

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the Matter of Ascertaining the Value of the Property of the STOCKTON TERMINAL and EASTERN RAILROAD COMPANY within the State of California.

Case No. 206.

W. H. H. Hart for Stockton Terminal and Eastern Railroad Company.

THELEN, Commissioner.

OPINION and FINDINGS.

This is the first of the so-called railroad valuation cases brought upon the Commission's own initiative for the purpose of ascertaining the facts entering into the value of the property of the various steam railroad corporations in the State of California.

These proceedings were originally instituted under the provisions of Section 30 of the Stetson-McCowan Act, effective February 10, 1911, and were continued under the provisions of the Public Utilities Act, effective March 23, 1912. The sections of the Public Utilities Act particularly applicable to these proceedings are Sections 47 and 70, reading as follows:

"Sec. 47. The commission shall have power to ascertain the value of the property of every public utility in this state and every fact which in its judgment may or does have any bearing on such value. The commission shall have power to make re-valuations from time to time and to ascertain all construction, extensions and additions to the property of every public utility."

"Sec. 70. For the purpose of ascertaining the matters and things specified in section forty-seven of this act, concerning the value of the property of public utilities, the commission may cause a hearing or hearings to be held at such time or times and place or places as the commission may designate. Before any hearing is had, the commission shall give the public utility affected thereby at least thirty days' written notice, specifying the time and place of such hearing, and such notice shall be sufficient to authorize the commission to inquire into the matters designated in this section and in said section forty-seven of this act, but this provision shall not prevent the commission from making any preliminary examination or investigation into the matters herein referred to, or from inquiring into such matters in any other investigation or hearing. All public utilities affected shall be entitled to be heard and to introduce evidence at such hearing or hearings. The commission is empowered to resort to any other source of information available. The evidence introduced at such hearing shall be reduced to writing and certified under the seal of the commission. The commission shall

make and file its findings of fact in writing upon all matters concerning which evidence shall have been introduced before it which in its judgment have bearing on the value of the property of the public utility affected. Such findings shall be subject to review by the supreme court of this state in the same manner and within the same time as other orders and decisions of the commission. The findings of the commission so made and filed, when properly certified under the seal of the commission, shall be admissible in evidence in any action, proceeding or hearing before the commission or any court, in which the commission, the state or any officer, department or institution thereof, or any county, city and county, municipality or other body politic and the public utility affected may be interested whether arising under the provisions of this act or otherwise, and such findings, when so introduced, shall be conclusive evidence of the facts therein stated as of the date therein stated under conditions then existing, and such facts can only be controverted by showing a subsequent change in conditions bearing upon the facts therein determined. The commission may from time to time cause further hearings and investigations to be had for the purpose of making revaluations or ascertaining the value of any betterments, improvements, additions or extensions made by any public utility subsequent to any prior hearing or investigation, and may examine into all matters which may change, modify or affect any finding of fact previously made, and may at such time make findings of fact supplementary to those theretofore made. Such hearing shall be had upon the same notice and be conducted in the same manner, and the findings so made shall have the same force and effect as is provided herein for such original notice, hearing and findings; provided, that such findings made at such supplemental hearings or investigations shall be considered in connection with and as a part of the original findings except in so far as such supplemental findings shall change or modify the findings made at the original hearing or investigation."

Acting under these statutes, this Commission, on the 24th day of October, 1911, instituted on its own motion, an investigation into the facts entering into the value of the property of the Stockton Terminal and Eastern Railroad Company. The Commission called upon said Company to furnish maps and profiles of its line of railroad and an inventory of its property, together with the original cost thereof, and also requested the Company, if it desired to do so, to submit an estimate of the reproduction value and the present value thereof, as those terms are hereinafter defined. Upon receipt of this information, this Commission's engineering department made an exhaustive investigation into the entire subject matter, as will hereinafter appear in greater detail. The engineering department thereupon presented to this Commission its report with reference to certain elements entering into the value of the property of this Company, being the original cost, the reproduction value and the present value of the physical property of the railroad, as of June 30, 1912. A time for taking

testimony in this case was thereupon set and a notice of the hearing was served on the Railroad Company, accompanied by a complete copy of the report of this Commission's engineering department.

The hearing was held on the day set and on several days thereafter. The Railroad Company in general agreed with the estimates of this Commission's engineering department, but claimed that certain additions and corrections should be made, as will hereinafter appear.

In making findings in this case, I shall not make a general finding as to the value of the property of this Railroad. Value is an elusive term, and what may properly be a value for one purpose may be entirely improper as a value for another purpose. I shall rather find specific facts bearing on the question of value, as shown by the evidence in this case, leaving it to the future to use these facts or such thereof as may be material, in any proceeding in which these facts may become relevant. The fact that a finding is made on a particular matter is not to be taken as expressing the view of this Commission that that particular matter should enter into a consideration of the value of the property of this railroad company for any particular purpose. For instance, I shall find in this case that it cost a certain amount of money to sell the railroad company's stocks and bonds. In making this finding I shall not pass on the question as to whether this amount was a reasonable amount of money to expend for that purpose or whether this fact should be considered at all. In subsequent controversies affecting this railroad as to rates, the issues of securities/^{or in other matters.} I shall content myself with finding the facts with different reference to/~~existing~~ elements which, properly or improperly, have from time to time been considered by the courts in cases in which the value of the property of a railroad company has been material.

