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ORIGINAL

Decision No. 4860

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

BEFORE THE RAILROAD COMMISSION  
OF THE STATE OF CALIFORNIA.

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In the Matter of the Application of )  
WELLS, FARGO AND COMPANY for author- ) Application No. 1949.  
ity to increase express rates. )

Charles W. Stockton and Pillsbury, Madison  
and Sutro, by Alfred Sutro, for Wells,  
Fargo and Company.

BY THE COMMISSION.

O P I N I O N .

Wells, Fargo and Company asks authority to increase its charges on first and second class express shipments weighing less than 100 pounds and moving exclusively between California points, as follows:

PROPOSED INCREASES ON FIRST-CLASS SHIPMENTS.

1 to 5 lbs., inclusive, each shipment. . . .	5¢
6 to 29 lbs., " " " " . . . .	4¢
30 to 49 lbs., " " " " . . . .	3¢
50 to 70 lbs., " " " " . . . .	2¢
71 to 99 lbs., " " " " . . . .	1¢

PROPOSED INCREASES ON SECOND-CLASS SHIPMENTS.

75 per cent of first-class increases.

Petitioner asks to make effective on California state business the same increases as were authorized by the Interstate Commerce Commission on July 14, 1915 on interstate business.

The proposed change in first class rates is to be effected by transposing the Interstate Commerce Commission's allowance of 20 cents per shipment for collection and delivery service with the rail terminal allowance of 25 cents per 100 pounds.

The petition herein, as originally filed, also asked authority to increase commodity rates on California state business. At the hearings herein, petitioner asked and was granted permission to amend the petition so as to eliminate the request for authority to increase commodity rates.

If petitioner's request is granted, petitioner will receive an increase of approximately 2.35 per cent in its gross revenue from California state business. This percentage, applied to the gross revenue from California state business of \$3,963,623.42 in 1916 would have resulted in an increased gross revenue in that year of \$93,145.15.

Public hearings herein were held in San Francisco on November 13, 1915, April 18, 1916 and September 24, 1917. The matter was first submitted on April 18, 1916. Thereafter petitioner asked that the submission be set aside and that petitioner be permitted to present additional testimony. This request was granted and a further and final hearing was held on September 24, 1917, being the date requested by petitioner. Additional data were filed by petitioner on October 11, 1917. The matter is now ready for decision.

Although notice of the hearings herein was given by publication and by direct advice to all the leading commercial organizations of the state, no one appeared to oppose the granting of the petition.

This Commission has heretofore had occasion to make careful investigation into petitioner's business.

In Case No. 122 (Vol. 3, Opinions and Orders of the Railroad Commission of California, p. 228), decided on August 1, 1913, this Commission made an exhaustive examination on its own motion into petitioner's entire California business and established the express rates which are now in effect on California state business. See also Vol. 4, Opinions and Orders of the Railroad Commission of California, p. 200, and Vol. 6, Opinions and Orders of the Railroad Commission of California, p. 184. Testimony presented by petitioner herein shows that the effect of the rates thus established was to reduce the gross revenue from petitioner's California express business approximately 15 per cent.

In Application No. 1347 (Vol. 8, Opinions and Orders of the Railroad Commission of California, p. 58), decided on September 10, 1915, this Commission, on the testimony therein presented, denied petitioner's request for authority to make effective the rates as to which permission is herein again asked.

In decisions reported in 24 I.C.C. 380 and 28 I.C.C. 131, the Interstate Commerce Commission, after exhaustive investigations, prescribed a uniform schedule of rates, classifications, rules and regulations, effective February 1, 1914 and applicable to the interstate business of all the principal express companies in the United States.

In decision on petition for rehearing, rendered on July 14, 1915, 35 I.C.C. 3-13, the Interstate Commerce Commission authorized the express companies to charge on first and second class interstate shipments the increased rates which petitioner now asks authority to charge on California state business.

In Exhibit No. 2, filed by petitioner on November 13, 1915, petitioner reports a net deficit on California state business, after payment of all operating expenses and taxes and an allowance for depreciation annuity, of \$17,861.53 for October, 1914, and \$10,020.91 for March, 1915.

