

ORIGINAL

Decision No. 14728

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Investigation )  
into the reasonableness of the rates, )  
service, rules, regulations and prac- )  
tices of the GOLDEN GATE FERRY COMPANY, )  
on the Commission's own Motion. )

CASE NO. 2039.

Dudley D. Sales, for the Golden Gate Ferry Company.

Seth Mann and S. A. Everstine, for the San Francisco  
Chamber of Commerce.

Walter H. Nagle, for the Sausalito Chamber of  
Commerce.

SHORE and SEAVEY, COMMISSIONERS:

O P I N I O N

This is primarily an investigation into the service rendered and the reasonableness of the rates charged for the transportation of automobiles and passengers. Public hearings were held at San Francisco on October 27, 1924 and on December 5, 1924.

The Golden Gate Ferry Company operates between a slip at the foot of Hyde Street in San Francisco and slips located adjacent to the Northwestern Pacific Railroad Company terminal at Sausalito. The wharf and slip at the foot of Hyde Street were constructed by the company on lands leased from the Harbor Commission. The wharf and slips at Sausalito were constructed on the Company's own lands.

The floating equipment consists of the following boats:

Motor ship "Golden Gate" a Diesel electric,  
double end, motor driven screw boat.

Motor ship "Golden West," a Diesel electric,  
double end, motor driven, screw boat.

Steamship "Avon J. Hanford," a double end,  
screw driven boat.

In addition the company owns an office building and warehouse located at its Hyde Street Terminal; an office building, fueling facilities located at its Sausalito terminal, and certain other small property items.

Ordinarily two boats are operated, and a service with a thirty minute headway is provided; but a twenty minute service is rendered on Saturdays, Sundays and holidays, or at any other time that the traffic warrants. The three boats are required to maintain the schedule on a twenty minute headway.

The Company was organized November 17, 1920, and commenced the operation of an automobile ferry between San Francisco and Sausalito May 28, 1922, with one boat, the steamer "Avon J. Hanford." On the 11th of July the motor ship "Golden Gate" was put in service. The following April the motor ship "Golden West" was added to the fleet, giving a total auto capacity of approximately 210 automobiles an hour.

While the normal traffic has apparently been well taken care of in the past with this capacity and service, the congestion that develops on Saturdays and Sundays, and especially on holidays, would be relieved considerably if a boat of larger capacity than the "Hanford" were available for the peak traffic. Moreover, it must be recognized that the route of travel served by the Golden Gate Ferry Company will be subject to a considerable increase of traffic, and with that increase of traffic, a more frequent regular service will be justified. Accordingly there is little

doubt in our minds that the ferry facilities on this route must be substantially increased in the near future.

This ferry route, crossing as it does the main shipping channel at a point near the Golden Gate, is one of the most hazardous routes on the San Francisco Bay, and great care in the operation of equipment is demanded at all times. The record indicates that the Company operates its ferry system with reasonable precaution.

The Company is capitalized at \$1,000,000 (10,000 shares of stock at \$100 par value) and the investment as of June 30, 1924, as shown by the Company's books, amounts to \$1,336,906.51.

In view of the comparatively recent establishment of this Company, its operations having been begun in May, 1922, the Commission's engineers believed that a historical reproduction valuation of its properties would be closely approximate to the Company's investment as shown in its books. Accordingly no valuation of physical property of the Company was made by the Commission's engineers, nor was any offered or asked by the Company.

An examination of the Company's books and records was made by the Commission's Accounting and Engineering departments, and the investment as of June 30, 1924, was found to be as stated above.

The Company, however, in submitting a statement of its investment as of September 30, 1924, included certain additions as shown below, some of which cannot properly be included in a rate base. The Company's figures are as follows:

ASSETS:

Tangibles.....	\$1,339,672.61
Intangibles .....	<u>26,749.51</u>
Total Investment	\$1,366,422.12

Forward . . . . . \$1,366,422.12

ADDITIONS:

Services rendered without compensation .....	\$12,500.00
Interest on investment during construction .....	48,577.56
Working capital .....	<u>64,898.38</u>

Total Additions ..... 125,725.94

Total ..... \$1,492,148.06

The above item entitled "Services rendered without compensation," does not represent any actual expenditure, and cannot be included in a rate base.

