

ORIGINAL

Decision No. 4290

Decision No. _____

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the matter of the application of
SOUTHERN PACIFIC RAILROAD COMPANY,
a corporation, SOUTHERN PACIFIC COMPANY,
a corporation, and THE ATCHISON, TOPEKA
AND SANTA FE RAILWAY COMPANY, a corpora-
tion, for an order authorizing Southern
Pacific Railroad Company to sell and convey
to The Atchison, Topeka and Santa Fe Rail-
way Company, and authorizing The Atchison,
Topeka and Santa Fe Railway Company to
acquire from said Southern Pacific Rail-
road Company an undivided one-half inter-
est in and to that portion of that certain
railroad known as the "Oil City Branch",
of the Southern Pacific Railroad, in Kern
County, California, and authorizing the
Southern Pacific Railroad Company and the
Southern Pacific Company to release and
relieve the portion desired to be conveyed
and acquired, from the operation, terms
and conditions of a certain lease from
Southern Pacific Railroad Company to
Southern Pacific Company, dated June 26,
1902, all in accordance with a certain
deed filed with the application and marked
"Exhibit A", and also authorizing the
petitioners herein to make and execute an
agreement relating to the management, opera-
tion and maintenance of said "Oil City
Branch."

Application No. 2828.

Frank Thunen, for Southern Pacific Company

A. J. Maxwell, for The Atchison, Topeka and Santa
Fe Railway Company.

LOVELAND, Commissioner,

O P I N I O N.

This is an application of the Southern Pacific Railroad
Company, Southern Pacific Company and The Atchison, Topeka and Santa Fe
Railway Company for an order approving the sale and conveyance by
Southern Pacific Railroad Company to The Atchison, Topeka and Santa Fe
Railway Company of an undivided one-half interest in the line of railroad
known as the "Oil City Branch." The Southern Pacific Railroad Company
and Southern Pacific Company also ask permission to release the portion

of the line to be conveyed in part to the Santa Fe from the operation, terms and conditions of a lease from Southern Pacific Railroad Company to Southern Pacific Company dated June 26, 1902, and all these companies request the Commission's approval of the conditions of a proposed agreement relating to the management, operation and maintenance of the "Oil City Branch," after the transfer of the half interest shall have been approved.

The "Oil City Branch" of the Southern Pacific Company is located in Kern County and serves the oil producing country in the Kern River District. It has a main line mileage as follows:-

From the junction of main line of Southern Pacific Company between Saco and Oil Junction to end of Branch at Oil City	6.356 miles
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From junction with Oil City Branch at Treadwell Junction to end of branch at Porque	2.471 "
	<u>8.827 miles</u>

The mileage of yard tracks, sidings, wyess etc. is about ten miles.

The Santa Fe Company desires to reach the oil fields served by the "Oil City Branch" and as that line is adequate to handle the business secured by both companies such an arrangement as that proposed will obviate the necessity for the construction of additional railroad mileage which would not be followed by development or increase of traffic. The policy of two railroads using jointly properties of this kind is one which I heartily approve. It not only has the effect of reducing operating and other expenses, as well as fixed charges, of the railroads, but it also, in the long run, makes for lower rates to the public. The one obviously follows the other under regulation which, at the same time, makes it certain that a lack of competition will not occasion poor service and unfair rates.

While I am willing to recommend that the Commission grant permission for the transfer of a half interest in this property from the Southern Pacific to the Santa Fe Company, as well as the release of the lease under which it is now operated, and approve the operating agreement, there is one feature connected with the terms of the sale which I

believe should be cleared up before final authority is granted.

The price agreed upon for the transfer of a one-half interest is \$168,893.14 or a total valuation of \$337,786.28. Counsel for both railroads stipulated that this figure would not be binding on this or any other regulatory body in a rate, or other case, where a valuation was used but they did advance it as a "Reproduction Cost" figure as of February 28, 1914. The Commission's engineering department has in its files a valuation made by the Valuation Engineer of the Southern Pacific Company, which, with some additions and betterments added, makes an appraisal as of June 30, 1912. The Department has also an appraisal of its own made as of June 30, 1912. An exhibit introduced by applicants shows that the additions and betterments made on this branch since 1912 are credits to it rather than charges, but both of the Reproduction Cost estimates of 1912 are greatly below the agreed valuation of February 28, 1914.

Neither of the 1912 valuations has been passed upon by the Commission and under these circumstances I believe each Company should submit to the Commission a statement showing how it proposes to handle the transaction on its books. When that is done, if a satisfactory showing is made, in view of the stipulation made by counsel that the agreed figure is to be used for the purpose of this application only I shall have no hesitation in

approving it with that understanding.

I submit the following form of order:

O R D E R

Application having been made for the approval of the sale and transfer to The Atchison, Topeka and Santa Fe Railway Company of an undivided one-half interest in the "Oil City Branch" of the Southern Pacific Company and Southern Pacific Railroad Company; for the authorization of relief to the Southern Pacific Railroad Company and Southern Pacific Company from the operation, terms and conditions of a certain lease dated June 26, 1902, as far as it affects the portion of the line proposed to be transferred; and for the approval of an agreement relating to the management, operation and maintenance of said "Oil City Branch", all in accordance with exhibits attached to the application in this proceeding, and a public hearing having been held and the Commission being fully advised in the premises,

IT IS HEREBY ORDERED that this application be and the same is hereby granted on the following condition: That this order shall not become effective until applicants shall have received the approval of the Railroad Commission to the form in which the agreed valuation will be handled upon the books of said applicants.

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 3d day of May, 1917.

Max Thelen
W. H. Gilliland
W. L. Gordon
Edwin C. Lagerton
Frank C. Shriver
Commissioners.