

**DEPRECIATION OF PUBLIC  
UTILITY PROPERTIES AND ITS  
RELATION TO FAIR VALUE AND  
CHANGES IN THE LEVEL OF  
PRICES**

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Depreciation of public utility properties and its relation to fair value and changes in the level of prices by Henry Earle Riggs

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# DEPRECIATION OF PUBLIC UTILITY PROPERTIES

AND

Its Relation to Fair Value and  
Changes in the Level of Prices

BY

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### PREFACE

THE regulation of public utilities in the United States is a development of recent years and is still in the period of formation and establishment of rules of practice.

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The great war, with its unsettling of business conditions, and the violent price fluctuations which accompanied and followed the actual war period have introduced new complications into some of the problems which were being dealt with by Regulating Commissions and Courts just at a time when it appeared that definite conclusions were being reached.

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Valuation and Depreciation, and the accounting methods which deal with these subjects, have been greatly complicated by the price fluctuations of the period 1914 to 1921. New questions have been raised, new arguments have been introduced and it would appear that some conclusions are in danger of being reached which may have a far reaching effect upon utility properties through the weakening of the stability of valuations already established, and the ultimate wiping out of a large part of the actual investments necessarily made in extensions of property during the period of high prices.

The writer has come into contact with a number of these problems and has studied their recent complications, in different parts of the country, on dif-

ferent properties, under a number of different conditions. His first work on public utility valuation was as assistant to M. E. Cooley in the 1900 Michigan valuation. His subsequent connection with this class of work has not been confined to one side of the case or to one character of controversy, but as engineer for corporations in some cases, for cities and other public corporations representing the rate payers and general tax payers in others, for the public utility commissions of two states in other cases, and as arbitrator in several cases which have involved rate making, taxation, authorization of capital and sale of property, he has had a good opportunity of studying a number of different angles of these questions.

It would seem that an attempt to consider the subjects of Fair Value and Depreciation from an entirely unprejudiced viewpoint and without the issues of any particular case in mind is appropriate at this time. The following pages represent an effort to set forth the writer's views and conclusions as they have developed in connection with a practice of over twenty years, and to present the various arguments which have been considered by him in reaching those conclusions. This work has been done as part of a sincere attempt to find that middle ground of absolute fairness and justice which must be determined before the public utility issue may be considered as reasonably settled.

Many hundreds of men have been brought into contact with valuation work for the first time through their employment on some large appraisal. Many of these men have lacked a knowledge of the



legal decisions bearing on the relationships between owner of property and consumer or patron. It would therefore seem that there is justification for such a book.

The attempt is here made to trace briefly the history of regulation of utilities, to present, as the writer sees it, the true conception of "depreciation" as that word has been used in valuation and regulation practice, and to point out certain important conclusions of the courts with which every one engaged in valuation work ought to be familiar.

The Appendix presents the various decisions at considerable length, in so far as they deal with the subject of depreciation. The decisions are arranged in chronological order, since in that way they clearly show the drift of legal opinion as the subject of valuation has developed.

HENRY EARLE RIGGS.

ANN ARBOR, MICHIGAN.  
*July, 1922.*



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