the following elements entering into the question of just compensation:-

1. Valuation of physical property plus overheads,
2. Franchise value,
3. Going concern,
4. Development cost,
5. Severance damages.

In the able and extensive briefs filed by counsel for both the Company and the City, the urgent request is made that the Commission clearly indicate in its decision the successive steps by which the total amount of just compensation is reached and how each of the points at issue is disposed of, with reasons for such disposal. This request appears reasonable. It is in the interest not only of the parties to this proceeding but also to utilities and municipalities throughout the entire state that there should be set forth as clearly as possible the principles which guide and the methods which are followed by this Commission in determining what is just compensation.

After a careful consideration of the facts in this proceeding and of the law in cases of this nature in general, I have reached the conclusion that just compensation cannot be found unless each of the factors indicated above is given its proper consideration. The treatment that should be accorded to these factors can, in my opinion, be best indicated by the following set-up:

JUST COMPENSATION

(a) Valuation of physical property plus overhead on basis of reproduction cost less depreciation.	These items to be modified by special factors affecting value, viz: Item (a) may be modified by abnormally high or low prices; by abnormal conditions of service; by the relative efficiency of the plant and by its adaptability to the performance of the work actually required of it in the most economical manner; by deferred maintenance; by obsolescence; by property to be abandoned, etc., etc., etc.
(b) Franchise value.	Item (b) may be modified by character of franchise; by long and short remaining life, etc.
(c) Going concern including development cost.	Item (c) may be modified by past, present and prospective earning capacity; by public utility character of business; by power of the city to duplicate plant; by facts regarding development cost, etc.

Then

(a) + (b) + (c) = "Fair Value of Property."

Plus

(d) Severence Damages.	(Not an element of "value," but (compensation for losses resulting from disruption and severence of property.

Then

(a) + (b) + (c) + (d) = "Just Compensation."

In my opinion, the treatment indicated is not only in complete accord with the statutes as they have been interpreted by the courts, but is also thoroughly equitable and in harmony

with such economic principles as will, in the last analysis, be found to control such matters.

(1) Valuation of Physical Property Plus Overheads:

Two valuations of the property were made and filed as exhibits, viz., a valuation by the Commission's engineering department dated October 2, 1918 (Applicant's Exhibit No.1) and a valuation made by the Company and filed February 27, 1919, (Company's Exhibit No.1). There are no essential differences in the inventory of property items. Such money differences as there are result from the application of different unit costs and overhead allowances and from a different treatment of the question of depreciation.

The selection of unit prices depends, in turn, to a large extent, on the construction period on which the valuation estimate is based. This question was discussed at great length (both from the engineering and from the legal standpoint) at the hearings in this case and in the briefs of counsel, where it has generally been referred to as the question of "the date of valuation." A decision by the Commission on this point will be necessary.

(a) Date of Valuation:

Section 47 of the Public Utilities Act provides that "said just compensation shall be fixed by the Commission as of the day on which the petition was filed with the Commission." The Commission must find an amount of money which is "the full and perfect equivalent" of the property as of that day. There can be no question, I believe, that this is the meaning of "just compensation" as repeatedly announced by the Supreme Court of the United States and by other Courts and by this and other State Commissions.

(Monongahela Navigation Company v. United States, 148 U. S. 312.

This"full and perfect equivalent" for the property taken is the "present value" of the property as of the day the petition was filed with the Commission.

It is also well established that the "present value" does not necessarily mean investment, or original cost, or reproduction cost new, or reproduction cost less depreciation, or any other single one of a number of factors that may have to be considered and that may enter into the total making up "present value." This rule is well established by the Minnesota Rate Case and by other decisions by the United States Supreme Court.

(Minnesota Rate Case, 230 U. S. 352.)

Also in Louisville and Nashville Railroad Company vs. the Railroad Commission, et al, 196 Fed. 800, 821, the Court addressing itself to the basis of valuation, said "x x the rule of giving to the owner the increments of value and subjecting him to the losses in values has the unequivocal sanction of the laws."

A great deal of the controversy on this point, I am sure, springs from a confusion in the minds of the parties between the making of an engineering appraisal or valuation on the one hand, and the finding of just compensation by the Commission on the other. If it is remembered that the making of the appraisal, as covered in an engineering report on the property to be taken, and as indicated under items (a), (b) and (c) enumerated in the formula given heretofore, is only one step in the task of determining "just compensation," then misunderstandings will be less likely. Of necessity, the engineers of the Commission had to adopt some consistent and definite method of making valuation estimates. There is no disagreement that this has been done: they have submitted to the Commission several figures, each one of which is based on a fairly comprehensive definition. We have:

(1) The historical reproduction cost,

(2) The reproduction cost new on the basis of average prices for the preceding five years.

(3) The reproduction cost new on the basis of prices as of May 2, 1918, the date of the filing of this application.

(4) The reproduction cost less depreciation based on the historical reproduction cost.

(5) The reproduction cost less depreciation based on the five-year period reproduction cost.

(6) The reproduction cost less depreciation based on the date of valuation reproduction cost.

It cannot be said, therefore, that the Commission's engineer's report is incomplete. The Company in its valuation gives only two figures, one a reproduction cost estimate on the basis of current market prices of labor and materials, and the other the reproduction cost less depreciation based on such current prices.

The question is, which of these various methods of making valuation estimates is to be given the principal weight insofar as the physical property items and the so-called overheads are concerned. Are unit prices to be taken as of a certain day, regardless of the normality or abnormality of prices on that particular day, or should they be taken as the average over a certain period, and if so, what period should be selected?

A contention that cost estimates must be based on a certain single day (this day to be the date of the filing of the application) is not raised by the Company and cannot, in my opinion, be maintained. It has been shown to my satisfaction that an estimate on such a basis rests upon an engineering impossibility and becomes, therefore, an absurdity. I am making this statement for these reasons: The construction of any property of necessity

involves the element of time, and an estimate of such construction must take into consideration the time element. However long or short the construction period may be fixed, it is evident that prices for material and labor will fluctuate within certain limits during that period, and that in the nature of things there can be no construction of any considerable enterprise where every cost can be incurred in a single day. The significance of this observation is evident at once if the items of interest and so-called overhead expenditures, which are a part of every construction estimate, are given consideration. If an allowance for interest during construction is made, it must be made for a certain period of time. And the charges for engineering, legal expenses, insurance, administration and other general expenses, all of which enter into every valuation, equally involve the time element. It is unsound and not in accordance with the facts to assume that all construction costs for labor and material should be had as of one certain day and thereafter to add to such costs arbitrary percentages on the assumption that a certain length of time will elapse between the beginning and the end of construction.

