

ORIGINAL

Decision No. \_\_\_\_\_

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

Decision No. 1412

In the Matter of the Application  
of the Petaluma & Santa Rosa Rail-  
way Company, a corporation, for an  
Order Authorizing an Increase in  
Passenger Fares and Freight Rates,  
and for Authority to Alter Certain  
Rules and Regulations in Classifi-  
cations so as to Bring About Increases  
in Fares and Rates.

Application 3096.

Edwin T. McMurray, for Petaluma & Santa Rosa Railway Company,  
Stanley Moore, for Northwestern Pacific Railroad Company,  
Seth Mann, for San Francisco Chamber of Commerce.  
Sapiro, Neylan & Ehrlich, for the Poultry Producers of Central  
California.

LOVELAND, Commissioner.

O P I N I O N

This is an application by the Petaluma & Santa Rosa  
Railway Company for an order, under Section 63 of the Public  
Utilities Act, to increase certain passenger fares and freight  
rates as set forth in Exhibit A, attached to and made a part of  
the application.

The changes are great in number, therefore it is im-  
possible to set them forth in detail. It is proposed to cancel  
all minimum passenger fares of five cents except within the cor-  
porate limits of Santa Rosa, Petaluma and Sebastopol and substitute  
therefor a ten cent minimum charge; to discontinue the sale of  
scrip books containing \$5.00 worth of transportation now sold for

\$4.25 and to increase the price of the \$10.00 scrip book from \$7.50 to \$9.00.

As to freight, it is proposed to increase practically all class rates, eliminate certain commodity rates, allowing class rates to apply, increase other commodity rates, cancel the less-than-carload commodity rates on eggs between San Francisco and Petaluma, allowing the second class rates to apply, as per Western Classification, and to discontinue entirely the free return of empty carriers, or packages, such as beer kegs, beer bottles, egg cases, poultry coops, fruit boxes and other carriers in the same class.

In justification of the application petitioner sets forth that the income derived from operations is not sufficient to meet current operating expenses, interest on outstanding obligations and to properly maintain its service and property; that the rates when established were made extremely low on account of competition and under the theory that the low rates would result in an increase in population which would produce sufficient traffic - freight and passenger - to make the operation of the company profitable.

It further alleges that the freight service is of high class and equal to expedited express; that it maintains forty-seven freight stops within a distance of twenty-five miles, or an average of one station for every seven-tenths of a mile; that the produce of the farmers is collected at these numerous freight stations as late as five o'clock in the afternoon and delivered to the San Francisco dealers early the next morning; that this class of service involves extraordinary expense and cannot be profitably furnished on the basis of present freight rates.

All operating costs are alleged to have greatly increased during the past few years, especially the cost of operating boats between San Francisco and Petaluma; that when the rates now in effect were established two steamers operated at an annual expense of \$36,000.00 for labor and fuel alone, while today the items for the same two boats amount to \$60,000.00 per year, with prospects of further increases in the immediate future and that the company's fuel oil contract of \$1.05 per barrel expires December 31, 1917 and applicant avers the increase in the cost of fuel oil will be 50 per cent.

In conclusion, it is further alleged that the most rigid economy has been practiced during the past years and there is a necessity for expending approximately \$250,000.00 within the very near future on betterments, additions and replacements; that the renewals and betterments cannot be further postponed and the increases suggested are absolutely necessary if the service is to be continued in its present efficient manner.

There were attached to the application three exhibits, the first setting forth the present and the proposed rates - both passenger and freight; the second showing the revenue under the present rates during the year 1914 and what revenue would have been received had the proposed rates been applied to the same traffic; the third exhibit is a financial statement, reviewing operations of the company for the years 1904 to and including 1916. It is on this exhibit, showing the financial situation, that applicant appeared to lay particular stress. I have given careful consideration to this testimony and have reviewed the physical and financial history of the company from its incorporation to the present time.

It appears that the company acquired its first properties

in 1903, which consisted of two small horse-railways in Petaluma and Santa Rosa, franchises in Sonoma County, Petaluma and Sebastopol, some rights of way and options, a stone quarry and some real estate. No details of the properties acquired are available. For this property there was paid \$168,000.00 in cash and a block of common stock which was in the treasury of the new company. Since 1903 the company has sold first and second mortgage bonds, a number of shares of its capital stock and the stockholders have paid into the treasury an assessment on the common stock which appears to have netted the company approximately \$100,000.00.

