

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the matter of the investigation
by the Railroad Commission upon its
own initiative into the financial
condition of United Railroads of
San Francisco.

Case No. 610.

BY THE COMMISSION.

First Supplemental Opinion.

On May 17, 1915, this Commission rendered a decision in the above entitled matter (Decision No. 2397) and issued its order directing United Railroads of San Francisco to establish a depreciation fund in the sum of \$550,000 annually for the fiscal years ending June 30, 1915, June 30, 1916 and June 30, 1917, "or until the further order of this Commission."

This order provided that this depreciation account should be established so as to show an appropriation from earnings of \$550,000 not later than June 30, 1915. Provision was made whereby the sum for this depreciation account should accrue thereafter in equal monthly installments of \$45,833.33. Provision was further made whereby \$300,000 of this sum appropriated as a depreciation reserve should be used for certain specified purposes when approved by this Commission, and the balance of \$250,000 per year should be used by the United Railroads of San Francisco "without the further order of the Commission, for the customary purposes to which its funds heretofore accumulated for depreciation have been used."

The order further directed that United Railroads of San Francisco should, within thirty days from the date of the order, present to the Commission for its approval, a pro-

Decision No. 2710

posed change and correction of its books of accounts to show the true financial condition of the company as to deficit.

The applicant has now applied for a rehearing and the order has accordingly been extended from time to time.

In its application for a rehearing, United Railroads of San Francisco directs the attention of this Commission to various matters in connection with its accounts, the regulations of this Commission governing such accounts, and the issues involved in determining an adequate depreciation account for this company. We find no merit in the points presented as to these matters.

As a further basis for its application for rehearing, United Railroads of San Francisco represents that it will not have sufficient funds to set aside from its earnings the sum of \$300,000 on July 15, 1915 as a special fund as required by the order of this Commission.

The petition states further:

"Furthermore, because of causes beyond our control and which affect our revenue, we are unable to say whether we will be able or have the ability to set aside the sum of \$45,833.33 per month within fifteen days after the first of each month following July 15, or at all, as required by your order."

A comparative statement of the earnings and expenses of United Railroads for the calendar years ending June 30, 1914 and June 30, 1915 shows a decrease in the company's revenues as follows:

	<u>Year Ending</u> <u>June 30, 1914</u>	<u>Year Ending</u> <u>June 30, 1915</u>	<u>Increase</u> <u>or</u> <u>Decrease</u>
Operating Revenues	\$8,515,893.73	\$ 8,030,275.12	-\$485,618.61
Operating Expenses	<u>4,722,736.86</u>	<u>4,757,826.54</u>	<u>35,089.68</u>
Net Operating Revenues	3,793,156.87	3,273,448.58	- 520,708.29
Miscellaneous Income:			
Interest on Deposits	\$ 110.79	\$	\$ -110.79
Income from Securities Owned ..	47,172.05	175,218.76	128,046.71
Other Miscellaneous Income	<u>3,232.19</u>	<u>8,676.34</u>	<u>5,444.15</u>
	<u>50,515.03</u>	<u>183,895.10</u>	<u>133,380.07</u>
Gross Income less Operating Expenses	<u>3,843,671.90</u>	<u>3,456,343.68</u>	<u>-387,328.22</u>
Deductions from Income:			
Taxes	\$ 503,800.00	\$ 516,000.00	\$ 12,200.00
Interest:			
On Funded Debt	1,719,964.65	1,691,660.77	-28,303.88
On Floating Debt	206,294.35	192,998.58	-13,295.77
Rents of Leased Lines	126,600.00	176,400.00	49,800.00
Other Deductions	<u>5,573.38</u>	<u> </u>	<u>- 5,573.38</u>
Total Deductions	2,562,232.38	2,577,059.35	14,826.97
Net Income	<u>1,281,439.52</u>	<u>879,284.33</u>	<u>-402,155.19</u>
Disposition of Net Income:			
Reserve for Mortgage Sinking Funds	\$ 382,134.50	\$ 376,035.90	-6,098.60
Seven Per Cent Dividend on \$5,000,000 on First Preferred Stock	<u>350,000.00</u>	<u> </u>	<u>-350,000.00</u>
	<u>732,134.50</u>	<u>376,035.90</u>	<u>-356,098.60</u>
Surplus for year	<u>\$ 549,305.02</u>	<u>\$ 503,248.43</u>	<u>\$- 46,056.59</u>

To meet this situation it will be necessary only to postpone the beginning of the depreciation fund so that it may accrue during the fiscal years ending June 30, 1916, June 30, 1917 and June 30, 1918. Provision may also well be made that the sum to be placed in this depreciation account may be modified if the earnings of the company should be insufficient to make up the full \$550,000.