In making the findings of fact in this case, I shall consider the following matters:

1. Organization, construction and operation.
2. Stocks and bonds.

3. Revenues and expenses.
4. Original cost, as defined.
5. Reproduction value, as defined.
6. Present value, as defined.

1. ORGANIZATION, CONSTRUCTION AND OPERATION.

The Stockton Terminal and Eastern Railroad Company was incorporated on the 25th day of October, 1908, for the purpose of constructing and operating a standard gauge railroad for the carriage of passengers and freight from the city of Stockton in a general easterly and northeasterly direction, to a point in Calaveras county, near the town of Jenny Lind, for an estimated distance of some thirty miles. The plan was to construct this line of railway from a point on the water front in the city of Stockton to certain rock quarries located near the town of Jenny Lind. The railroad as hitherto constructed has not reached the water front of Stockton on the one hand nor the quarries at Jenny Lind on the other, but consists of a line of the length of 15.23 miles between a point in the city of Stockton near the northerly boundary line thereof and the station of "Fine," which station is distant some 15 miles southwesterly from Jenny Lind.

Construction began out of Stockton in the year 1909, and the track was completed to the station near Fine in August 1910, a distance of 15.23 miles.

As shown by the Company's annual report to this Commission for the year ending June 30, 1911, the road was formally taken over for operation on April 1, 1911. While the Company claims that the railroad is still under construction, it is obvious, as a matter of common sense, that the railroad since April 1, 1911, has actually been under operation.

The railroad throughout its length traverses a rich farming country of flat, level lands, which have been largely subdivided into small acreage tracts. The main products consist of fruit, grapes, grain and vegetables.

2. STOCKS AND BONDS.

The Company's authorized capital stock consists of 6000 shares of the par value of \$100 each, being a total authorized issue of \$600,000. Of the stock so authorized, 2639 shares, having a par value of \$263,900, have been actually issued. Of these shares so issued, 9 are held by the directors. The remaining 2630 shares are owned by the United Investment Company, which company seems to be a holding company for the Railroad Company. The United Investment Company sold its own stock to the public and from the proceeds thereof, paid to the Railroad Company \$185,000 for common stock of the par value of \$185,000; the remaining 800 shares of the Railroad Company's ^{capital} stock, owned by the United Investment Company, were loaned to the Investment Company at a book value of 75¢ on the dollar, in return for a contract by which the Investment Company agreed, in order to increase the salability of the bonds of the Railroad Company, that it would, upon demand, take over ^{at par} any or all of such bonds of the Railroad Company as might be loaned ^{and sold} from time to time, and would issue to the holder thereof in exchange for such bonds its own capital stock at prices ranging from 125% of par upward. While this agreement was supposed to render applicant's bonds more salable, the contract, as a matter of fact, is of little or no value to the Railroad Company, for the reason that few, if any, of the Railroad Company's bondholders would care to exchange their bonds for stock in the Investment Company. From the issue of said capital stock of the par value of \$263,900, the Railroad Company accordingly has received in cash the sum of \$185,900.

The Railroad Company has authorized a bond issue of the face value of \$500,000, secured by a first mortgage on its entire property. On June 30, 1912, being the date as of which the facts in this case are to be ascertained, the Railroad Company had issued its bonds of the face value of \$53,700, from which bonds it had secured the sum of \$48,060.00 in cash, as appears from the Railroad Company's report to this Commission for the year ending June 30, 1912.

The Railroad Company in this case requested a finding with

reference either to promotion expense or the cost which has been incurred in selling the Railroad Company's stock and bonds. There is no evidence in this case with reference to such promotion expenses, if any, as may represent the time and money spent by the individuals who promoted this enterprise, other than such expenditures as appear in the original cost, as reported by the Railroad and as found by this Commission's engineering department. There is evidence, however, as to the ~~expensive~~ expenditures made by the Railroad Company, either in stock or in cash in connection with the sale of its stocks and bonds. As heretofore stated, the Railroad issued to the United Investment Company 800 shares of its capital stock, having the par value of \$80,000, for the purposes hereinbefore specified. The Railroad Company claims that in this proceeding it should be allowed such proportion of the sum of \$60,000, at which figure this stock was issued under contract, as the ^{length of the} present operated line bears to the ^{length of the} entire line as contemplated. As the present operated line is 15.23 miles and the line, as contemplated, is 30 miles, it is apparent that the amount now claimed by the Railroad Company for this purpose would be about one half of the stock so issued. Without finding whether this amount, either in stocks or in money, is or is not a reasonable amount to be paid for financing the Railroad Company, I find that 800 shares of stock were issued for the purpose hereinbefore specified and that about one half thereof may be considered as chargeable to that portion of the Railroad Company's proposed line of railroad which on June 30, 1912, was actually under operation. The Railroad Company claims that it should be allowed the items of \$4316.33 for bond agents' commissions and the item of \$7836.09 for sundry expenses incident to the sale of the bonds. It appears from the books of the Railroad Company that these items were spent for the purposes indicated and they may be considered for what they may be worth.