I have made an attempt to determine as nearly as possible from the incomplete records of applicant how much actual cash, or equivalent of cash, has been put into this property. Actual figures cannot be had because of the fact that in the San Francisco fire in 1906 most of the company's records were lost. I am satisfied, however, that the following figures are approximately correct:

Cash paid for original properties, including non-operative property	- - - \$	168,000.00
Total par value of outstanding first mortgage bonds	- - - - -	698,000.00
Received from sale of stock,		36,000.00
Total par value of outstanding second mortgage bonds,		250,000.00
Stock assessment of 1907,		100,000.00
Borrowed on notes	- - -	<u>83,600.00</u>
TOTAL	-	\$1,335,600.00

It was stipulated during the hearings in this application that the Commission's valuation of this property (Decision No. 2348) should be considered in evidence and the estimated investment

figure should be compared with the valuation as found by the Commission. The Commission found the reproduction cost less depreciation, which figure, I believe, most nearly represents the value of the railroad as of June 30, 1912 to be \$1,315,382.50. Additions and betterments since June 30, 1912, according to the company's statements to this Commission, amounted to \$64,021.03, so that the present value of the road as of December 31, 1916 may be considered to be approximately \$1,380,000.00. It would seem, therefore, that the Commission's valuation exceeds the estimated amount of money put into the property by approximately \$44,400.00. Whatever increase there is in property values over actual investment has come about through investment of net earnings. The company has consistently followed the policy of putting all available earnings back into the property rather than paying dividends - a policy which to me seems eminently sound. The company has also decreased its bonded indebtedness out of earnings from the original outstanding issue of \$948,000.00 to \$872,000.00, a decrease of \$76,000.00 and it has set aside a depreciation reserve which, on December 31, 1916, amounted to \$81,625.06.

The total accumulated corporate surplus of the applicant on December 31, 1916 was \$70,906.41.

From these facts it appears to me that the financial condition of the applicant is not unsatisfactory; and if the determination of this case rested on this consideration alone I should not consider myself in a position to recommend that the increases in rates sought by applicant be granted. I believe, nevertheless, that the conditions confronting the applicant at the present time, and which will confront it in the immediate future, must be given proper consideration by the Commission.

As illustrative of the present situation, the total revenue from passenger and freight is set forth in the following table. the first four years being taken from annual reports. while the seven months and estimated results for the twelve months of 1917 are compiled from applicant's Exhibit No.3.

<u>Year Ending</u>	<u>: Passenger Revenue</u>	<u>: Freight Revenue:</u>
June 30, 1914	: \$99,349.57	: \$196,302.43,
" " 1915	: 95,462.85	: 186,624.33
" " 1916	: 84,687.12	: 180,899.37
Dec. 31, 1916	: 78,614.75	: 187,831.53
7 months )	:	:
ending July )	: 43,581.39	: 110,424.04
31, 1917 )	:	:
12 months )	:	:
to December )	: 74,710.92	: 189,298.32
31, 1917, )	:	:
estimated )	:	:

From this table it will be noted that the passenger revenue has steadily decreased from \$99,349.57 for the fiscal year, 1914. to \$78,614.75 for the calendar year 1916, with an estimated total for 1917, based on actual figures for the first seven months of approximately \$74,710.92. This shows a reduction in passenger revenue of \$24,638.65 within a period of five years. The testimony indicates that this loss of revenue is attributable to automobile competition, of both the private and public conveyances.

It is proposed to advance the minimum passenger fare outside of corporate city limits from 5 cents to 10 cents; to cancel entirely the \$5.00 scrip transportation book now sold for \$4.25 and to increase the \$10.00 book from \$7.50 to \$9.00. I do not consider these changes unreasonable, as the record contains testimony to the effect that present fares do not give applicant a just return for the service rendered. This part of the application will be granted.

The freight revenue in 1914 was \$196,302.43, which dropped to \$180,899.37 in 1916 and is estimated at \$189,298.32 for the calendar year 1917. It will thus be seen that applicant can expect no relief from increased tonnage, which has remained almost constant for the past four years.

