

Decision No. 26890

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the Matter of the Petition of the CITY OF REDDING, a municipal corporation, praying that the Railroad Commission of the State of California fix a just compensation to be paid by petitioner for the water system and appurtenant properties, rights, and franchises owned by California Water Service Company, a corporation, in the City of Redding and contiguous or adjacent territory, the said California Water Service Company being the owner or reputed owner of said properties.

APPROVED

Application No. 18816.

W. D. Tillotson, City Attorney, for City of Redding, applicant.  
McCutchen, Olney, Mannon & Greene, by Robert L. Lipman, for California Water Service Company, American Trust Company, Los Angeles First National Trust and Savings Bank, and Security First National Bank of Los Angeles, respondents.

SEAVEY, Commissioner:

O P I N I O N

This is a proceeding under Section 47(b) of the Public Utilities Act in which the City of Redding, hereinafter referred to as the City, petitions the Railroad Commission to fix and determine the just compensation to be paid by the City to the California Water Service Company (a corporation), hereinafter referred to as the Company, for the taking of certain land and property of the Company. Such land and property are described in Exhibit "A" of the petition, filed April 11, 1933, and made a part thereof and consist of all the water system and appurtenant properties, rights and franchises owned by the Company in the City of Redding and adjacent territory.

Under date of May 12, 1933, respondents California Water Service Company, a corporation, American Trust Company, a corporation, Los Angeles First National Trust and Savings Bank, a corporation, and Security First National Bank of Los Angeles, a corporation, filed with the Commission their answer to the order issued by the Commission directing said corporations, and each of them, to show cause why the Commission should not proceed to hear the petition of the City of Redding and to fix the just compensation to be paid for the lands, properties and rights therein described. A number of jurisdictional and other objections were urged to the maintenance of the proceeding. The said objections have been carefully considered and are now formally overruled.

There is no substantial difference between the parties on the theory of arriving at a figure on compensation. There are differences in the methods pursued and results obtained which will be discussed in the light of the exhibits and testimony by the several witnesses. <sup>(1)</sup>

There was presented to the Commission for consideration testimony regarding reproduction cost new, historical cost and cost to the owners of this property, as well as earnings upon the same. These are all elements entering into a final determination of value and will be considered and reflected according to their relative worth in the final figure. The most important item from a physical property standpoint in this group is reproduction cost new and the one upon which specific attention was devoted during the hearings.

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1. The following witnesses testified: For the City, W. K. Adams, City Engineer, and Chas. T. Dozier, Water and Mining Engineer; for the Commission, John E. Cooper, Valuation Engineer, B. E. Travis, A. C. Jenkins, Joseph Waithman, Assistant Engineers, and M. W. Boright, Land Appraiser; for the Company, M. E. Ready, Civil Engineer, G. S. Jacobs, Consulting Engineer, H. A. Harris, Jr., Engineer.

A resume of the reproduction cost new less depreciation finally presented by the three parties is shown by accounts in the following table. There is shown in total Company's claim of reproduction cost new less depreciation on a five-year pricing period and also its total claimed for historical cost and cost to owner.

REPRODUCTION COST LESS DEPRECIATION  
ONE-YEAR BASIS.

<u>Account</u>	<u>City</u>	<u>Commission</u>	<u>Company</u>
C-1 Organization .....	\$ 2,000.00	\$ 2,000.00	\$ 3,000.00
C-2 Franchises .....	200.00	200.00	1,000.00
C-5 Land .....	2,400.00	2,990.00	3,757.00
C-6 Buildings & Grounds .....	4,726.00	4,806.00	6,030.00
C-8 Lake and River Cribs .....	715.00	1,004.00	2,166.00
C-9 Intake and Suction Mains..	1,560.00	1,552.00	2,337.00
C-10 Wells .....	--	2,345.00	5,547.00
C-12 Coll. Reservoir & Intake Wells	682.00	810.00	-- (1)
C-14 Pumping Equipment .....	7,748.00	8,673.00	7,793.00
C-16 Purification System .....	6,692.00	7,810.00	7,548.00
C-17 Transmission Mains .....	15,264.00	24,447.00	30,295.00
C-18 Distribution Mains .....	76,434.00	83,474.00	99,685.00
C-19 Distribution Reservoir .....	10,265.00	12,316.00	14,196.00
C-20 Hydrants .....	3,311.00	3,311.00	3,298.00
C-21 Services .....	7,168.00	9,074.00	9,700.00
C-22 Meters .....	20,644.00	19,677.00	24,283.00
C-23 Misc. Dist. Equipment .....	752.00	629.00	801.00
C-24 General Equipment .....	<u>1,869.00</u>	<u>1,890.00</u>	<u>1,830.00</u>
	\$162,430.00	\$187,008.00	\$223,066.00
Less difference in wells - C.R.C. and Company			3,002.00
Add paving costs		<u>6,794.00(2)</u>	
	<u>\$162,430.00</u>	<u>\$193,802.00</u>	<u>\$220,064.00</u>
Cost of attaching business Water Rights	4,943.00		24,800.00
	<u>\$167,373.00</u>	<u>\$193,802.00</u>	<u>\$249,864.00</u>

(1) Included in Acct. C-9.