3. REVENUES AND EXPENSES.

The revenues and expenses of the Railroad Company for the year ending June 30, 1912, appear in the annual report of that company on file with this Commission, as follows:

Operating revenues

Freight revenue	\$6990.19
Passenger revenue	5949.08
Excess baggage revenue	.25
Express revenue	252.58
Switching revenue	54.00
Car service	<u>201.00</u>

Total operating revenues \$15,447.10

Operating expenses

Maintenance of way and structures	\$2395.13
Maintenance of equipment	2522.07
Traffic expenses	391.21
Transportation expenses	11892.90
General expenses	<u>3751.62</u>

Total operating expenses \$20,952.93

Operating loss \$ 5,505.83

During this same year the accrued interest, which is not included in the foregoing statement of revenues and expenses, amounted to \$2953.50, and the amount of interest paid during the year was \$2564.00. It should also be noted that in the foregoing statement of revenues and expenses no allowance is made for depreciation and taxes.

4. ORIGINAL COST.

The term "Original Cost," as used in this opinion, means the actual expenditures, in cash or its equivalent, by the Railroad Company for the physical elements entering into its operative property as of June 30, 1912, to which are added overhead expenditures for engineering, law, interest and commissions and similar items.

Attached hereto, and marked "Exhibit A," is the Railroad Company's Exhibit No. 4, introduced at the hearing, and showing the Railroad Company's statement as to original cost and its estimate as to reproduction value and present value, which exhibit is hereby made a part of this opinion.

Attached hereto, and marked "Exhibit B," is the final summary sheet of this Commission's engineering department, showing the same matters.

These exhibits show variations which will hereinafter be referred to in greater detail.

In ascertaining the original cost of the property, this

Commission's engineering department made a careful investigation into the original books of account of the Railroad Company and followed up the same by an examination of the original vouchers in so far as they were ascertainable. Where discrepancies occurred, the matter was taken up with the Railroad Company's officials, in an effort to ascertain exactly the amount of money which had been spent for the purposes herein indicated. The data furnished by the Railroad Company with reference to the physical elements entering into the property was checked over by the engineering department with reference to the accuracy of the computations, and then an inspection of the entire property was made on the ground.

The statement of original cost presented by this Commission's engineering department represents in part the result of these investigations and shows as accurately as it was able to ascertain them the amounts of money actually spent in acquiring, building and equipping the operative property. Neither the engineering department nor the Commission is passing on the reasonableness of these amounts. I am simply finding the facts in connection with the money which was spent on the property, including the amounts spent for such items as engineering, law expenses and interest during construction.

At the hearing, it appeared that certain discrepancies existed between the original cost as reported by the Railroad Company and the original cost as reported by this Commission's engineering department. The largest discrepancy and the only one of particular moment exists in the item of \$51,673.06, which the Railroad Company reported under Class 55 for "other expenditures." This item covers the expenditures, either in stock or in cash, in connection with the sale of the Railroad Company's securities, hereinbefore referred to. As we are now dealing with the original cost of the physical elements of the property, including the necessary percentages for engineering, law expenses and interest during construction, it will not be proper to consider these items under the head of original cost, as those words are herein defined.

As the result of the testimony introduced at the hearing, I find that certain additions to and subtractions from the statement of original cost as reported by this Commission's engineering department should be made. These items are as follows:

Additions

Right of way and station grounds	\$ 36.23
Grading	537.75
Ballast	8.90
Fencing right of way	33.74
Crossings and signs	19.40
Transportation of men and materials	.01
Interest and commission	3084.90
Other expenditures	<u>829.92</u>

Total additions

\$4,550.85

Subtractions

Culverts	\$ 4.00
Station buildings and fixtures	.25
Engineering	2072.36
Steam locomotives	11.50
Passenger train cars	1515.00
Law expenses	<u>260.01</u>

Total subtractions

\$3,863.14

Total amount to be added

\$ 687.71

The ^{amounts} ~~cost~~ for right of way and station grounds, grading, ballast, fencing right of way, crossings and signs and "other expenditures" are items for which the expenditures were made between April 30, 1912 and June 30, 1912. As the investigations of this Commission's engineering department were concluded as of April 30, 1912, the department, of course, had no knowledge concerning these items, and they should be added subject to the comment that the sum of \$537.75 for grading doubtlessly includes items which should properly be chargeable to maintenance and not to original cost. It has been impossible, however, for this Commission to ascertain what proportion of this amount of \$537.75 is properly chargeable to maintenance, and for that reason, in order to be absolutely fair, the entire item is added. The item of one cent for transportation of men and materials is added for the reason that the original cost as reported by the Railroad Company shows a total of one cent in addition to the allowance heretofore made by this Commission's engineering department.