At the hearing on April 18, 1916, petitioner filed as Exhibits Nos. 10 and 12 revised statements of operating expenses and taxes for October, 1914, and March, 1915. These revised exhibits reduce the net deficit claimed by petitioner for these two months as follows:

October, 1914, net claimed deficit reduced from \$17,861.53  
to \$ 8,094.32.

March, 1915, net claimed deficit reduced from \$10,020.91  
to net earnings of \$ 2,893.38.

In explanation of the reduced deficits for these two months, Mr. J. W. Newlean, petitioner's Vice-President and Comptroller, testified:

"The bases then employed were in some cases short cuts to save the enormous detail, and, after my return to Chicago, I proceeded to test them and I found that they would not stand the test. The principal changes were in the accounts of superintendence and transportation, loss and damage, freight and train employes. There were other accounts in which changes were made but they were minor, and those three accounts cover the principal changes."

At the hearing of April 18, 1916, petitioner also filed as Exhibit No. 13, statement purporting to show a net deficit of \$1,664.60 on California state business for July, 1915.

At the hearing of September 24, 1917, petitioner filed further exhibits purporting to show on California state business a net deficit of \$6,397.01 for April, 1916 and \$35,236.71 for September, 1916.

Whether petitioner has a deficit on its California business and, if so, the extent thereof, depends on the bases

of apportionment used in apportioning to California state business the expenses of operation, maintenance and depreciation which are common to that business and also to other business, whether California interstate business or business foreign to California. For instance, there has been considerable difference of opinion with reference to the proper basis of apportionment to be applied in ascertaining the portion of petitioner's general system expense properly chargeable to California state business. In Case No. 122, supra, this Commission first apportioned these expenses to the state of California on a mileage basis and then divided the result, as between California state and California interstate business, on the piece basis. This method of apportionment was suggested by petitioner in that case. In the present proceeding, however, petitioner in its exhibits first filed used solely the piece basis and in its later exhibits the so-called cost basis, each of which bases results in charging to California state business expenses materially in excess of the charges resulting from the basis suggested by petitioner and used by this Commission in Case No. 122. This situation is illustrative of others.

Notwithstanding these differences of opinion between petitioner and this Commission with respect to the proper bases of segregation of expenses, we have reached the conclusion that, assuming the correctness of the decision made by this Commission in Case No. 122 petitioner, by reason of changed conditions, should be authorized to make the increased charges herein requested.

The Commission's conclusion in the present proceeding is based primarily on the fact that increases in petitioner's operating expenses fairly chargeable to its California state business have considerably outrun the increase in the gross

revenue received by petitioner subsequent to this Commission's decision of August 1, 1913 in Case No. 122.

The following table shows petitioner's gross revenue from California state business each month from January, 1914, to April, 1917, inclusive:

	<u>1914</u>	<u>1915</u>	<u>1916</u>	<u>1917</u>
January	\$ 244 850 33	\$ 241 495 08	\$ 227 290 38	\$ 280 250 68
February	242 810 66	222 234 46	258 026 76	268 013 71
March	300 459 53	313 979 19	323 312 41	333 000 40
April	293 841 14	322 595 04	336 132 71	339 002 80
May	337 291 70	347 256 68	391 302 97	
June	371 042 35	401 345 61	409 251 79	
July	340 939 72	369 612 45	370 433 15	
August	320 633 63	341 395 95	362 490 71	
September	297 913 99	315 107 96	325 968 87	
October	293 805 43	290 409 83	311 399 21	
November	274 582 48	302 734 11	307 933 29	
December	<u>325 345 19</u>	<u>336 971 70</u>	<u>340 081 17</u>	
	\$3 643 516 15	\$3 805 138 06	\$3 963 623 42	\$1 220 267 59

While the foregoing table shows a gradual increase in gross revenue from California state business amounting to approximately \$13,500.00 for each month over the corresponding month of the preceding year, the increases in operating expenses have been substantially greater.

The principal items of increased operating expenses in connection with petitioner's California business have been as follows:

1. Wages.

From January 1, 1916 to August 31, 1917 petitioner's California pay-roll increased an average of \$8,893.41 monthly, being an increase of 5.31 per cent. The principal increases were effective May 1, 1916. Subsequent to August 31, 1917, there have been additional increases to the California pay-roll of over \$2,000.00 monthly.