In respect to the item "Interest on investment during construction," the Company apparently has misconstrued one of the practices of the Commission. In preparing a property valuation the Commission does take into account interest on capital used during construction, as applicable in a rate base when the property has become operative. This is necessary in arriving at the amount of investment on a property valuation basis. But when a valuation is based upon actual investment as shown in the books, it is apparent that any interest that may have been expended during construction is actually and fully reflected in the accounts of the Company as shown in the books. To add this item to a statement of investment would involve a duplication of the amount. This item is therefore excluded from the additions suggested by the Company to the rate base, herein.

An allowance for working capital in a rate base is only permissible to the extent of the reasonable requirements. In cases where a company receives its revenue before the payment for services is required, there is not the necessity for setting aside

large sums for working capital. The Golden Gate Ferry Company's business is almost entirely on a cash basis, the revenue for each trip being collected before the trip is made, and most of the expenses are paid after the service is performed.

Accordingly only a relatively small amount of working capital is required, sufficient to provide for a small stock of materials and supplies and to meet certain items of expense which may have to be incurred well in advance of the receipt of revenues for the corresponding service. The amount estimated by the Commission's engineers as ample for these purposes for this Company is \$29,000. This amount will be included in the rate base.

The Commission believes, however, that in the face of the increase of traffic on this route which the record shows, and in view of the Company's plans for the securing of an additional boat to provide additional service, an allowance should be made in the rate base on the assumption and condition that such an additional boat will be provided this year. An allowance of \$175,000 will be made for this purpose.

The amount of the existing investment as submitted by the Company, having been arrived at in the same manner as the amount arrived at by the Engineering Department of the Commission, and differing only with respect to certain additions, some of which as above stated are inadmissible in a rate base, the Commission is of the opinion that the Company's figure of \$1,366,422.12 covering tangible and intangible assets should be used, and that to that amount should be added \$29,000.00 for working capital and \$175,000.00 for an additional boat, making a total of \$1,570,422.12, which we believe is a reasonable "Rate Base" for the purposes of this proceeding.

The reasonableness of the present rates charged by the Golden Gate Ferry Company will now be discussed.

The Company and the Engineering Department of the Commission both estimated a normal increase of 10 per cent in the traffic with the use of the present facilities, and under existing conditions, assuming that factors of competition remain substantially unchanged. The record shows this amount to be very conservative. It is apparent, however, that with the addition of a fourth boat to the service and the increasing of the service to a 20 minute daily headway, and a 15 minute headway on Saturdays, Sundays, holidays and peak traffic periods, the traffic will be materially increased beyond the above estimated 10 per cent increase.

Mr. H. E. Speas, Manager of the Company, testified that the traffic increase of the months June to November, 1924, over the corresponding months of 1923 warranted the Company in operating four boats, and he stated that the fourth boat should be operative in 1925. The record shows that in July, 1924, there was a 15 per cent increase of traffic over July in 1923; that August, 1924, showed an increase of 31 per cent over Aug. 1923, and September, 1924, showed an increase of 8 per cent over September, 1923. The revenues of these three months show an 18 per cent increase over the similar months of 1923. Moreover these traffic increases were effective during a season when highway traffic generally was retarded by reason of the prevalence of a hoof and mouth disease and when forest fires retarded traffic in the direction of the recreation centers in northern California. On the basis therefore of the record of traffic increases, and of the installation of a fourth ferry boat, the Commission is of the opinion that the original estimates of the Company

and of the Engineering Department of the Commission of a 10 per cent increase of traffic with present facilities do not adequately express the increase of traffic that will be realized under the conditions of the improved service. Accordingly an addition should be made to the estimated revenues to reflect in part this larger increase of traffic. The amount of estimated revenue based on the increase of traffic that will be allowed is \$822,000.00.

The Company contended that expected competition will more than counteract the estimated increase in traffic. It pointed out that the Northwestern Pacific Railroad Company contemplates instituting a ferry service between San Francisco and Tiburon, and estimates that this service would probably take away 50 per cent of its business. The evidence indicates that this competitive service would not be inaugurated for some time, and shows no assurance of its becoming established at all. It appears that no financial provision has as yet been made for the construction of any of the facilities required for this new ferry service by the Northwestern Pacific. That company stated that it hoped to lease boats from the Southern Pacific Company, but the record shows that the Southern Pacific Company has no boats available to lease for such a service. It is fair to conclude from this record that no competition will develop from this source in the immediate future.