The testimony conclusively shows that there have been radical advances in the price of materials and cost of labor. The situation with respect to increases in the cost of labor used in the operation of this company's steamers is illustrated by Exhibit No. 1, set forth below:

COMPARATIVE STATEMENT OF COST FOR OPERATION OF STEAMERS:

	1904	1914	1917
Captain, per month	\$ 115.00	\$ 150.00	\$ 165.00
Pilot " "	75.00	125.00	137.50
Chief Engineer "	110.00	125.00	137.50
Second Engineer "	90.00	100.00	110.00
Two Firemen "	90.00	110.00	120.00
Purser "	25.00	70.00	70.00
Watchman "	60.00	60.00	70.00
Nine Deckhands "	315.00	450.00	495.00
Cook "	65.00	65.00	70.00
2 Asst Cooks "	60.00	60.00	60.00
Overtime "	-	93.00	102.00
1710 meals @ 13¢	222.00	-	-
1710 meals @ 22¢	-	376.00	-
1710 meals @ 28¢	-	-	478.80
	<hr/>	<hr/>	<hr/>
COST OF ONE BOAT PER MONTH	\$1227.00	\$1784.00	\$2015.80
COST OF ONE BOAT PER YEAR	\$14724.00	\$21408.00	\$24189.60
Fuel for one year, 6000 bbls.	4140.00	4500.00	6300.00
	<hr/>	<hr/>	<hr/>
TOTAL COST FOR ONE BOAT PER YEAR - -	\$18864.00	\$25908.00	\$30489.60
Percentage in Increase over 1904		37%	61%
Deckhands \$35.00 per month	1904	No Overtime	
# 50.00 " "	1914	Overtime 50¢ per hour	
" 55.00 " "	1917	" " " "	

Another exhibit furnishes the increased cost of steamer operations for August, 1917 compared with August, 1916. If this ratio remains constant for the twelve months there is a total added expense of \$11,408.04.

The exhibit is as follows:

	August-1917.	
	<u>Amount</u>	<u>Increase or Decrease</u>
Wages of Officers	\$ 1,379.00	\$ 129.00
" " Firemen and Deckhands	1,679.35	157.75
" " Cabin Employees	251.30	1.30
" Overtime	565.40	174.65
Fuel oil and water	1,047.13	269.26
Deck Supplies	17.43	11.36 (Decrease)
Cabin Supplies (Provisions)	1,012.72	198.64
Rent and Dockage	661.97	31.43
TOTAL -	<u>\$ 6,614.30</u>	<u>\$ 950.67</u>

The steamer Gold has just been overhauled at an expense of approximately \$6000.00 and there is testimony to the effect that the vessel must, within the next two or three years, be entirely abandoned. This will mean an expenditure of from \$60,000.00 to \$70,000.00 for a new boat.

Exhibit No.2 enters into the details of increased costs of materials, giving the actual figures for the year 1916 compared with estimated expenses for the year 1917, as follows:

Maintenance of Way and Structures	\$ 1,963.31	\$ 3,334.73
Maintenance of Equipment	4,515.31	6,429.95
<u>Transportation - Rail Lines</u>		
Wages of Conductors & Motormen	25,441.30	27,212.70
Lubricating oils	85.98	103.25
Miscellaneous	248.45	273.29
Signal and Coal Oil	22.00	27.77
	<u>\$25,797.73</u>	<u>\$27,617.02</u>
<u>Transportation - Water Lines</u>		
Wages of Officers, Firemen and Deckhands	35,699.35	39,269.28
Fuel Oil	10,444.40	13,460.60
Provisions	8,676.75	11,276.75
Miscellaneous	375.09	476.33
	<u>\$55,195.59</u>	<u>\$64,482.96</u>
<u>General</u>		
Compensation Insurance	5,059.10	5,352.80
Stationery & Printing	1,099.06	1,758.50
	<u>\$ 6,158.16</u>	<u>\$ 7,111.30</u>
GRAND TOTAL -	<u>\$93,630.10</u>	<u>\$108,975.96</u>



As to materials used in Maintenance of Way and Structure the exhibit sets forth that there will be a 100% increase in track, bolts, washers, rail bonds, battery renewals, wire and telephone parts, wire stands, hardware and plumbing and that the cost of other articles used in this department have increased from 30 to 150%. This exhibit also directs attention to the fact that street repaving in Santa Rosa, now under way, will cost the company \$2500.00 and that the private canal at Petaluma must be dredged within the next few months at a cost of approximately \$3000.00.

The Poultry Producers Corporation protested against the proposed increases, and particularly to the freight rates applying on grain, poultry foods and eggs. They also objected to the cancellation of item in the tariff providing for the free return of empty carriers, such as egg cases, coops and boxes.

The attorney of the San Francisco Chamber of Commerce attended the hearings, but introduced no testimony or exhibits and made no objections to the application.