The addition of \$3084.90 under Class No. 54, interest and commissions, is made for the following reasons:

The Railroad Company originally reported a total of \$6267.09 as the amount of money which was actually spent for these items, being principally interest during construction. The report of this Commission's engineering department ~~estimated~~ reduced the item to \$3182.19, not on the ground that the money had not been expended, but on the ground that a reasonable amount to expend would not have been in excess of \$3182.19. As I am finding now the amount of money actually spent, irrespective of the question of whether it was reasonably spent or not, the total of \$6267.09 as reported by the Railroad Company should be allowed under the head of original cost. The item of \$829.92 for "other expenditures" covers expenditures alleged to have been made for capital account between April 30, 1912 and June 30, 1912, and not appearing ⁱⁿ any of the other accounts.

The item of \$4.00 for culverts is to be subtracted for the reason that the engineering department's estimate as to original cost is \$4.00 in excess of the moneys actually expended for this item as now appears from the report of the Railroad Company. The items subtracted on account of engineering, steam locomotives and law expenses are subtracted for the reason that the Railroad Company's statement of original cost, showing the final expenditures on the Company's books as of June 30, 1912, and appearing on the Railroad Company's Exhibit No. 4, were less in these respective amounts than the amounts ascertained by this Commission's Engineering department as of April 30, 1912. The amounts subtracted for station buildings and fixtures and for passenger train cars represent book adjustments as reported to this Commission by the Railroad Company subsequent to the filing of the Railroad Company's said Exhibit No. 4.

In order to avoid confusion, attention should be drawn to the fact that the amounts ascertained by this Commission's engineering department for engineering, law expenses, interest and commissions are not percentages, but represent the moneys actually

spent for these purposes, as shown on the Railroad Company's books of account. These items, however, when they appear under the head of reproduction value or present value, represent fixed percentages of the totals to which these respective accounts are applicable.

I find from the evidence in this case that the original cost of the physical elements, including percentages for engineering, law expenses, interest during construction and commissions, of the operative property of the Stockton Terminal and Eastern Railroad Company as of June 30, 1912, is the sum of \$213,746.84.

5. REPRODUCTION VALUE.

The term "reproduction value," as used in this opinion, means the estimated cost in cash of acquiring the ^{operative} right of way and other real estate and of reproducing in the condition in which it was acquired the other ^{operative} physical property of the Stockton Terminal and Eastern Railroad Company as of June 30, 1912, to which are added overhead expenditures for engineering, law, interest and commissions and similar items.

As hereinbefore stated, this Commission's engineering department made a careful inspection on the ground of all the Railroad Company's property. To all items of labor or materials the department then applied unit prices applicable to this particular railroad. The price of materials used was the actual price for which materials of the different classes could be delivered at the location of the work as of June 30, 1912. The prices for grading were fixed after a careful investigation into a very large number of contract prices covering work actually performed in localities in the State of California under circumstances as nearly similar as possible to those which surrounded the grading on this particular railroad. The Commission's engineering department has secured a very large number of unit prices applicable to all possible items in a valuation, and covering a large variety of circumstances and conditions in the State of California and is using these prices in estimating the reproduction value of the different railroads of the State.

Careful investigation was made into real estate values. The market value at the time of the acquisition of the property and also

at the present time was arrived at by interviews with persons familiar with its value, living at Stockton and along the line of the railroad. As in all/^{other}cases of ascertaining the value of the real estate of a public utility, recent sales of property in the vicinity and the prices at which the land is now held by its owners were used in determining the market value. It appears that 37.6% of the total area of the Railroad Company's operative real estate as of June 30, 1912, and real estate constituting in value 36.1% of the total market value was donated.

I desire at this point to draw attention to the very material difference between the original cost of right of way and station grounds, estimated by this Commission's engineering department at \$16,151.00, and the reproduction value of the same, estimated at \$30,642.00. It will be noted that the reproduction value is almost twice the original cost. The reproduction value as estimated by this Commission's engineering department, represents the amount of money which it would take at the present time to purchase all the Railroad Company's right of way and station grounds, on the assumption that none thereof would be donated. The difference between the original cost of real estate and the reproduction of the present value thereof, including the unearned increment, presents one of the most serious questions in connection with public utility valuations. I shall content myself here, as throughout this opinion, in finding actual facts and shall express no opinion as to whether or not in a rate fixing inquiry it is just to the public to credit the utility with the present value of real estate in which very little or no money may have been actually invested by the utility.

The engineering department's reproduction value on right of way and station grounds was ascertained as follows: By the means hereinbefore indicated, the department ascertained the market value of the property at the time of its acquisition, which market value was found to be 103% of the money actually paid for the property. It should be borne in mind, however, that a large portion of the property was donated and that no account is taken of this property under the head of original cost. After ascertaining the market value of the property at the time of its acquisition, the department

also ascertained the market value as of June 30, 1912 and then multiplied that value by 1.5. This multiple was applied for the reason that the investigations of the department throughout the State show that on an average it costs one and one half times the normal market value of abutting property to acquire right of way/districts^{in country} by purchase or condemnation for railroad purposes. In the absence of more definite information as affecting this particular railroad, this average multiple was used. At the hearing, the Railroad Company contended that the item of \$1663.40 should be added to the estimates of this Commission's engineering department under the head of right of way and station grounds, to cover the price paid for four certain lots in the city of Stockton. It appears, however, that these lots are already included in the department's estimates.

