

CHAPTER IX

POSSIBLE PROCEDURES WHEN THE RATES FOR A PUBLIC SERVICE ARE TO BE FIXED

The Prime Consideration. — When a method of procedure is to be selected under which the necessary earnings of a public utility are to be determined, the first consideration will be the fairness of this procedure both to the rate-payer and to the owner of the utility. Although there are various methods of procedure which have been adopted throughout the country, and which may be shown to be correct under various restrictions as to application and under the assumption that their application is continuous from the beginning, it will not do to accept any particular one as equitable or advisable in every case.

It is elsewhere shown that when capital is assumed to be retired at a rate which keeps pace with theoretical depreciation, serious consideration must be given to the departure of actual life from the probable life of the various parts of the utility which have a limited period of serviceability. It is made clear that a proper accounting system must be adhered to and that a change of procedure may result to the disadvantage either of the owner or of the rate-payer.

The Preferable Method of Procedure. — Apart from the fairness which is essential, the adopted method of procedure should not impose unnecessary burdens upon either party. That method which requires the least earnings in the early years of their life will be preferable in the case of newly established enterprises. In the case of properties that have been long in use, past history must be taken into account, as it will not do to arbitrarily assume that the business has been a profitable one from the beginning. The presumption should rather be the