In my opinion, the proper procedure for the engineers to follow is this: First, to determine that period of time which would reasonably be required to construct a plant of the kind and character of the one to be valued. In small plants the period would, of course, be shorter than in plants of larger enterprises. Having determined this reasonable construction period, it should be extended backward from the date on which the petition was filed with the Commission. The unit prices actually in effect during that period should be applied in making the reproduction cost new estimate, and the accrued depreciation should be deducted from that figure.

In the proceeding at issue, it is my conclusion that a construction period of one year is an ample and fair time for the valuation estimate.

This general rule, in my opinion, has the support of law.

In Brunswick and T. Water District V. Maine Water Company, 92 Me. 271, 59 Atl. 537, the Supreme Court of Maine says:

> "4. The next request is: 'If and so far as structure value depends upon cost, the market price of pipe, labor, skill and supervision are to be taken as they were on the 1st day of January, 1904, and not as they were at prior times when the contract would have been necessary for the building of the structure to be completed for delivery on that day'. The ultimate fact to be ascertained is the value of January 1,1904. The act provides that the valuation shall be fixed as of that date. Prior cost in this respect is only evidence, more or less valuable, as having a tendancy to show value on that day. The value on that day may be more than the cost or it may be less. To say nothing of depreciation, prices may have gone up or they may have gone down. If they have gone up, the company is entitled to the benefit of it; if they have gone down, the company loses it. This we have already stated in the former part of this opinion. The cost of present reproduction is evidence of the strongest character of the present value of a structure, though other things are to be considered also. In determining, not cost, but present value, present prices, of course, are the standard, rather than former prices. It is suggested that in fixing the value on January 1, 1904, allowance must be made for the fact that a plant ready to be delivered on a given date must have been commenced a considerable time before, certainly. When we say 'present prices' we mean prices within a period necessary for construction."

The figure thus to be found is a very definite quantity and can be determined by competent engineers. It is not to be the ultimate figure, even for the physical property alone, and may have to be modified by other considerations that are not necessarily susceptible of mathematical analysis and computation. Other factors such as have been indicated in the formula given above May enter, and it may not be possible to define them beforehand or to lay down strict rules as to how they should be measured. But I am of the opinion that the engineering valuation estimate should be the first step and that this estimate should, in all [illegible]-

valuation proceedings, show reproduction cost based on prices for material and labor during a fair construction period immediately preceeding the date of the application with a deduction from that estimate of such a sum as will represent the item of depreciation.

The figure found by me for the physical property plus overhead rests on this basis.

(b) Depreciation:

There is no dispute that depreciation is an element to be recognized as an economic fact and as a matter of law, and that the accrued depreciation must be deducted from the value of the plant new. The Company contends that because of the methods used by the Commission's engineering department in ascertaining the amount of accrued depreciation, confiscation of a certain amount of capital must inevitably result. Company's counsel in his brief says:

> "We think it can be fairly stated that the more recent investigators have reached the conclusion that so much of depreciation as does not represent deferred maintenance should not be deducted in making an appraisal, for this element of depreciation cannot be avoided or overcome, and does not represent a real diminution in capital values."

The Company claims that all consideration of "theoretical depreciation as disclosed by the so-called life tables" should be disregarded by the Commission and that actual rather than theoretical depreciation should control. The Company then contends that depreciation should be measured by the so-called sinking fund method rather than by the straight line method since with the latter method injustice would be done to the Company and confiscation would become inevitable.

There is an obvious inconsistency in the contentions of the Company when, on the one hand, theoretical depreciation and

life tables are rejected and condemned, and, on the other, it is demanded that depreciation should be estimated on the sinking fund b asis. Both the sinking fund method and the straight line method are theoretical estimates of depreciation. Both methods, of necessity, depend on life tables. I am of the opinion that the argument in this matter proceeds, in the main, from false premises and that the apparent inconsistencies in the treatment of this subject disappear upon closer observation.

What must be ascertained is the difference in value between this property new and the same property in the actual condition in which we find it on the day of the valuation. It is necessary to find this difference by means of an engineering estimate. The Commission's engineers use the term "condition per cent." If the condition per cent of a new plant is set down as 100 and the present condition as 75 per cent, then 25 per cent of the total in the reproduction cost new estimate would be the measure of the accrued depreciation. I can see no objection to the employment of this system, and am in full accord with the contention of the Company "that the condition per cent as finally determined by the Commission should control in the valuation to the entire exclusion of the theoretical depreciation."

The inquiry should confine itself to the methods employed and the reliability of the judgment of the men who did the work, when the amount of accrued depreciation was ascertained. It appears that the Commission's engineers have made a careful inspection on the ground. I use the word "careful" advisedly and in spite of the claims of the Company's counsel to the contrary. Assistant Engineer L. B. Cramer, an electrical engineer of many years experience, who has been employed by the Commission and has been engaged in valuation work since August, 1916, spent an aggregate of several months on this work exclusively and made a thorough

investigation of the property and of the company's records. A part of his work was done together with the representatives of the Company and of the City; and in addition he had the advice and assistance of a number of other engineers in the Commission's office. He had also at his disposal all of the Commission's data and records, which, admittedly, are unusually complete and reliable. The estimate of depreciation according to Mr. Cramer's testimony and according to his report (Applicant's Exhibit No.1) was made substantially as follows:

From the reproduction cost of the property there is deducted the salvage value at the point of usage. The remainder is called wearing value. This wearing value is then divided by the estimated life of the property and the quotient is called annual depreciation. The actual age of the property, in years, is multiplied by this annual depreciation, and the result is called the total accrued depreciation. If, on inspection or by reason of any other available data, such as maintenance records, etc., there is reason to believe that this ascertained condition per cent does not represent the actual condition of the property, then the theoretical condition percent is modified and the facts ascertained by an inspection are given greater weight than the result obtained from a consideration of average experience as reflected by life tables.

It is important to note here that this process of ascertaining condition per cent is not applied to the property as a whole, or even to any considerable group of property items, but is separately and individually calculated in the Commission's engineering report for each individual property account and for each separate item listed in each account.

The other aspect of the problem of depreciation has not directly any bearing on the value of this property and enters only incidentally into the question of just compensation. I have reference to the depreciation reserve as an insurance fund set aside to

take care of and insure against the wasting of property by reason of physical depreciation and obsolescence, and the treatment of this fund as a financial and bookkeeping matter.

This Commission, since the beginning of the exercise of its rate making powers, has consistently allowed out of rates to public utilities three items of return.

(a) Operating expenses, including without question pay-rolls covering wages actually paid to employees other than executive officers, taxes and the cost of ordinary maintenance of property.

(b) A "fair return" on the investment or value of the property devoted to the public service.

(c) An allowance for a depreciation reserve to provide for the renewal or replacement of such portion of the plant as involve large expenditures and which cannot readily be charged to ordinary maintenance and included in operating expense.