I desire now to refer to the difference in the estimates of reproduction value as shown in Exhibits "A" and "B" hereto attached, being the estimates respectively of the Railroad Company and the Commission's engineering department.

It will be noted that the total by which the Railroad Company's estimate of reproduction value exceeds this Commission's engineering department's estimate is the sum of \$53,923.96. Of this amount, \$44,790.31 is the difference in Class No. 55, "other expenditures," which item has hereinbefore been explained. As has already been pointed out, this item in so far as it exceeds the estimate of this Commission's engineering department, concerns the financing of the Company and has nothing to do with the physical elements of the property. It should be noted in this connection that the Commission's engineering department has taken care of the item of interest during construction and of certain other items connected with the financing of the Railroad under Class No. 54, "interest and commission 3%."

After giving careful consideration to the evidence in this case, I am of the opinion that the following amounts should be added to the estimate of reproduction value as presented by this Commission's engineering department:

Grading	\$1026.61
File and frame trestles	1338.10
Ballast	8.90
Fencing right of way	33.74
Crossings and signs	19.40
Engineering - 5% on above	121.34
Law expenses - 1% " "	25.48
Interest and commissions - 3% on above	<u>77.21</u>
Total to be added	\$2650.78

Next to the item of "other expenditures" hereinbefore discussed, the greatest difference under the head of reproduction value between the estimates presented by the Railroad Company and this Commission's engineering department occurs in the item of grading. The Railroad Company claims a total of about 24¢ per cubic yard for this grading, all of which is common or earth excavation. For the reason that this money was apparently spent, I have allowed all of it under the head of original cost. When it comes to ascertain the reproduction value, however, it is necessary to find whether or not the work can be done more cheaply than it actually was done. Of the 24¢ claimed by the Railroad Company, only 16¢ or 18¢ are for the original grading work. The other 6¢ or 8¢ are alleged to cover additional items, such as transportation of material, preparation of ^{grade} ~~bank~~ for track-laying and unusual difficulties in connection with the performance of a relatively small piece of work in small units on force account. It appears that along most of the Railroad Company's line of railway, rights of way only fifty feet wide were secured. If a wider right of way had been desired it would have been necessary in many cases to have purchased or condemned the additional width. The Railroad Company contends that because of its narrow fifty-foot right of way, it was necessary to haul a considerable portion of its material instead of borrowing it from ^{alongside} ~~the side~~ of the proposed embankments. It should be borne in mind that we are now addressing ourselves to the question of what it would cost to reproduce the grading as of June 30, 1912, under contract and in one continuous job. For that reason, while the performance of the work in small units by force account has raised the original cost of the Railroad above what it would otherwise

have been, these elements do not enter into the cost of reproducing the grading under the conditions herein outlined. It is very possible, however, that in reproducing the grading as of June 30, 1912, ^{might be encountered} difficulties/which may not appear at first sight and which are generally taken care of under the head of contingencies. ~~XXXXXXXX~~

The engineering department, in its estimate, allowed a price of 16¢ per cubic yard to reproduce the grading. In fixing this figure, the department had in mind a large number of contracts under which grading has actually been performed within the last few years in this State in territory of a character largely similar to that through which this Railroad's line of railway has been constructed. It appears that some of these contracts have been let for amounts materially lower than those allowed by the department in this case. Some contracts have been let for work in territory substantially similar to that through which this railroad's line of railway runs for 14¢ and even for 12¢ per cubic yard. For that reason, the department's estimate, barring elements of unusual difficulty connected with this particular railroad, would be at least a fair and liberal one. Bearing in mind, however, that we are seeking to ascertain the cost of reproducing this particular railroad under the ^{physical} conditions in which that railroad finds itself, and not a railroad under ideal conditions in territory of a similar character, I am of the opinion that because of the element of train haul and other difficulties surrounding the possible reproduction of this particular railroad and for which allowance has not been made in the form of an item for contingencies, it would be well to add one cent per cubic yard, not that I am convinced that it will cost 17¢ per cubic yard, but in order to be absolutely fair to this railroad. I shall accordingly estimate the reproduction value of grading in this case at 17¢ per cubic yard. I desire to draw attention to the fact that the Railroad Company's apparent practice of continually adding to original cost items which are

properly chargeable to maintenance of grading, is one which can not be sanctioned by this Commission.

The item of \$1336.10 for pile and frame trestles is added for the reason that through inadvertence it was omitted from the engineering department's ^{reproduction} value estimates. The item, however, was included under the department's statement as to original cost. The sum of \$1336.10 represents the department's estimate of reproducing the items which were omitted. The items for ballast, fencing right of way, and crossings and signs have already been explained under the head of original cost. The entire original cost is allowed. The percentages added for engineering, law expenses and interest and commissions are self-explanatory.