The testimony of protestant's witnesses was devoted principally to showing the difficulties under which the poultry producers labor. Three exhibits were introduced, giving in detail the fluctuations in the price of eggs, poultry, wheat, barley, corn and other feeds since the year 1912. While these exhibits are very comprehensive and interesting, they have no bearing upon the rates which a transportation company would be permitted to charge.

We might here set forth the high and low prices on all commodities shown in the exhibits for the five and one-half years, but the information would be of no value in this proceeding, as the only question for this Commission to determine is whether or not the proposed rates are reasonable.

The fact that the freight rates between San Francisco and Petaluma, to which objection was particularly directed by protestant, have been in effect for a long term of years, does not warrant the presumption that these rates should not be changed if, under the new and different conditions, they are found to be unremunerative. The observance of such theory would render impossible the advancing of any rates of long standing, regardless of their being found noncompensatory.

The greatest increase in revenue from the proposed rates will come from the operation of applicant's boats on local traffic moving between San Francisco and Petaluma, and this will be obtained principally from tonnage carried on the class rates. The distance between San Francisco and Petaluma is thirty-nine miles.

The present and proposed rates, stated in cents per 100 pounds, are as follows:

	1	2	3	4	5	A	B	C	D	E
Present	14	09	07	05	05	05	05	05	05	05
Proposed	17	14	11	10	09	09	08	07	06	05
Increase	03	05	04	05	04	04	03	02	01	00

Class rates of other boat lines operating within this State are performing similar but less arduous service, are set forth below. The rates are in cents per 100 pounds:

<u>Napa Transportation Co.</u>		<u>Miles</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>	<u>E</u>
San Francisco-Napa	48 :		15	13	11	10	9	9	8	7	6	5
<u>Southern Pacific Company :</u>												
San Francisco-Benicia	30 :		12	10	8	7	6	6	6	6	5½	5½
Distance Scale		:										
25 miles and over -		:	22	20	17	15	12	12	11	8½	8	8
(Applicable to inter-		:										
mediate traffic).		:										
California Navigation												
& Improvement Company	103:		10	10	9	9	7	7	6	5½	5½	5½
San Francisco-Stockton	:											

The subjoined table shows rates in effect via rail  
carriers between points approximately forty miles distant.

The rates are set forth in cents per 100 pounds:

	Miles	1	2	3	4	5	A	B	C	D	E
<u>San Joaquin Valley Scale</u> Established by this Commission:											
30 - 40 miles		:15	13	12	10	9	9	6	5	5	4
40 - 50 miles		:18	16	14	12	11	11	8	6	5	5
<u>Southern Pacific Company</u>											
San Jose - Chittenden	41	:17	16	14	13	12	12	10	9 $\frac{1}{2}$	8 $\frac{1}{2}$	8 $\frac{1}{2}$
Los Angeles-San Pedro	25	:12	11	10	8	5	5	5	4	4	3 $\frac{1}{2}$
<u>Atchison, Topeka &amp; Santa Fe Railway</u>											
San Diego-Oceanside	41	:22	20	18	16	14	14	13	12	12	9

#### STATE SCALES

Oregon	:										
Yamhill Division	:										
Not over 40 miles	:28	:24	:20	:17	:14	:14	:11	:8	:7	:6	
Iowa	:										
Maximum Rate 40 miles	:18.8:16	:12.5:	9.4:	6.6:	6.6:	6.6:	6.6:	5.6	:4.7:	3.8	
S. Dakota	:										
Maximum Rate 40 miles	:26.1:21.6:17.6:13.	:10.4:	10.4:	9.5:	7.7	:6.8:	5.4				
Minnesota	:										
Distance Scale-40 miles	:18.9:15.7:12.6:	9.4:	7.5:	8.5:	6.7:	5.7	:4.7:	3.8			
Oklahoma	:										
Distance Scale-40 miles	:25.0:20.8:17.	:14.2:	12.2:	11.5:	9.5:	8.	:6.6:	4.9			
Illinois	:										
40 miles and over 35 miles:	21.1:17.3:14.3:10.5:	8.4:	8.	:7.8:	6.5	:5.	:4.5				

It is alleged that the expenses of operating the boats  
between San Francisco and Petaluma have more than doubled since rates  
now in use were first established and that the revenue realized from  
this traffic does not give a return commensurate with the present cost  
of operation.