Item (c) is the one here referred to. The Company claims that in estimating the present value of this property as compared with new, depreciation should be computed on the sinking fund basis because this method has been employed, in rate fixing proceedings involving this company, and because the sinking fund curve fairly shows the actual course of depreciation. I have already pointed out the inconsistency of the Company's position when, on the one hand, it objects to the use of life tables, and, on the other, demands the application of the sinking fund method.

In a rate proceeding heretofore, the Commission fixed a rate to cover not only the operating expenses, including taxes and the cost of ordinary maintenance, together with a "fair return" on the investment, but also to provide a depreciation reserve fund. In setting up this depreciation reserve, it was computed upon the 6 per cent sinking fund method. This allowance figures out at approximately 1.42 per cent of the then valuation figure of the property involved in the rate case. The Company now claims that the actual present day condition of the property must be estimated in conformity with that derived percentage. It is

claimed that if an accrued depreciation greater than the calculated percentage were deducted, confiscation of property would result. This reasoning is fallacious.

If it were the purpose of this inquiry to ascertain the exact number of dollars which actually have been invested in the business and to return these dollars to the Company without either increase or dimunition since the date of their original investment, then there might be some basis for such contention. But we are not now concerned with the original cost of this property. We seek to establish its"present value," and to find the "perfect equivalent" which the City of Redding must pay to the Company in exchange for its plant. As has been stated heretofore that "present value" is being computed upon the basis of reproduction cost new less actual depreciation.

Numerous decisions quoted by counsel for the Company, clearly point out that increments and losses alike attach to ownership of property. If a company expects to benefit by advancing prices in condemnation proceedings it also must expect to suffer the losses that come from deterioration or wasting of property. Unless we adopt the sacrifice theory and proceed to value property upon the basis of original cost, which has been rejected by the Courts, there can be no consideration given to the claim of confiscation due to decrease in value caused by deterioration or depreciation, regardless of whether any means had or had not been taken to provide a fund to cover such deterioration or depreciation either through operating expenses or otherwise.

Neither can it be shown that there is any relation whatsoever between the sum of money that would be in the depreciation reserve fund, if the money had actually been set aside for that purpose, and the actual present condition of the property. What we are trying to ascertain is this actual condition in which the property is now found and what we must determine is the difference between the property in its new state and the condition in which we

find it today. Whether or not the Company has made provision (in depreciation fund or otherwise) to reimburse itself against the effects of the actual accrued depreciation, cannot be of any concern in this proceeding where we have, as one step in our task, to find the fair value of this property as it exists today.

It is desirable, in my opinion, that adequate allowance should be made by the Commission in rates to take care of depreciation, and I am also firmly convinced that such allowances should be surrounded by safeguards which will make certain that they will be used by the utilities for the very purpose for which they are paid by the rate-payers. But, irrespective of whether the allowances are sufficient or insufficient, and irrespective of whether they are used properly or improperly, the fact remains that in eminent domain proceedings it must be the actual condition of the property at the time of the valuation that is to be considered, regardless of the actual amount of the original investment, and regardless of whether the owner has accumulated a depreciation reserve or not, and regardless of whether the reserve is built up by the sinking fund or the straight line method. For the reasons stated I can see no merit in the Company's criticism of the methods of measuring this property's condition per cent , as they were employed by our engineers.

The service condition of the plant as a whole and its efficiency as a whole as compared with the best available standards is not entirely reflected by the condition per cent. To illustrate: In the item of "poles and fixtures" (C.R.C.Acct.No.C-14), there are listed 103 separate property items, each one of which has its own estimated condition per cent. These percentages vary from 30 to 100, and the weighted average for the entire group in this account gives a condition per cent of 65. And so on with each group of property items as classified on the prescribed valuation forms. The condition per cent, therefore, merely reflects the condition of individual plant items as compared with new and takes no account of

the general usefulness and efficiency of these working parts in their relation to the working capacity of the entire machine. If we consider a plant in the light of a machine constructed for the purpose of performing a definite service it is clear that we cannot actually compute the service condition by a consideration alone of the probable life of the separate working parts. Many other considerations enter into such calculations. Besides the wisdom or unwisdom evidenced in the plan or design of the completed plant, and the question of the adaptability of the various parts to the efficient and economical performance of the function required of them, also a consideration of whether the plant has been overbuilt or underbuilt, there may be many factors other than those involved in the cost and the age of the separate parts which have a direct bearing upon operation of the plant causing it either to be economical and efficient or wasteful and extravagant. It is to be admitted that a machine which is economical and efficient in operation has a greater value than one that is wasteful and extravagant. That this consideration cannot be included in a computation of the age and the cost of the various parts comprising the plant is evident. As an illustration, it cannot be contended that a leaky and wasteful system of gas distributing mains has, in proportion to its age, as great a value as a system that is tight and in which transmission losses of gas are reduced to a minimum.

The question of service conditions will be discussed further elsewhere in this opinion.

It cannot be said, therefore, that the method of measuring depreciation used by the engineering department is essentially arbitrary or theoretical. I am satisfied that the facts establish a contrary conclusion. I am inclined to believe that it will be difficult to devise

a fairer method of measuring depreciation or one better calculated to reach the exact truth (insofar as such an ideal is possible with such a subject).

I agree with counsel for the Company that under this method, cases are conceivable where at the time of the appraisal it will be found that a certain proportion of bona fide capital expenditure is necessarily lost to the owner of a property. It is equally true, on the other hand, that his method will, in other instances, result in showing a property value greatly in excess of the bona fide capital expenditure in spite of a considerable amount of accrued depreciation. This later condition will be found to be the fact with the property under consideration. Here it is admitted that the estimate for re production cost new is considerably in excess of the bona fide capital expenditure and it is apparent that this condition results from the increase in costs of labor and material during the last few years.

I cannot agree, therefore, with the contentions of the Company that the engineering department's valuation should be modified because, in the ascertainment of depreciation, life tables have been used and the sinking fund method has not been applied.

(c) Valuation Totals:

The report of the Commission's engineering department (Applicant's Exhibit No. 1 and memorandum of April 21, 1919) show the following valuation totals:

	Revised Figures
Historical reproduction cost (without depreciation)	$ 50,365.07
Reproduction cost new on basis of average prices for preceeding five years (without depreciation)	48,557.11
Reproduction cost new on the basis of prices as of May 2, 1918, (without depreciation)	56,666.99

The Company's grand total of all accounts covering physical property and comparable with the figures of the engineering

department on the basis of the reproduction cost new based on present prices, is shown to be $64,096.00.(amended figure).