This investigation included an exhaustive inquiry into the financial affairs of this corporation, required by reason of the deflection of the sum of \$1,096,000 from proper corporate purposes.

We see no reason why the order should not stand. It will be necessary only to accumulate the depreciation fund over the fiscal years 1916, 1917 and 1918 instead of 1915, 1916 and 1917. This will require certain accompanying modifications of the order.

In conformity with the views herein expressed, the following supplemental order is hereby made:

First Supplemental Order

IT IS HEREBY ORDERED by the Railroad Commission of the State of California that its order in the above entitled matter, dated May 17, 1915, (Decision No. 2397) be amended and it is hereby amended by substituting for that portion of said order, beginning with line No. 8 on Page 26 of the original typewritten copy of said order and extending to the words "Dated at San Francisco, California, this 17th day of May, 1915", the following words:

IT IS HEREBY ORDERED that United Railroads of San Francisco establish a depreciation account amounting to \$550,000 per annum until June 30, 1918, or until the further order of this Commission.

IT IS FURTHER ORDERED that said sum of \$550,000 per annum to be carried and set up in a depreciation account as aforesaid shall be set aside and accrued out of the annual earnings of said company. Said depreciation account shall be established so as to show an appropriation from earnings of \$550,000 not later than June 30, 1916, and beginning with the month of July, 1915. On July 31, 1915, and monthly thereafter said depreciation account shall be credited out of earnings with the sum of \$45,833.33 per month, up to and including June 30, 1918, or until the further order of this Commission. Money accumulated under this order shall be used and expended as follows:

The sum of \$45,833.33 per month shall be placed in a bank or banks in the State of California, said money to be placed in said bank or banks within thirty days after the last day of each month; the first payment into said bank or banks to be for the month of July, 1915, and to be made not later than August 30, 1915. Of the money so accumulated, \$25,000 per month or \$300,000 annually shall be used and expended only -

(a) For the construction of additional facilities or extensions and for the fulfilling of franchise obligations of said company; or,

(b) For the improvement of service; or,

(c) For such other purposes properly chargeable to a depreciation account as may be authorized by this Commission upon application of said United Railroads of San Francisco.

Of such sums as may be accumulated under the order herein, \$25,000 per month or \$300,000 per year, or any part of said \$25,000 per month or said \$300,000 per year, shall be expended only after United Railroads of San Francisco has submitted a statement to the Railroad Commission of the State of California setting out the purposes for which it is proposed

to make expenditures and has received the Commission's authorization approving such expenditures.

Of the sum of money hereby ordered to be carried in the depreciation account, \$250,000 per annum or \$20,833.33 per month or any part of said \$250,000 per annum or said \$20,833.33 per month may be used by United Railroads of San Francisco without the further order of this Commission for the customary purposes to which its funds heretofore accumulated for depreciation have been used.

It is hereby provided as a condition of this order that if the revenues of United Railroads of San Francisco for any one month, after the payment of operating expenses, taxes, license fees, percentage of receipts due under franchises, and after setting aside a sufficient pro rata sum for the payment of interest and sinking fund obligations, shall be less than \$45,833.33, United Railroads of San Francisco shall file with this Commission on or before thirty days after the last day of such month, a statement showing its earnings and necessary expenses for such month as heretofore specified in this paragraph, and may make application for a modification of the amount required to be added monthly under this order to said depreciation account; but the amount by which said monthly sum of \$45,833.33 may be reduced by order of this Commission for any one month, shall be added to the amount to be paid in the succeeding month or months until paid.

IT IS FURTHER ORDERED that United Railroads of San Francisco shall, within thirty days from the date of this order, present to the Commission for its approval, a proposed change and correction of its books of account which shall show and reflect the true financial condition of said company as

to deficit.

Dated at San Francisco, California, this 24th
day of August, 1915.

Max Thelen

Max Gordon

Irving R. Derbin

Commissioners.