The proposed class rates between San Francisco and Petaluma do not appear excessive when compared with some of the rates in the preceding tables. With the exception of first and second class they are the same as those in effect between San Francisco and Napa via boat line and much lower than short haul rates on the Sacramento river. They differ but little from the scale this Commission established in the San Joaquin and Sacramento Valleys and are much lower than mileage rates put into effect by Commissions in the States of Oregon, Iowa, South Dakota, Minnesota, Oklahoma and Illinois. The rates are high, however, when contrasted with the scale of the California Navigation & Improvement Company between San Francisco and Stockton, and while conditions of operation and volume of tonnage materially differ, which would not justify the San Francisco-Stockton scale between San Francisco-Petaluma. applicant has not justified the 17 cent scale. Other class rates do not appear out of line for a railroad having a short mileage and handling only a limited tonnage.

In considering a general rate adjustment the issue to be determined is whether proposed rates are just and reasonable and this Commission will not delay granting additional revenue when the facts have been fully determined.

The permission sought to cancel the provision for free return of empty carriers, such as fruit boxes, egg cases and cooperage if granted will make this traffic subject to Exceptions to Western Classification, or 15 per cent of class rate applicable to the new package.

Practically all rail and boat carriers within this State apply the 15% basis and the proposed changes would have the effect of making the practice uniform.

The custom of making some sort of a charge for returning empties is well established and requires no detailed justification. This part of the application will be granted.

Applicant urges its poor financial condition and need of additional revenue as a justification for the increases in rates, pointing out that it has never paid a dividend; that its second mortgage bonds for \$250,000.00, issued in 1905 for a ten year period, have not been paid or refunded, neither have the sinking fund obligations been met since 1914. Reference is made to the increased cost of operations resulting from increases in wages and the price of fuel and materials. The net income of the road has steadily declined during the past four years; in 1913 it was \$52,167.71, 1914 - \$49,685.17, 1915 - \$21,597.91 and 1916 - \$10,916.43. This change has been brought about by reductions in the volume of traffic - both passenger and freight - as heretofore shown, without any corresponding saving in operating expenses.

The property has been efficiently and honestly managed and the entire evidence goes to prove that the increased expenditures for operations are due to greater costs of materials, labor and taxes which cannot be offset by corresponding reductions in operating expenses, or by the postponement of necessary maintenance of roadbed, structures and equipment.

However, the financial condition of the company, due to its careful management during the past few years, is not incurable, although it is clear that difficulties will develop in the very near future unless revenues are augmented and new money made available for necessary betterments.

A large part of applicant's revenue is derived from the poultry industry and since the commencement of its operations special inducements have always been offered to encourage the investment of

capital in this line of business at Petaluma. The total increased freight for the entire line, per annum, under the proposed rates, is \$30,306.38, of which approximately \$20,000.00 would come from the Petaluma tonnage. This drastic increase would have a serious effect on the poultry industry and disturb a rate situation of long standing.

While the costs of operating the boats is shown to have greatly increased, no satisfactory evidence was introduced making a segregation of these costs as between strictly boat tonnage destined to or originating at Petaluma from that handled for main line rail points. It therefore follows that Petaluma-San Francisco tonnage should not arbitrarily be required to carry 70 per cent of the necessities of a changed condition affecting the entire property.

Upon the whole record I find and conclude that existing rates are unjust and unreasonable and the application will be granted, with the exception of the class rates between San Francisco and Petaluma; and as to these latter rates I find the following to be just and reasonable:

		<u>CLASS RATES</u>										
<u>Between</u>	<u>And</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>	<u>E</u>	
San Francisco:	Petaluma	:	15	12	9	9	8	8	7	6	5	5

I submit the following form of order:

#### ORDER

The Petaluma and Santa Rosa Railway Company having applied to this Commission for permission to increase certain passenger and freight rates and a regular hearing having been held and the Commission

being fully apprised in the premises,

IT IS HEREBY ORDERED that the Petaluma & Santa Rosa Railway Company be and is hereby authorized to publish and file in tariffs, to become effective within thirty (30) days from the date of this order the following class rates between San Francisco and Petaluma:

1	2	3	4	5	A	B	C	D	E
15	12	9	9	8	8	7	6	5	5

and to otherwise amend and modify its passenger and freight tariffs as set forth in exhibit A attached to and made a part of the application and referred to in the opinion which precedes this order.

The foregoing opinion and order are hereby approved and  
 filed  
 ordered/as the opinion and order of the Railroad Commission of the State of California.

Dated at San Francisco, California this 11<sup>th</sup> day of October 1917.

H. L. Toland  
W. L. Gordon  
Edwin O. Edgerton  
Frank R. Durbin  
 Commissioners.