For reasons stated heretofore, I am of the opinion that the engineering valuation should be based on a reproduction cost with a construction period of one year prior to May 2, 1918, and with unit costs and prices for material and labor as they average during that year. On this basis the first two engineering department figures are too low and the last one is too high. On this basis the last figure, that of reproduction cost new with prices as of May 2, 1918, and without depreciation, and deducting overheads, becomes $53,968.56. The reproduction new cost estimate on the basis of average prices for the preceeding five years ($48,557.11) becomes, when overheads are deducted, $41,859.58. Because of difference in time allowance for construction of plant and other differences, the original allowance for overhead in these two estimates were not identical. It is apparent, therefore, that the estimate as of May 2, 1918, exceeds the estimate of the five year period by about 29 per cent. The five year period preceeding May 2, 1918, includes all of the abnormal war prices (with the highest prices ever known for copper, which is one of the largest single items in this valuation). Since all estimates of this nature must be based on averages, and can at best be only close approximations, I have reached the conclusion, after a careful consideration of the mass of conflicting unit costs in the record in this proceeding which costs cover the time from the date of the filing of the application to well beyond the five year period, that a 20 per cent addition to the engineering department's reproduction cost new estimate based on the 5 year period will give a figure approximating, as nearly as may be, the cost of reproducing this plant upon a basis of unit costs prevailing during the year immediately preceding the date of filing the City's application in this proceeding. We will then have:

Engineering Department's reproduction cost new on 5-year basis without overheads	$ 41,859.58
Add 20 per cent	8,371.92
Total physical properties without overheads	$50,231.50

I am of the opinion that to the sum above set forth we should add an overhead allowance covering engineering, administration, insurance and legal expenses, of 10 per cent of the last total and that interest should be allowed on the basis of a 1-year construction period and at the rate of 6 per cent.

It will be fair and reasonable to assume that interest will accrue on all of the money involved for one half of the assumed construction period for the obvious reason that only the first expenditures will be burdened with interest payments for the full year, while the last expenditures will carry no interest charges whatsoever. This interest allowance is a fair one, in my opinion, for the further reason that the bulk of the expenditures (copper, poles, transformers, service and meters) under the adopted construction period will not occur until the latter portion of the construction period. We have then:

Reproduction cost new on the basis of one year construction period	$ 50,231.50
Add overheads 10 per cent	5,023.15
Sub-total	55,254.65
Add interest during construction on 6 per cent basis (3 per cent of last total)	1,657.64
Total	$ 56,912.29

For reasons already given, I am satisfied to accept the condition per cent of 73, as estimated by the engineering department, as an accurate and fair one. On this basis I find that the reproduction cost less depreciation of this property is $41,546.

I am the more satisfied that this last figure is a reasonably accurate one since it is subject to further modification because of at least one other factor having a bearing on the value of the physical and operating property which has not as yet been considered. This factor is the general condition, from an operating standpoint, of the plant as a whole.

(d) Operating Condition of Plant:

Strenuous objections were raised by counsel for the Company against inquiries along this line. It is contended by the Company that any consideration of the operating condition of the plant as a whole results in a duplication of deductions made for depreciation and obsolescence. Counsel for the City, on the other hand, strenuously urged that this matter was one of the most important factors to be considered by the Commission in the determination of value and that it had no relation whatsoever to the condition per cent of the individual property items as determined by the Commission's engineers in their valuation report.

According to the City's contention, this question of general operating condition of plant pertains rather to the subject of going concern value. Since the claim of going concern value as advanced by the Company rests on an altogether different line of reasoning, as will appear hereafter, I prefer to deal with this item of general operating condition under the head of the value of physical property.

I am satisfied that the condition per cent as determined in the engineering report does not touch the question of general operating efficiency of this plant as an electrical distributing system. It is conceivable that the individual property items may be in first class physical condition, that the machinery and installations are all modern and adequate and that consequently there is no obsolescence but that nevertheless the general arrangement and operating conditions of the plant as a whole are such as to produce wasteful, inefficient and costly operation, resulting in operating costs that are above normal. Where such a condition exists, I believe it cannot be denied that a physical plant will be less valuable because of such condition than it otherwise would be.

The testimony on this point shows that the system at Redding is the result of the consolidation of two systems and that there is a certain amount of duplication in pole leads and that

there are unnecessary poles. It is to be noted, however, that all of these duplications and superfluous items of property are included in the totals given above.

It is also in the record that there is certain overhead construction on this system not in accordance with the laws and orders of this Commission governing such construction in this state. This observation is not intended as a criticism of the Company but is made merely to establish the fact that considerable expenditures are necessary to remodel this plant in order to bring it into conformity with existing laws and to create safe working conditions. The City will have to incur this expense after the property is acquired. No estimate was made to show in dollars what it will cost to put this distributing system in what might be called first class condition. It is evident to me, however, that whatever weight this factor of inferior operating condition may have, will act as a deduction from the depreciated plant value as it has been found above.

A large aggregate of plant items, in whatever depreciated condition they may be, will, of necessity, increase the total of the physical valuation.. It does not follow, however, that because of the greater quantity of unnecessary property items the plant is more valuable as an operating property. If, by the elemination of a portion of the plant and the substitution therefor of simplier apparatus, operating costs could be decreased, the owner would be justified in going to considerable expenditure in bringing about such a result.

(e) Abnormal Valuation Prices:

It is true that the valuation figures as found above reflect the highest abnormal war prices. The Commission is urged by the City to take this factor into consideration and to fix the ultimate fair value of this plant in a just compensation proceeding on the basis of normal conditions. While I am of the opinion that the engineering estimate should properly be made under the method indicated above, I am not convinced that there might not arise cases where abnormal cost fluctuations during the assumed construction period might not result in such abnormal valuation totals as would very clearly lead, were the figures to be used unmodified, not to a "fair" value of the property to be taken and not to a "just" compensation, but to an unfair value and an unjust compensation.

I am not persuaded, however, that this is the result in this particular instance. The plant is a small one, and the construction period I have allowed, is, perhaps longer than would be absolutely necessary to construct a plant of this kind under rush orders and with all material purchased and on the ground. On the other hand if we are to assume a construction period beginning with the securing of a franchise and arranging for the necessary funds to carry forward the enterprise and extending to the date upon which the completed plant is put into service, allowing sufficient time for the company to take the best advantage of market conditions in purchasing materials, then I am convinced that one year is a reasonable allowance of time for the construction of this particular plant.

The one year period will allow for some fluctuations in labor and material costs in both directions and at the same time will allow a larger sum for interest upon the capital investment than had a shorter period of time been adopted for the construction period. Also, while discussing the method of determining unit costs which necessarily constitute one of the most important factors in determining the ultimate fair value, a certain amount of speculation as to what will happen in the future cannot be entirely dispensed with, but I am not convinced that labor costs will have a marked downward trend in the immediate future.

I shall make no correction, therefore, in the value of the physical property because of the high and abnormal unit costs used in the engineering valuation, further than such abnormal prices are reflected in depreciation.

(2) Franchise Value

The Company is the owner of three franchises, all of which are to be taken by the City except to the extent that they will be enjoyed by the Company for the purpose of serving its own properties within the City of Redding, and also for the purpose of serving the City of Redding in the event that it should purchase electricity from the Company after the purchase of the distributing system.