Before leaving the subject of reproduction value, I desire to draw attention to the percentages allowed by the engineering department for overhead expenses, under the heads of engineering, law expenses, and interest and commissions. The item of 5% for engineering includes what is usually termed engineering and also an item of about 1% for organization expenses. The item of 1% for law expenses is a liberal one. The item of interest and commissions, 3%, includes primarily interest during construction. The engineering department has assumed that it would take one year to reproduce this railroad and that all the capital would be tied up half the time or half the capital all the time. The estimate of one year is a liberal one, for the reason that this property could probably be reproduced in considerably less time than one year on the assumption that the work is done in a single job.

On the evidence in this case, I find that the "reproduction ^{physical} value" cost of the operative/property of the Stockton Terminal and Eastern Railroad Company as of June 30, 1912, on the assumption that the work is done in one job, is not to exceed the sum of \$215,918.24.

6. PRESENT VALUE.

The term "present value", as used in this opinion, means the "reproduction value" less the diminution in the value of the physical elements of the property, due to use, age, obsolescence and inadequacy.

While this value may, under certain circumstances, include appreciation as well as depreciation, no appreciation is found in this case. The term "depreciated reproduction value" may properly be used as alternative for the term "present value." It should be distinctly understood that when this Commission in this opinion and the engineering department in its estimates uses the term "present value", it is not intended to establish the ultimate fact of present value, as that term is ordinarily used, but rather the "depreciated reproduction value" of the physical elements of the operative property as of June 30, 1912.

In estimating the present value in this case, this Commission's engineering department made a careful investigation into the average life and salvage value of the different classes of material and labor, using the straight line method of depreciation. The table used by the engineering department as applicable to the facts of this case is as follows:

	Average Life	Salvage Value	Actual Life	Annual Depreciation (a)	Present Value % New.
Right of Way-----	-----	-----	-----	-----	100%
Grading-----	-----	-----	-----	-----	100%(b)
Trestles Bridges----	10	-----	2	10%	80%
Culverts-C.I.-----	16	-----	2	6%	88%
Redwood Ties-----	16	-----	2	6%	88%
Rails - new-----	25	--36%	2	2 2/3%	95%
" - Relay(1910)--	15	48%(c)	2	3 2/3%	93%(c)
Frogs & Switches----	25	36%	2	2 2/3%	95%
Track Fastenings, etc.	12 1/2	-----	2	8%	84%
Ballast-----	10	-----	1 1/2	10%	85%
Track Laying etc.---	-----	-----	2	-----	93%(d)
Roadway Tools-----	10	-----	2	10%	80%
Fencing-----	15	-----	2	6 2/3%	87%
Crossings etc?					
Station Bldgs. etc.--	10	-----	2	10%	80%
Gen'l Office Furniture	20	-----	2	5%	90%
Other Structures----	10	-----	2	10%	80%
Engineering-----	-----	-----	-----	-----	100%
Equipment-----	-----	-----	-----	7%	86%
Law Expenses-----	-----	-----	-----	-----	100%
Stationery etc.-----	-----	-----	-----	-----	100%

a. Percent - total cost "new" on "straight line" basis.

- b. Generally addition for "appreciation" made, but not in this case on account roadbed not being maintained up to original cross-section.
- c. Depreciated on basis of rail being "new" and worth \$39.00 per ton at time of purchase. Scrap estimated at \$14.00 per ton.
- d. Depreciated on same basis as materials entering into construction of track.

Attention is hereby directed to the Railroad Company's estimate of present value, as shown in Exhibit "A" attached to this opinion, and this Commission's engineering department's estimate as shown in Exhibit "B" attached to this opinion.

From a consideration of the evidence in this case I find that certain items should be added to the engineering department's estimate. These items, together with their estimated condition, are as follows:

Item	Condition <u>per cent</u>	Present <u>Value.</u>
Grading	100	\$ 1026.61
Pile and frame trestles	81	1087.76
Ballast	100	8.90
Fencing right of way	100	33.74
Crossings and signs	100	19.40
Engineering	100	121.34
Law expenses	100	25.42
Interest and commissions	100	<u>77.21</u>
Total to be added,		\$ 2400.44

Of the items so added, all with the exception of the item of \$1087.76 for pile and frame trestles are equivalent in amount to similar items heretofore added under the head of reproduction value. The item of \$1087.76 for pile and frame trestles represents an additional allowance under this account, which was overlooked in the engineering department's estimate and to which reference has hereinbefore been made under the head of reproduction value.

I find from the evidence in this case that the "present value", as hereinbefore defined, of the operative physical property of the Stockton Terminal and Eastern Railroad

Company as of June 30, 1912, is not to exceed the sum of
two hundred and two thousand one hundred eighteen & 27/100
(\$202,118.27) dollars.

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

Dated at San Francisco, California, this 30th day of
April, 1913.

John W. Eschleman

Wm. G. Gordon

Max. Thelen

Edwin C. Edgerton

Commissioners.

Name of Owner Stockton Terminal & Eastern Railroad Co.

Operating Co. Same

FORM No. 48.