(2) Included in Company's total but not in City's.

Reproduction Cost New on 5-Year Pricing Period	\$276,277.00
Historical Cost	263,884.00
Cost to Owner	269,001.00

#### Inventory and Pricing Period.

The City and Company were in substantial agreement with the final inventory submitted by the Commission engineers. The City and Commission engineers used a one-year pricing period in considering reproduction cost and the Company set up both a one-year and a five-year pricing period figure, although it contended strongly that the five-year period was the proper one to use because the one-year period occurred at the lower period of depressed prices. However, the reproduction cost to be arrived at is not in itself value but only one of several criteria of value. Inasmuch as the Commission engineers were endeavoring to arrive at an actual reproduction cost as of April 11, 1933, and there seems no question that the period assumed by them is a reasonable construction period, we are of the opinion that their method should prevail. The effect of depressed prices will be considered in arriving at value in finding compensation.

#### Organization, Land, Franchises, Water Rights.

The estimate of the cost of organization by the staff of the Commission seems to be a liberal one for a property of this character and size. Also, their methods of appraising land and the results thereof give a reasonable market value to the parcels under consideration. The claim of the Company that a purchaser would place a higher value on a franchise not subject to annual payment on gross receipts we believe has merit. However, the figures of the Commission staff from a present reproduction cost standpoint seem to be unquestioned. An additional sum will be allowed in the final compensation figure. The Company estimated water rights at \$5000. This was the only figure presented and will be allowed.

#### Paving Over Mains.

With this property there is in place a considerable amount of paving in excess of that originally cut and replaced. The Company included this directly in its reproduction cost figure, the

City omitted it, and the Commission staff set it up as a separate item. There can be no question that it should be included in a reproduction cost estimate. Its effect upon value adhering in the property as of April 11, 1953 is, however, a matter of judgment as to the weight it would have upon the mind of a purchaser. It will be treated from that standpoint.

#### Depreciable Property.

The differences between the City, the Commission staff and the Company in their final figures of reproduction cost less depreciation on the one-year basis are due largely to lives and methods used in depreciating the property. The City also failed to bring its exhibits up to date on the basis of the inventory. The City and the Company used the five percent sinking fund method. The Commission engineers gave attention to the practices and experiences of the Company, carefully examined the property, and from all available data arrived at a condition percent of the various units. This procedure follows closely the directions laid down by the United States Supreme Court and for that reason the results produced by the Commission staff should be given the most weight.

#### Disputed Items.

The item taking up a greater part of the record, but of relatively little importance from a monetary standpoint, was that of a well developed by the Company as part of its water supply but never used. The City contends the well is of no value as a part of the water system, although it has included it in the property to be condemned. The Company appraises it at a depreciated figure of \$5,347.00. The engineers of the Commission appraise it at a depreciated figure of \$2,345.00. This record is clear that there is in the well a substantial supply of potable water under approval

for use by the State Board of Health. The lowest appraisal figure in the record, that of the Commission engineers, will be used for the purposes of this proceeding.

In regard to the prices on pumping units, pipe, services and excavation, the record appears clearly to sustain the Commission engineers.

#### Going Concern Value.

The Commission staff gave no testimony on going value. The Company presented a study on cost of attaching and developing business on a system such as the one here being considered, which clearly covered a somewhat too long period and built up expense not necessary in the practical attaching of business to a system such as this. The figure arrived at, however, was much nearer a reasonable one than that of the City. The estimate of the City was obviously built up by the addition of a sub-department to a larger company or city administration, leaving out much necessary overhead expense essential to a new and distinct operating concern. The City also presented an exhibit showing the book value and net income of the Redding Water plant over a number of years.

#### Compensation.

Taking into consideration all of the factors presented in this record and giving consideration to them in accordance with their relative weight and in consonance with the findings in the preceding opinion, I recommend that the Commission find as a fact that the total just compensation which the City should pay to the Company for the land and properties to be taken under this application is the sum of \$224,000.00.

F I N D I N G S

The City of Redding, a municipal corporation, having filed with the Railroad Commission on the 11th day of April, 1933, 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 of Redding to California Water Service Company (a corporation) for the taking of the land and property described in Exhibit "A" attached to the application herein, 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 finding:

IT IS HEREBY FOUND AS A FACT that the total just compensation to be paid by the City of Redding to California Water Service Company (a corporation) for the taking of the land and property described in Exhibit "A" attached to the application is the sum of \$224,000.00.

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 19<sup>th</sup> day of March, 1934.

C. L. ...  
Leon ...  
M. J. ...  
M. B. ...  
Walter ...  
Commissioners.