It is the contention of the Company that the value of these franchises must be determined and that this value is not restricted to original cost. The approximate original cost of the franchise is shown by the Company to be $495.00 and there will be no question that this original cost should be included in the sum total of the fair value of the property and of the just compensation.

In general, whatever the facts may be as between the public granting franchises, on the one hand, and the utility enjoying the franchises, on the other, and whatever fairness and equity may demand in this matter as between these two parties, I think there is no doubt that the courts have held that franchises are property and as such must be paid for in condemnation proceedings. This is a question of very great importance and it should be gone into thoroughly when a case comes up where the matter has more weight than in this one.

The Company assents to the proposition that such value as may inhere in the franchises (exclusive of the item of original cost) may be properly comprehended within the element of going concern value. It is clear that in other proceedings of this nature which have been before the Commission, confusion and duplication have resulted from the attempt to value franchise rights and going concern separately. It may be agreed, therefore, that this item is included in the consideration of going concern.

(3) Going Concern.

Going concern value is defined by the Company as "value of the business". It is a value which is said to exist separately and to be distinct from the plant value or the physical value. We may readily assent to this definition, and I recognize that there is a large difference in value between the "bare bones" of a plant and the same plant as a prosperous going concern. The law and courts and the authorities without exception hold that going concern or going concern value must be recognized and considered as an element in condemnation cases.

The determination of this item in terms of money depends, of course, on the methods used. It becomes of

greatest importance, therefore, to examine these methods closely and to see if reliable factors are used and if, in the computation, proper weight is given to all factors so that they may reflect the facts and give the correct results.

In considering the elements entering into the "going concern" value, it must be borne in mind that certain overhead charges already have been allowed in computing the plant value on the basis of reproduction new less depreciation. It goes without saying that costs which already have been allowed in estimating the plant value should not again be considered in computing the "going concern" value, but that there may be less confusion concerning the elements entering into "going concern" value it may be well to refer to those which have been considered elsewhere and therefore should be eliminated from this discussion.

Among the items included in "overhead charges" and for which allowance already has been made by adding 10 per cent to the total of the reproduction new value of the plant are these:

Engineering costs in preparation of plans, surveys, superintendence, etc.;

Losses due to accidents to workmen and injuries to material, together with costs of insurance, etc.;

Contingencies;

Cost of administration, including time and money expended in purchasing materials, etc.;

An additional allowance of 3 per cent has been made to cover the interest upon the actual invested capital during the entire period of construction.

Also there has been made an allowance to cover the promotion of the enterprise, the organization of the Company and interesting capital therein, and the legal and other

necessary expenses involved in securing franchises and in incorporating the Company.

Again it is true that any costs incurred in developing the business such as solicitation, advertising, etc., which have been included in operating expenses and actually returned to the owners of the plant in rates, also should be excluded from consideration. On the other hand, if these development costs have not in fact been returned to the Company and properly should be considered as an element in determining the fair value of the property to be condemned, they should, under the plan followed in this proceeding, be computed separately, under the heading of "development costs."

Also it has been generally held that the element of "good will" as applied to the business of the ordinary merchant or manufacturer dealing with the public generally is not to be considered in estimating the value of a public utility plant such as this, for the reason that the ordinary private business is built up under competitive conditions through which trade is attracted by various means all tending to establish the reputation of the concern, and into which enter questions of the treatment of patrons, the quality of goods, the comparative prices and an almost infinite number of other considerations and circumstances, practically all of which are absent in a public utility which enjoys a monopoly of a particular business in the community it serves, and where the public desirous of using its product must buy from the utility at a fixed rate or do without such service.

In Des Moines Gas Co. vs. Des Moines, 238 U.S. 153,171, Mr. Justice Day says:

"When, as here, a long established and successful plant of this character is valued for rate-making purposes, and the value of the property fixed as the master certifies upon the basis of a plant in successful operation, and overhead charges have been allowed for the items and in the sums already stated, it cannot be said, in view of the facts in this case, that the element of going value has not been given the consideration it deserves, and the appellant's contention in this behalf is not sustained."

If we eliminate from consideration in going concern value those elements of overhead costs above referred to and which already have been cared for by adding 10 per cent to the reproduction cost new, together with an allowance of 3 per cent to cover the interest on invested capital during the period of construction, and if further the element of "good will", as indicating that element of value which inheres in the fixed and favorable consideration of customers arising from an established and well-known and well conducted business is to be eliminated as indicated in the Des Moines Gas Company case (238 U.S. 164-165), then the only remaining element left for consideration as entering into going value must consist of losses sustained during the development period of the enterprise - losses which were incidental to the development period and of necessity incurred in bringing the plant into successful operation, and which have not been returned to the Company in rates during the later period of successful operation.

All public utility enterprises go through three stages of development. First, there is the construction period. The second may be termed the development period and the third the period of profit or going concern.

In the first or construction period all items of expense, including capital invested in the enterprise and all necessary overhead required to put the plant in con-

dition and readiness to render service are properly chargeable to capital account.

The second or development period may be said to begin when construction is completed and the plant is in existence ready to operate and to produce the product to be sold.

With most business enterprises, whether public utility or otherwise, a shorter or longer period will elapse between the beginning of operation and the time when the business will earn not only its operating expenses, its depreciation allowances, the taxes to be paid and other carrying charges, but also the return on the investment, which return will be available for the payment of interest, dividends and other surplus.

During this period the investment for the original plant remains constant and all expenses incurred in the production and in the marketing of the commodity to be sold are charged to operating expenses. In order that customers may be rapidly found it frequently occurs that the Company must undertake additional and unusual expense to defray the costs of solicitation, advertising, etc. These and other costs may, and often do, so increase the operating expenses during the development period that the expenses are greater than the total receipts and an actual loss occurs during this period. These losses represent an actual outlay of money on the part of the Company necessarily incurred in the establishment of a successful business and while generally and more accurately referred to as "development costs" constitute a real and a tangible element of the "going concern" value.

In this proceeding I have attempted to treat the items of "going concern" and "development costs" as separated matters, and by the process of elimination have found that the

only items which may under any theory be considered as entering into "going concern" and which have not been considered and allowed elsewhere, consists of what I prefer to designate as "development costs." In my opinion overhead charges incurred during the construction period have no place whatsoever in the determination of going concern value.

Development Costs.

If it is to be conceded that the actual amount of money expended by a company over and above the amount of its receipts during the development period, such expenditure being necessary to the establishment of a successful business, should be considered as an actual investment in the business, then in giving proper consideration to this item it will be necessary to fix a reasonable period of time for such development. Necessarily the development period will vary with the circumstances and conditions surrounding each separate plant; upon the extent of the demand for such service, the size of the community to be served, the prosperity of the people and their desire and ability to buy. Roughly, this development period may well bear some definite relation to the time allowed for the construction of the plant. If, for example, as in this case, the time allowed for the construction of the plant is fixed at one year, it would, in my opinion, be reasonable to say that within two or three times the period allowed for construction, that is, two or three years, the company would have ample time to demonstrate whether the enterprise could or could not be made a successful going concern. If within a reasonable period of time the enterprise cannot be developed into a successful business, then the project is a financial failure and has no "going concern" value, which attaches only to a successful business.

