

WAC 458-50-080 True cash value—Criteria. (1) The true cash value of the operating property of public utilities is its "market value," i.e., the amount of money a buyer willing but not obligated to buy would pay for such operating property from a seller willing but not obligated to sell. In arriving at a determination of such value the department may consider only those factors which can within reason be said to affect the price in negotiations between a willing purchaser and a willing seller, and the department shall consider all such factors to the extent that reliable information is available to support a judgment as to the probable effect of such factors on price.

(2) In determining the true cash value of such operating property the department shall proceed in accordance with generally accepted principles applicable to the valuation of public utilities. The department may consider the cost approach, the income approach and the stock and debt approach to value. Any one of the three approaches to value, or all of them, or a combination of approaches may finally be used in making the final determination of true cash value, depending upon the circumstances.

(A) **The cost approach.** The cost approach determines the value of individual items of property. The types of cost include:

- (i) Historical - cost when first put in service
- (ii) Original - cost to present owner
- (iii) Reproduction - cost today to produce in kind
- (iv) Replacement - cost today to replace present property with a functional equivalent.

The department shall make adequate and reasonable allowances for depreciation, including functional and economic obsolescence where such factors are indicated, but in no event shall property be depreciated below salvage or scrap value.

(B) **Income approach.** The income approach determines the ability of operating property to earn a probable money income over some span of future years, discounted to a present value by means of an appropriate capitalization rate.

(i) **Future income stream.** The income to capitalize is the probable future average annual operating income to be derived from operating properties that exist on the assessment date. In making this estimate of probable future average annual operating income, the department may take into account past earnings, present earnings, the growth or shrinking of the property complex, demand for services provided by the company, and all other factors which can within reason be said to indicate the probable future income stream.

(ii) **Capitalization rate.** The capitalization rate may be derived by the comparative method, summation method, band of investment method, or other generally accepted method. Any one of these methods, or any combination thereof, may be used by the department in deriving the appropriate capitalization rate to be applied to probable future average annual operating income.

(C) **Stock and debt approach.** The stock and debt approach determines the value of a company's assets by appraising the value of the liabilities of the company, such as current liabilities, long term debt, reserves, deferred credits, and stockholder's equity. This approach is applicably [applicable] only where a "unitary" or "enterprise" value is sought. Appropriate deductions shall be made for non-operating property of the enterprise where necessary.

[Order PT 75-2, § 458-50-080, filed 3/19/75.]