Valuation as of June 30, 1912
Stockton Term. & Eastern R. Co.
 Field Inspector

Division _____
 From Stockton To Fine
 Miles, Main Line Track 15.23
 Miles, Second Track _____
 Miles, Yard Tracks, etc. 1.89
 Total 17.12

CALIFORNIA RAILROAD COMMISSION

PHYSICAL VALUATION OF STEAM RAILROADS

FINAL SUMMARY SHEET

EXHIBIT "A"

Do _____
 Office Compiler _____
 Date Compiled February 1912
 Joint Main Line _____ Miles
 Joint Second Track _____ Miles
 Joint Yard Track, etc. _____ Miles
 Total _____ Miles

Class No.	Form No.	I.C.C. Acct. No.	CLASSES	ORIGINAL COST	REPRODUCTION VALUE	Cond. pr. et.	PRESENT VALUE
1	1	2	Right of way and station grounds.	16187 23	30642 00	100	30642 00
2	2	3	Real estate.				
3	3	4	Grading.	12221 50	12221 50	100	12221 50
4	4	5	Tunnels.				
5	5	6	Steel bridges and trusses.				
6	6	6	Pile and frame trestles.	5778 30	5778 30	80	4622 64
7	7	6	Culverts.	665 53	665 53	88	585 67
8	8	7	Ties.	32405 21	32828 90	88	28889 43
9	9	8	Rails.	63111 78	64048 30	Var	60894 93
10	10	9	Frogs and switches.	1787 48	1790 95	95	1700 50
11	11	10	Track fastenings and other material.	6965 58	6948 60	84	6248 78
12	12	11	Ballast.	264 59	265 00	85	225 25
13	13	12	Tracklaying and surfacing.	19529 22	12840 00	93	11941 20
14	14	13	Roadway tools.	2147 98	1006 93	80	805 30
15	15	14	Fencing right of way.	4130 92	4130 92	87	3593 90
16	16	15	Crossings and signs.	751 25	751 25	84	631 05
17	17	16	Interlocking plants.				
18	18	16	Signal apparatus.				
19	19	17	Telegraph and telephone lines.				
20	20	18	Station buildings and fixtures.	389 31	389 31	80	311 44
21	21	18	Platforms, walks, paving and curb.	122 00	139 20	80	111 36
22	22	19	General office buildings and fixtures.	733 53	733 53	90	660 18
23	23	20	Shop buildings and engine houses.	212 34	212 34	80	169 87
24	24	20	Transfer and turntables, cinder pits, etc.	242 75	242 75	80	194 20
25	25	20	Miscellaneous shop buildings and structures.				
26	26	21	Shop machinery and tools.	68 08	68 08	90	61 27
27	27	22	Water stations.	256 86	256 86	80	213 49
28	28	23	Fuel stations.				
29	29	24	Grain elevators.				
30	30	25	Storage warehouses.				
31	31	26	Dock and wharf property.				
32	32	27	Electric light plants.				
33	33	28	Electric power plants.				
34	34	29	Electric power transmission.				
35	35	30	Gas producing plants.				
36	36	31	Miscellaneous structures.	108 26	108 26	80	86 61
			Total Classes 1 to 36, inclusive.	167089 70	176078 51		164810 57
37		1	Engineering <u>5</u> per cent. 1 to 36, inclusive.	8803 93	8803 93	100	8803 93
38	37	32	Transportation of men and material.	42 51	42 51	100	42 51
39	38	33	Rent of equipment.	1053 66	1053 66	100	1053 66
40	38	34	Repairs of equipment.	280 82	280 82	100	280 82
41		35	Earning and operating exp. during construction.	4560 60			
42		35	Injuries to persons. <u>Boarding House</u>	1035 33			
43		36	Cost of road purchased.				
			Total Classes 1 to 43, inclusive.	173745 35	186259 43		174991 49
44	39	37	Steam locomotives. & Auto Cars	8321 64	5000 00		3000 00
45		38	Electric locomotives.				
46	40	39	Passenger train cars. & Motors	13728 09	12434 50		11759 50
47	41	40	Freight train cars.	2984 73	2984 73	90	2686 26
48	42	41	Work equipment.				
49	43	42	Floating equipment.				
			Total Classes 1 to 49, inclusive.	198779 81	206678 66		192437 25
50		43	Law expenses <u>1</u> per cent. Classes 1 to 36, incl.	1987 80	2066 79	100	2066 79
51	44	44	Stationery and printing.	103 20	103 20	100	103 20
52	44	45	Insurance.	45 00	45 00	100	45 00
53	45	46	Taxes.	9 50	9 50	100	9 50
			Total Classes 1 to 53, inclusive.	200925 31	208903 15		194661 74
54		47	Int. & Comm. <u>3</u> per cent. Classes 1 to 53, incl.	6267 09	6267 09	100	6267 09
55	45	48	Other expenditures.	51673 06	51673 06	100	51673 06
56			Contingencies <u>per cent.</u> Classes 1 to 53, incl.				
57	46		Stores and supplies on hand for use in California.	348 12	348 12		348 12
			GRAND TOTAL	259213 58	267191 42		252950 01
			Average per mile for main line track.	17019 93	17478 68		16608 67

Name of Owner Stockton Terminal & Eastern R.R. Co.
 Operating Co. Same
 Division -----
 From Stockton To Pine
 Miles, Main Line Track 15.23
 Miles, Second Track -----
 Miles, Yard Tracks, etc. 1.89
 Total 17.12