In this case there is no question that the business is in successful operation. The plant has been operated successfully for a long period of years. Therefore, if in this case, we fix a period of three years for development of the business - the longest possible reasonable period that can be allowed in this case - it then remains for the Company to show the extent of the actual losses necessarily incurred in the development of its business during this period, and also to show that the Company after incurring such losses during the development period of its business has not later recouped itself from subsequent earnings for such losses.

In this case such showing has not been made.

We have here a plant which has been in existence since 1901, ten years prior to the enactment of the Public Utilities Act. During the period prior to the time the Railroad Commission was authorized to fix fair rates it must be presumed that the rates in effect were compensatory, and that whatever losses were incurred by the Company in developing its business were returned to the owners.

In 1912, electric rates for the City of Redding were fixed by the Commission in order to grant relief from chaotic conditions following a rate war which was disastrous to the Company. The rates that were put into effect by the Commission at that time were higher than the rates the Company had operated under voluntarily prior thereto, and they were expressly declared to be fair rates by the Commission's decision. In 1916 the Commission again fixed rates upon a basis of cost of money to the Company of 6½ per cent and a return of 8 per cent was allowed on the investment used and useful in its electrical business. The allowance for an 8 per cent profit was made after making adequate allowances

for operating expenses, depreciation annuity and maintenance. The rates were declared by the Commission to be just and reasonable and were accpted as such by the Company.

If, in spite of this condition and after an operating period of 18 years the Company declares that it has been unable to reimburse itself for such portion of its operating expenses as are classified as "development costs" it is clear that such expenses were incurred prior to 1912 when the Commission fixed fair rates and when the Company was engaged in a competative war and voluntarily assumed all the risks and all the consequences of such conditions. Such losses, incurred under such conditions, and at so remote period cannot properly be charged to any reasonable development cost. To hold otherwise would be most unreasonable and unfair, either in a condemnation case, such as this or in a rate proceeding. The losses- if such actually exist - incurred by a Company in unrestrained and competitive warefare before the period of regulation of rates by public authority, cannot, by the wildest stretch of imagination be included within any legitimate and reasonable development costs.

In any event, under the application of the rule that the Company is entitled to reimbursement for losses actually sustained in developing a successful business, provided that the Company has not heretofore been compensated for such losses, the obligation rests upon the Company to prove that such losses actually were incurred within a reasonable development period, to show the purpose for which these losses were incurred, their nature and their extent. Such showing has not been made by the Company in this proceeding and I am therefore compelled to reject the Company's claim for compensation in this particular.

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In this connection I wish to say that I reject as unsound the theory advanced by the Company for measuring "going concern" value by the capitalization of a portion of the profits. The Company suggests that the Commission might well adopt as a "rough measure of going concern value in condemnation cases the capitalization of the margin of net earnings between what might be termed a minimum rate of return and a normal rate of return". Counsel for the Company says:

> "Such a measure would not work injustice to either the public utility or the public authority. If earnings under rates fixed by the Commission have been less than a normal return, the public utility is not thereby mulcted of any portion of business value which properly should belong to it; if earnings on the other hand have for any reason been in excess of a normal return, the public authority is not required to pay for a business value measured by such excess earnings. We think that the Commission will eventually adopt some such criterion. If applied in this case, a return of 6% may properly be taken as the minimum, and a return of 8% as the normal, and the difference of 2% between the two when related to the ascertained value of the physical properties and capitalized at an interest rate of 6% might fairly be accepted as a measure of going concern value without doing apparent injustice to any interest."

I believe that the adoption of this rule by the Commission would be altogether unfair both to utilities and to the public and would also be in violation of the law.

Under such rule, if the utility actually earned less than 8 per cent and sold out, the public would be required to pay, in addition to the fair value otherwise found, a sum that would forever give to the past owners the difference between actual earnings in excess of 6 per cent and what would have been earned had the Company made a profit of 8 per cent.

The application of this rule would be to say that a utility earning less than a full 8 per cent return has a greater "going concern" value than one earning a full 8 per cent return. The mere statement of this proposition reveals its absurdity.

The foregoing discussion of "going concern" value is confined to the facts of this case and is not intended as a final pronouncement of principle to govern in all cases arising in the future.

(5) Severence Damages.

Severance damages, to the extant that actual severence occurs, will be allowed.

The Company claims for this item the sum of $102,097.62. This sum is made up of three items, as follows:

(a)	Capitalization of annual expense of continuing Redding local organization ($4,750.24 at 6 per cent)	$79,170.66
(b)	Capitalization of general executive and administrative expenses now chargeable to the business in the City of Redding ($1,127.83 at 6 per cent)	18,797.16
(c)	Construction of new electric and telephone circuits from Company's substation to its shop and dispatching office to its meter testing station, switching station and to gas house	4,129.80
	Total	$102,097.62

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In addition, Counsel for the Company in his brief contends as follows:

> "A fourth element of severance damages might well have been claimed, both upon principle and authority. The Company is to lose for all time the retail profit derived from the Redding Distributing service. In fact, there is no assurance that it will even occupy the position of a wholesale purveyor of power to the city, since the latter cannot be prevented from seeking other sources of electrical energy. For the purpose of this proceeding however, we have given the city the benefit of the doubt and assumed that energy will be purchased from the company. Beyond all question, however, the distribution profit will be lost to the company and gained by the city. The loss of this retail profit was considered by the Commission a proper element of severance damage in the Southern California Edison case, and included in its award. We have not here put forth any claim based upon the loss of this retail profit because we think it may be properly included in the computation of going concern value. Again, however, we desire that there shall be no misconception of the company's position. If the value of the business lost to the company through the acquirement of the Redding distributing system by the city were not to be included in the determination of going concern value, the company would expect to receive compensation for this element under the head of severance damages. In brief, the company expects complete reimbursement, but nothing more."

The Commission has repeatedly made its position clear as regards allowances for severance damages, and this position is in accordance with the decisions of the courts and the authorities. If capitalization of profits cannot be used as a measure of going concern, it can also not be used as a measure of severance damages.