The Company also contends that the proposed Golden Gate Bridge will be a competitor; but, as the Company's witnesses testified, the construction of this bridge if it becomes an actual undertaking, would probably require approximately ten years to complete, any competition resulting from this source need not be considered at this time.

It should be added that none of the estimates of probable increase of traffic takes into account the increase of

traffic that would inevitably result from a reduction of the existing rates.

The past expenses of the Company were studied and an estimate of expense for the ensuing year made by the Commission's Engineering Department (Commission's Exhibit No. 1). The Golden Gate Ferry Company made a similar study. A comparison of these estimates is as follows:

COMPARISON OF ESTIMATES OF OPERATING EXPENSES.

<u>Account</u>	<u>Engineering Department's Estimate Exhibit No. 1.</u>	<u>Ferry Company's Estimate Exhibit No. 17.</u>
600 Repairs of Equipment	\$43,000.00	\$31,399.36
610 Repairs of Terminals	15,350.00	20,336.32
620 Depreciation	41,835.00	58,613.74
630 Traffic Expense	7,500.00	11,885.68
640 Operation of Vessels	170,710.00	183,670.46
650 Operation of Terminals	22,500.00	30,156.20
660 Incidental Expense	- -	11.20
670 General Expense	<u>88,910.00</u>	<u>110,362.48</u>
<u>Total</u>	\$389,805.00	\$446,435.44

The Engineering Department's estimate was based on the full year's expense as shown by the Company's records for the year ending June 30, 1924, and reflects a year's operations. The Company's estimate of expenses was based upon a six months' period ending September 30, 1924, and consequently represents expenses during the peak traffic months.

From the analysis of all the testimony, certain changes have been found necessary in the Engineering Department's estimate of expense.



An addition of \$6,000.00 to Account 610, "Repairs to Terminals" is made in order that the estimate of expense as made by the Engineering Department of the Commission should include those extraordinary repairs to terminals, which it was shown may reasonably be expected.

The Engineering Department's estimate for fuel oil costs, as included in Account 640, "Operation of Vessels," was based on a contract held by the Company. This contract expires in April, 1925, and it appears from the evidence that an increase of \$10,440. should be allowed in the estimate of Operating Costs chargeable to this account.

It appears proper to deduct \$12,000. from the allowance for salaries of general officers as included in Account 670, "General Expense." The present salaries of President and General Manager, Vice President and Secretary and Treasurer are \$12,000.00, \$9,000.00 and \$9,000.00, respectively. These salaries appear unduly large for duties and responsibilities that normally attach to such positions in companies of this character and size. Two of these officers do, in fact, spend the major portion of their time on other interests controlled by them, and are drawing salaries also from another ferry company. It is our opinion that \$12,000.00 is a liberal amount to be allowed for the salaries of these three officers for the purposes of this proceeding.

The Company contends that of the boats now in use, the two motor ships, "Golden Gate" and "Golden West," will have to be retired within ten years, and the steam ship "Hanford" within six years. The Company, as shown in Company's Exhibit No. 17, sets up depreciation for the boats on a combined 25 and 33-1/3 year life.

An amount is also added, sufficient to amortize the boats in 6 and 10 years, due allowance being made for the amount set aside for depreciation and for a salvage value of 30 per cent of cost. The Engineering Department of the Commission based its estimate for depreciation of boats on a 20 year life, no allowance for amortization being made. Mr. C. C. Brown, Superintendent Engineer of the Company, testified that a 20 year life was reasonable. It appears that the amount estimated for depreciation by the Commission's Engineering Department is adequate.

The Engineering Department's estimate of expenses was based on the operation of the present equipment. The part time operation of the additional boat will result in additional costs. An allowance of \$44,000.00 is made for this expense.