FORM No. 48.
CALIFORNIA RAILROAD COMMISSION
 PHYSICAL VALUATION OF STEAM RAILROADS
FINAL SUMMARY SHEET
 EXHIBIT "B"

Valuation as of June 30, 1912
Richard Sachse
 Field Inspector
do
 Office Compiler
 Date Compiled June 27, 1912
 Joint Main Line ----- Miles
 Joint Second Track ----- Miles
 Joint Yard Track, etc. ----- Miles
 Total ----- Miles

Class No.	Form No.	I.C.C. Acct. No.	CLASSES	ORIGINAL COST	REPRODUCTION VALUE	Cond. pr. ct.	PRESENT VALUE
1.	1	2	Right of way and station grounds.	26151 00	30642 00	100	30642 00
2	2	3	Real estate.				
3	3	4	Grading.	11683 75	7821 76	100	7821 76
4	4	5	Tunnels.				
5	5	6	Steel bridges and trusses.				
6	6	6	Pile and frame trestles.	5778 30	3276 32	80	2621 06
7	7	6	Culverts.	669 53	437 90	88	385 35
8	8	7	Ties.	32405 21	32828 90	88	28889 43
9	9	8	Rails.	63111 78	64048 30	Var.	60894 93
10	10	9	Frogs and switches.	1787 48	1790 00	95	1700 50
11	11	10	Track fastenings and other material.	6965 58	6948 60	84	6248 78
12	12	11	Ballast.	264 59	265 00	85	225 25
13	13	12	Tracklaying and surfacing.	19529 22	12840 00	93	11941 20
14	14	13	Roadway tools.	1147 98	1006 63	80	805 30
15	15	14	Fencing right of way.	4097 18	3340 85	87	2906 54
16	16	15	Crossings and signs.	731 85	518 50	84	426 74
17	17	16	Interlocking plants.				
18	18	16	Signal apparatus.				
19	19	17	Telegraph and telephone lines.				
20	20	18	Station buildings and fixtures.	389 31	181 00	80	144 80
21	21	18	Platforms, walks, paving and curb.	122 00	139 20	80	111 36
22	22	19	General office buildings and fixtures.	733 53	733 53	90	660 18
23	23	20	Shop buildings and engine houses.	212 34	212 34	80	169 87
24	24	20	Transfer and turntables, cinder pits, etc.	242 75	242 75	80	194 20
25	25	20	Miscellaneous shop buildings and structures.				
26	26	21	Shop machinery and tools.	68 08	68 08	90	61 27
27	27	22	Water stations.	266 86	266 86	80	213 49
28	28	23	Fuel stations.				
29	29	24	Grain elevators.				
30	30	25	Storage warehouses.				
31	31	26	Dock and wharf property.				
32	32	27	Electric light plants.				
33	33	28	Electric power plants.				
34	34	29	Electric power transmission.				
35	35	30	Gas producing plants.				
36	36	31	Miscellaneous structures.	108 26	108 26	80	86 61
			Total, Classes 1 to 36, inclusive.	166466 58	167716 78	94	157140 62
37		1	Engineering <u>5</u> per cent, 1 to 36, inclusive.	10876 29	8385 84	100	8385 84
38	37	32	Transportation of men and material.	42 50	42 50	100	42 50
39	38	33	Rent of equipment.	1053 66	1053 66	100	1053 66
40	38	34	Repairs of equipment.	280 82	280 82	100	280 82
41		35	Earning and operating exp. during construction.	4560 60			
42		35	Injuries to persons. <u>Boarding House</u>	1035 33			
43		36	Cost of road purchased.				
			Total, Classes 1 to 43, inclusive.	175194 58	177479 60	94	166903 44
44	39	37	Steam locomotives. <u>& into Cars</u>	8333 14	5000 00	60	3000 00
45		38	Electric locomotives.				
46	40	39	Passenger train cars. <u>& no tops</u>	13728 09	12434 50	95	11759 50
47	41	40	Freight train cars.	2984 73	2984 73	90	2686 26
48	42	41	Work equipment.				
49	43	42	Floating equipment.				
			Total, Classes 1 to 49, inclusive.	200240 54	197898 83	93	184349 20
50		43	Law expenses <u>1</u> per cent, Classes 1 to 49, incl.	2247 83	1978 99	100	1978 99
51	44	44	Stationery and printing.	103 20	103 20	100	103 20
52	44	45	Insurance.	45 00	45 00	100	45 00
53	45	46	Taxes.	9 50	9 50	100	9 50
			Total, Classes 1 to 53, inclusive.	202646 07	200035 52	93	186485 89
54		47	Int. & Comm. <u>-----</u> per cent, Classes 1 to 53, incl.	3182 19	6001 07	100	6001 07
55	45	48	Other expenditures.	6882 75	6882 75	100	6882 75
56			Contingencies <u>-----</u> per cent, Classes 1 to 53, incl.	348 12	348 12	100	348 12
57	46		Stores and supplies on hand for use in California.				
			GRAND TOTAL	213059 13	213267 46	93.7	199717 83
			Average per mile for main line track.	13988 78	14003 12	93.7	13713 45