It is my conclusion from the evidence in this proceeding that the value of the Company's business and earning capacity will not be impaired by the sale of the distributing system in the City of Redding if the just compensation to be paid for the property is taken into consideration. There will be, after severance, a market for all of the Company's output of electricity. It is assumed by the Company -- and in my opinion this assumption is a correct one -- that the City of Redding will buy electric power wholesale from the Company. Inasmuch as the rate for such power will ...

be fixed by the Commission, the assumption is that the Company will be allowed to earn a profit on the sale of such power. Since the City of Redding, in accorance with the Company's own computations, absorbs only approximately 1 per cent of the total K.W. hour sales of the system, and since it is to be charged with less than 4 per cent of the total connected load of the system, it is evident that no noticeable disturbance in the Company's business will result and no portion of the Company's business will become idle through the consummation of this transaction. It may very likely develop that the Company's Redding business, in the event of wholesale distribution to the City, will be more profitable to the Company in the future than it was in the past because of the high cost of retail distribution.

There is then left for analysis the Company's claim for severance damages under the three items enumerated above. The Company's estimate of the first of these items, it is to be noted, proceeds on the theory that there are now certain labor, material and overhead costs associated with the Redding business that cannot be discontinued and that will have to continue for all time to come if the Company discontinues retail distribution of electricity in Redding. Analysis of the first item shows that there is included in the charge to be capitalized such items as the setting and removing of transformers, the setting and removing of meters, repairs to overhead distributing system, repairs to line transformers and devices, repairs to electrical services, new business expenses, collections and other items definitely chargeable, in my opinion, to the cost of maintaining the Redding electric distributing plant. Such expenditures, after this sale of

the system to the City, will, of course, cease. I can see no reason whatsoever why expenditures of this nature should continue in the years to come when the Company will no longer be responsible for the upkeep of this property and business and for the collection of bills.

Other charges to the first item such as salaries, office supplies and expenses, superintendence, general labor and supplies and commercial department salaries and expenses are also made. It may be that it is not possible to eliminate altogether some of these expenses after the Redding property is sold. I can see no reason, however, why they should not be eliminated in a large part and why the small remaining portion is not a proper charge either to retail business in other districts or to the future wholesale business with the City of Redding.

The fact that the Company also operates a gas and a water utility in the City of Redding and that the business of both of these utilities will not be affected by the sale of the electric plant, is, to my mind, another reason why it should be possible to reduce expenses for supervision, material and labor to the degree requisite under the changed conditions.

The evidence shows that the same clerical force now is utilized in keeping the books, collecting accounts, etc. in the city of Redding for the electrical, the gas and the water properties, and that the expense of maintaining such organization now is apportioned to these three utilities. The company claims that it is entitled to damages by reason of the fact that there are certain economies in such joint

operation and that it will not be able to reduce the cost of its general office force in proportion to the amount which now is charged against its electrical property. This may be true, but it must be borne in mind that whatever cost is necessary to maintain such accounting and collecting force is directly chargeable to operating expense, and must be borne by that particular utility so long as they are reasonable. If by reason of combining several utilities under one management certain economies result therefrom the later separation of those utilities will not prevent each of those severed utilities from charging the full legitimate expense of accounting and collecting to the consumers which they serve. Manifestly it would be impossible in future rate proceedings involving the water and the gas properties owned by this company in the City of Redding for the Commission under its forms of accounting to keep in mind that a portion of the cost of maintaining the accounting and collecting organizations for the two remaining utilities owned by the company had been paid for in this proceeding and should be deducted from the total of their operating expenses. There is no doubt that the water and gas consumers should pay all the cost of accounting and collecting bills for the service rendered to them and that no portion of this expense be passed over to the electrical consumers. This claim cannot be allowed.

There remains the consideration of the third item, representing the cost of construction necessary to make connections of circuits for the purpose of economical operation of the Company's business after the Redding Distributing system has been taken over by the City. The City has announced its willingness to grant the Company for its telephone system the

use of the City's poles and asks the Company to pay merely a fair proportion of maintenance charges. The City is also on record as agreeing to furnish the Company with such power as it may need for the conduct of its gas and water business within the City at actual cost and without profit. The use of the City's poles for the Company's telephone wires is entirely practicable and is in line with a number of joint pole agreements in various parts of the state. Such a joint pole arrangement for the purpose of furnishing transmission for electric power for the gas and water plant, could, no doubt, be made between the City and the Company in case the latter desires to maintain independent circuits for those purposes and does not wish to avail itself of the City's offer of service at actual cost without profit. I believe it is in the interests of both parties that duplicate construction should be avoided if possible. I suggest that the City and the Company enter into a written contract providing for satisfactory arrangements as regards telephone and power lines. In the event of a failure to come to an understanding as regards such a contract, the City should be asked to pay the actual costs of such construction as may be necessary for such purposes and it should pledge itself accordingly.

It is not necessary to make an advance estimate of such cost or to fix upon a definite sum of money to be paid by the City for that purpose. A binding agreement on the part of the City will be sufficient.

No severance damages other than this one will result to the Company. The Company's entire generating system and all transmission lines not sold will be exactly as useful

as they were before. The same amount of electric energy will be generated and the same amount will be sold and consumed, and there will be a profit from the business, as far as this transaction has any bearing on such profit, just as great as there was before the sale of the property.

(6) Summary of Just Compensation:

It is my conclusion that the just compensation for this property should be made up of the following items:

(a) Fair value of physical properties plus overheads, including franchise value and going concern . . . . . $42,041.

(b) Development cost should not be allowed in this case for the reasons heretofore stated.

(c) Severence damages can probably be eliminated by a contract between the Company and the City providing for adequate arrangements for telephone and power circuits for the Company's needs in the City of Redding. If an agreement cannot be reached, the City should pledge itself to the payment to the Company of the actual cost of making the necessary arrangements, such construction to be carried out either by the City and at the City's expense to the satisfaction of the Company, or by the Company at the City's expense. In either case the Commission will be willing to lend such assistance as it may be able to offer for the making of necessary arrangements in the most ecomomical and efficient manner.

In conclusion I wish to make a few observations on what to me appear to be some very significant tendencies and facts developed in this proceeding.

The City of Redding in conformity with the powers conferred on it by the Constitution, by the Public Utilities Act and by the general laws, desire to avail itself of its right to acquire a utility in order to operate it as a municipal enterprise. It goes without saying that in such proceedings just compensation should be paid for the property

to be taken, it does not appear that the laws of the state contemplate the throwing of unnecessary obstacles in the way of a municipality desiring to embark on such an undertaking. To my mind, the term "just compensation" implies that the transaction should be a just one to both the owners of the utility and the citizens of the city.

While the possibility of the City's duplicating this system and ignoring the existence of the Company's plant (with the resulting economic waste), has not in any way influenced a determination of the amount of just compensation in this proceeding, I would be blind to the facts if I did not recognize that this possibility exists. With specious theories and unreasonable construction of perfectly sound general rules laid down by law and by the Courts, it is easy to build up figures so clearly out of reason that they cannot be brought into accord with any conception of "just compensation." If the amount demanded by the utility on the face of it is several times what the City would have to pay if it proceeded to duplicate existing properties, then it is quite evident to me that the provisions of the Public Utilities Act enabling cities to proceed in an orderly and economically sound manner to acquire utilities, will be a dead letter. Work such as this Commission is doing in cases of this nature will be lost motion and cannot possibly lead to practical results. In this case, if the attempt were made to compel the City of Redding to pay the sum of $226,309.01 for this property, it is at once evident that the City would dismiss the proceedings and either have to abandon its policy or proceed with the building of a duplicate plant. And yet it would seem difficult to devise

a system calculated to afford the Company a fairer deal than the system prescribed in Section 47 of the Public Utilities Act, and it is a certainty that by the installation of a duplicate plant, the City and Company would both be the losers.