It is concluded that the expected results from operation for the year ending June 30, 1925, under the present rates and fares, may be fairly estimated as follows:

Operating Revenue . . . . .	\$822,000.00	
Operating Expense & Depreciation . . . . .	<u>438,245.00</u>	
		\$383,755.00
Taxes - Property . . . . .	\$ 3,800.00	
Income . . . . .	<u>47,494.00</u>	
		<u>51,294.00</u>
<u>Operating Income</u> . . . . .		\$332,461.00

This amounts to a 21.2 per cent rate of return on a rate base of \$1,570,422.12. This return is excessive, and rates charged for the transportation of automobiles that produce such a high return are unjust and unreasonable.

Mr. Charles J. Rhodin, a consulting engineer called as a witness by the Company, outlined his experience in connection

with various major public utilities of this State, and testified that in his opinion "the yield for ferry boat companies should lie somewhere between 8 or 9 or 10 per cent and 15 per cent," basing his reference to 15 per cent upon a provision in the political code governing the maximum return allowed to bridge companies connecting highways at opposite points across certain parts of the San Francisco Bay. Upon this basis he suggested that an approximate return of  $11\frac{1}{2}$  per cent would be a fair return to the Golden Gate Ferry Company.

This Commission is not governed in fixing rates by the provisions of the political code, and has not heretofore allowed rates yielding so high a return as 15 per cent. Moreover, there is nothing in the evidence submitted in this proceeding which would justify the Commission in allowing a return of 15 per cent upon the rate base herein established. In only a few exceptional cases where hazards were extraordinary or where the invested capital was relatively small in proportion to the amount of operating revenues and expenses, has the Commission allowed a return in excess of approximately 8 per cent.

The hazards to the operating properties of ferry boats on San Francisco Bay, and particularly in the case of the Golden Gate Ferry Company, operating across the Golden Gate channel, are somewhat greater than those of most other utilities. Moreover, the ratio between the invested capital of this ferry company and the amount of its operating revenues and expenses is such that any considerable fluctuation in <sup>revenues or</sup> expenses from the amount estimated might make an important variation in the return. This company is also facing the necessity of increasing its ferry boat facilities in the near future to keep up with the increasing traffic. The Commission has taken all these facts into consideration in fixing the rates

herein, which, with due efficiency and economy on the part of the Company, will reasonably take care of these conditions and provide an adequate return upon the Company's investment.

The rates as shown in Exhibit "A" attached hereto involve certain reductions from the existing rates. Under these rates, it is estimated that the following results from operation will obtain:

ESTIMATE OF RESULTS FROM OPERATION UNDER NEW RATES.

Operating Revenue . . . . .	\$651,616.00	
Operating Expenses . . . . .	<u>438,245.00</u>	
		\$215,371.00
Taxes - Property . . . . .	\$ 5,800	
Income . . . . .	<u>26,196</u>	
		<u>29,996.00</u>
<u>Operating Income . . .</u>	<u>\$183,375.00</u>	

This operating income shows a somewhat higher rate of return upon the investment as shown in the rate base hereinabove indicated, than the Commission would be justified in allowing to a highly stabilized utility. The Commission, however, has taken into account the various factors of hazard, competition, ratio of investment to operating expense and other conditions; and in view of the reduction in the rates involved, believes that a substantial relief is hereby afforded to the travelling public, and that the result will be a greatly accelerated traffic, beneficial both to the public and to the Company.

The following form of Order is submitted:

O R D E R

The Commission having, on its own motion, instituted an investigation into the reasonableness of rates, services, rules,

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regulations and practices of the Golden Gate Ferry Company; public hearings having been held, the matter being submitted and ready for decision,

IT IS HEREBY FOUND AS A FACT that the rates charged by the Golden Gate Ferry Company are, for the service rendered, unjust and unreasonable in so far as they differ from the rates hereinafter set forth, and basing its Order upon the foregoing findings of fact and the findings of fact preceding this Order,

IT IS HEREBY ORDERED that the Golden Gate Ferry Company charge and collect for ferry service rendered under filed schedules, the rates set forth in Exhibit "A" attached hereto and made a part hereof, such rates to be filed with this Commission on or before April 20, 1925, and to become effective on and after May 1, 1925.

For all other purposes, the effective date of this Order shall be twenty (20) days from and after the date hereof.

The foregoing Opinion and Order are hereby approved and ordered filed as the Opinion and Order of the Railroad Commission of the State of California.

Dated at San Francisco, California, this 1<sup>st</sup> day of April, 1925.