In addition to the foregoing increases, petitioner paid to all employees who had been in its service one year on October 1, 1916, a bonus of one month's wages during the period from October 1, 1916 to October 1, 1917. Employees whose first year of service terminated subsequent to October 1, 1916 received pro-rated bonuses. The bonuses paid to petitioner's California employees for the year ending October 1, 1917, totalled \$101,536.51.

Petitioner established, effective June 1, 1916, a benefit and pension plan, covering pensions, sick, accident and funeral allowances, resulting in increased expenses in connection with California employees of approximately \$25,000.00 per year.

Decreased hours of labor and lack of experience of new employees who have taken the place of old employees who have enrolled themselves in the armed forces of the nation or resigned to accept more lucrative employment have caused further increases in operating expenses.

## 2. Payments to Railroads.

The contract formerly in effect between petitioner and Southern Pacific Company expired on July 1, 1916. This contract provided for a payment by petitioner to Southern Pacific Company, in full compensation for the latter's services, of 40 per cent of the gross revenue received by petitioner from its business moving over the lines of the Southern Pacific Company. The proration, over the life of the contract, of certain initial payments would result in some increase in the payment of 40 per cent. The new contract between petitioner and Southern Pacific Company, effective July 1, 1916, provides for the payment by petitioner to Southern Pacific Company of 55 per cent of the gross revenue from petitioner's business moving over the lines of Southern Pacific Company.

Petitioner's contract with Atchison, Topeka and Santa Fe Railway Company, providing for a 55 per cent payment, expired on May 1, 1917. The new contract provides, in effect, that petitioner herein shall be recompensed in full by Santa Fe for petitioner's costs and that if any revenue remains petitioner shall receive 6 per cent thereof. The record herein does not contain evidence from which we may conclude whether or not the new contract will be more or less advantageous to petitioner than its former contract.

The payments made by petitioner to a few small railroads in California have increased slightly over the payments heretofore in effect.

### 3. Materials and Supplies.

The testimony shows that materials and supplies, as well as new equipment, are costing petitioner an average of 30 per cent in excess of former costs.

On the other hand, the taxes paid by petitioner and other express companies to the State of California were decreased by the Legislature of 1917 (Laws of 1917, p.336) from 1.6 to .9 per cent of gross revenue from California business. This decreased payment became effective July 1, 1917.

Petitioner has not been as fortunate as many of the large steam railroads, whose increased operating expenses have been more than compensated by increased revenues, resulting in increased net earnings as well as gross earnings. Assuming, as we of course do, the correctness of our decision of August 1, 1913 in Case No. 122, wherein we established petitioner's present California state express rates, it is clear that the increases in petitioner's operating expenses on California state business over



and above its revenues therefrom are such as to justify the increased rates herein requested.

The order herein will result in bringing California state class express rates in harmony with the class express rates established by the Interstate Commerce Commission on all interstate express business. Almost all the states have now taken similar action.

O R D E R .

WELLS, FARGO AND COMPANY having applied for authority to increase its rates on first and second-class California state shipments weighing less than one hundred (100) pounds, public hearings having been held and the Railroad Commission being fully apprised in the premises,

IT IS HEREBY ORDERED that Wells, Fargo and Company be and the same is hereby authorized to increase its charges on first-class shipments weighing less than one hundred (100) pounds, between all points in California, as follows:

Shipments, 5 pounds and under. . . . .	5 cents per shipment
Shipments, over 5 pounds and not over 29 pounds. . . . .	4 cents per shipment
Shipments, over 29 pounds and not over 49 pounds. . . . .	3 cents per shipment
Shipments, over 49 pounds and not over 70 pounds. . . . .	2 cents per shipment
Shipments, over 70 pounds and not over 99 pounds. . . . .	1 cent per shipment

IT IS FURTHER ORDERED that Wells, Fargo and Company be and the same is hereby authorized to increase its charges on second-class shipments weighing less than one hundred (100) pounds, between all points in California to the extent of seventy-five (75) per cent of the increases herein authorized.

for first-class shipments.

IT IS FURTHER ORDERED that the increased rates herein authorized shall become effective only when filed by Wells, Fargo and Company with this Commission, which filing, to be effective, shall be made within thirty (30) days from the date of this order.

Dated at San Francisco, California, this 19<sup>th</sup> day of November, 1917.

Max Thelen

H. D. Love and

Alex Gordon

Edwin C. Edgerton

Frank B. Butler

Commissioners.