I do not believe that the Commission should ignore considerations of such a fundamental nature on the assumption, perhaps, that the law requires it to proceed along a narrow interpretation of the Act without keeping in mind that this Act places upon the Commission not only certain judicial functions but also, in the main, general administrative functions. It is my opinion that it was because of its supposed fitness to deal in an intelligent manner with the greater questions involved that the law places upon the Commission the duty of determining the just compensation in cases of this nature.

According to the Company's own statement, the profit from whatever investment it has in the Redding plant and business amounts to less than $3,800. This statement is more or less uncertain. It is more likely that a fair measure of net earnings of the Redding investment is had by applying to this small portion of the Company's entire plant a general average of all the Company's earnings. This general average has been shown to be between 4 and 5 per cent; or, on the basis of the figure found as compensation, somewhere in the neighborhood of $2,000.

A simple test of whether or not just compensation is granted the Company from an earning standpoint can therefore

be had:-

(a) Present condition: Company is now earning not in excess of 5 per cent on an investment in the Redding property of approximately $50,000. . . . . $2,500. In addition, the Company earns an amount sufficient to take care of depreciation.

(b) Condition after property is sold and just compensation paid: Company will receive for property and business $42,041. This entire sum may be invested in Company's own 5 or 6 per cent bonds which now sell in the open market at a price yielding better than 6 per cent. (6% on $42,041 = $2,522.)

Company retains accumulated depreciation reserve for Redding property.

Earning capacity of Company will not be reduced for the reason that City will be buying power wholesale, and no idle plant capacity will result. City will buy power from Company at rates yielding a profit.
There will be a net saving in operating expenses and in depreciation of at least $3,000 per year. (See Company's Exhibit No. 1.)

Actual cost of severance will be paid by the City of Redding or arrangements eliminating severance will be made.

If this same test is applied to the Company's claims, we have the following startling results:

(a) Total claim for just compensation is $226,309.01. This entire amount would be available for reinvestment, as stated above, since the earning capacity of the Company will remain the same. The amount invested in the Company's bonds at a yield of 6 per cent would give an annual net return of $13,579, or more than five times as much as the property is now earning. This amount would be earned with a lesser risk than at present and without responsibility for property and management.

Company would retain depreciation reserve and would make net savings in operating expenses of at least $3,000 per year.

Company would pay for the actual cost of construction of new circuits and for telephone lines the cost of which, according the Company's own estimate, would be $4,130.

It will be noted, therefore, that if these claims were allowed, the Company would find itself, insofar as the Redding property is concerned, in at least six times as good a position as compared with its present and future earning capacity.

No more profitable transactions could possibly be imagined than condemnation cases of this nature, especially if the utility were able to sell out to municipalities on a piecemeal basis.

I submit to the Commission the following findings:

FINDINGS

CITY OF REDDING, a municipal corporation of the sixth class, having filed with the Railroad Commission a petition setting forth the intention of said City to acquire under eminent domain proceedings or otherwise specifically described parts or portions of property and rights of NORTHERN CALIFORNIA POWER COMPANY, CONSOLIDATED, a public utility, and asking the Railroad Commission to fix and determine the just compensation to be paid to NORTHERN CALIFORNIA POWER COMPANY, CONSOLIDATED, for said property and rights; a public hearing having been held, the parties hereto having been accorded full opportunity for the presentation of whatever evidence they desired to introduce; briefs having been filed, this proceeding having been submitted and the Railroad Commission having been fully apprised in the premises:

The Railroad Commission hereby makes its findings of facts as follows:-

(1) The Railroad Commission hereby finds as a fact that the just compensation to be paid by the CITY OF REDDING to NORTHERN CALIFORNIA POWER COMPANY, CONSOLIDATED, for that part or portion of said Company's property and rights, not including severance damages, which said property and rights are described in Appendix "A" and made part of these findings, is the sum of $42,041.

The Railroad Commission hereby finds as a fact that the just compensation to be paid by the CITY OF REDDING to the NORTHERN CALIFORNIA POWER COMPANY, CONSOLIDATED, as severance damages to the property and rights of the NORTHERN CALIFORNIA POWER COMPANY, CONSOLIDATED, not to be taken by the CITY OF REDDING, resulting from the taking of the property and rights described in Appendix "A" attached hereto and made part of these findings, is the actual cost of making or constructing such new circuits from the Company's substation in the northern outskirts of the City, to its shops and dispatching house, and from this point to its meter testing station, its switching station in the southerly part of the city and to its gas house, as may be necessary, these circuits to carry electricity and also to provide a position for the carrying of telephone circuits where necessary; all as per agreement to be entered into between the CITY OF REDDING, and the NORTHERN CALIFORNIA POWER COMPANY, CONSOLIDATED, this agreement to be approved by the Commission.

As a more satisfactory alternative, it is suggested that the Company and the City of Redding enter into an agreement, to be approved by the Commission, avoiding unnecessary and duplicate construction and providing for the use of

the City's poles by the Company for such electric and telephone circuits as may be necessary and on terms mutually agreeable to the City and to the Company.

The foregoing Opinion and Findings 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 31st day of July, 1919.

Edwin O. Edgett
H. D. Loveland
Frank R. Willis
H. A. Brundage
Irwin Martin
Commissioners.

EXHIBIT "A"

Description of Property to be Acquired by the City of Redding from the Northern California Power Company, Consolidated, as Covered in Application 3718.

(Description as per amendment to original application filed by the City of Redding on February 27, 1919.)

A full and complete description of the public utility property and rights, or the parts and portions thereof which it is intended to acquire, is as follows:

590 poles and appurtenances, including cross-arms, pins, brackets, cross-arm braces, bolts, lags, spacing bolts, pole steps, anchors, guys, guy guards, guy clamps, all transmission wire and insulators, transformers with cutouts, switches and appurtenances, and all service wires with insulators and appurtenances, conduits, meters including all appurtenancesand appliances used by the Northern California Power Company, Consolidated, in distributing electrical energy to the City of Redding and its inhabitants, the said properties being more particularly described in the report of the Engineering Department of the Railroad Commission of the State of California, dated October 2nd, 1918, which description in said report is hereby referred to and made a part hereof.

(Accompanying decision of the Railroad Commission of the State of California in Application 3718, decided_____ 1919.)