H. B. ...  
C. ...  
Egerton ...  
George D. ...  
... ..  
Commissioners.

EXHIBIT "A"

GOLDEN GATE FERRY COMPANY

LOCAL PASSENGER TARIFF

Naming

One Way, Round Trip and Commutation Fares

Between

San Francisco, Calif.

And

Sausalito, Calif.

FARES

One Way. Adult	-	-	-	-	-	-	-	-	\$	.15
Round Trip	-	-	-	-	-	-	-	-	-	.25
Children. 7 years of age and under 12-	-	-	-	-	-	-	-	-	-	.10
Children, under 7 years of age free when accompanied by parent or guardian.										
Individual Calendar Month Commutation Fare,										
good daily, including Sundays	-	-	-	-	-	-	-	-	-	3.95

GOLDEN GATE FERRY COMPANY

FREIGHT TARIFF

NAMING

Freight Rates

Between

San Francisco, Calif.

And

Sausalito, Calif.

RATES:

Automobiles - - - - -	\$ .65
Ambulances - - - - -	.85
Hearses (with or without casket) - - - - -	.85
Automobile Passenger Busses:	
10 Passenger Capacity - - - - -	.85
15 Passenger Capacity - - - - -	1.05
20 Passenger Capacity - - - - -	1.50
21 Passenger Capacity and over - - - - -	1.70

COMMUTATION RATES:

Automobile Passenger Busses, including  
Driver, over fixed route, 8 trips daily:

10 Passenger Capacity - - - - -	5.00
15 Passenger Capacity - - - - -	6.60
20 Passenger Capacity - - - - -	10.20
21 Passenger Capacity - - - - -	11.80

Each additional Bus trip in excess of  
8 per day, 25 cents less than rates  
for automobile passenger busses of  
like capacity.

Automobile, passenger, car only, Calendar  
Month, good for one round trip daily,  
including Sundays - - - - - 19.50

TRIP RATES:

Six (6) One Way Trips. good in either direction, for Automobile and Driver. and twenty-four (24) One Way Trips for Passenger. good ninety (90) days from date of sale - - - - - -\$ 6.90

Fifteen (15) One Way Trips. good in either direction, for Automobile and Driver. and fifteen (15) One Way Trips for Passenger. good six (6) months from date of sale - - - - - -\$12.75

Thirty (30) One Way Trips. good in either direction, for Automobile and Driver. good six (6) months from date of sale - - - - - -\$21.50

Commercial Vehicles and Trucks:

Commercial or Delivery Automobiles and Motor Trucks not exceeding 9 feet wide or 20 feet in length, either in load or vehicles - - - - - .85

Commercial or Delivery Automobiles and Motor Trucks exceeding 9 feet wide or 20 feet in length, either in load or vehicle - - - - - 1.70

Any load requiring the turning of the boat either to load or unload, additional charge for each turning of the boat - - 10.00

Ditchers, Harvesters, Steam Rollers. Tractors and all similar conveyances, machines and vehicles not otherwise specified, per ton of 2,000 pounds - - 1.60



## FREIGHT

Freight of all kinds on vehicles, per  
100 pounds, (minimum charge 20 cents) - - \$ .07½

Freight of all kinds, not on vehicles,  
per 100 pounds, (minimum charge 30 cents) - .15

Includes return of empty carriers used  
in transportation of property and return  
to shipper.

### Horses and Wagons:

One (1) Horse and Wagon or Cart	- - - -	1.00
Two (2) Horses and Wagon	- - - -	1.50
Two (2) Horses and Dray	- - - -	1.75

### Live Stock

Live Stock not otherwise specified, uncrationed,  
when accompanied by attendant (Attendant  
carried free) - - - - .50

Sheep and Hogs, uncrationed, when accompanied  
by attendant (attendant carried free) - - .40

One Horse or Mule if accompanied by attendant,  
(attendant carried free) - - - - .50

Each additional Horse or Mule - - - - .40

### Motorcycles

Motorcycles - - - - .20

Motorcycles, with side car - - - - .40

### Trailers

Two-wheel Trailers attached to Automobile - .45

Four-wheel Trailers attached to Automobile - .65

Four-wheel Trailers attached to Trucks,  
same as Motor Trucks.