

Decision No. 8207

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

ORIGINAL

In the Matter of the Application )  
of Merchants Transportation Company )  
for authority to increase freight )  
rates. )

APPLICATION NO. 5982.

David L. Levy, for Applicant.

Seth Mann and H. M. Remington, for  
San Francisco Chamber of Commerce.

LOVELAND, COMMISSIONER:

O P I N I O N

This application is one of a group of eight filed on August 2, 1920, under Section 53 of the Public Utilities Act, for authority to establish a uniform schedule of rates, rules and regulations covering the transportation of freight between ports and landings on the Sacramento river south of the city of Sacramento, on the San Joaquin river west of the city of Stockton, including intermediate landings on connecting rivers and sloughs, and points located on San Francisco Bay and its tributary waters.

The rates now in effect by the Merchants Transportation Company are practically identical with those of the other seven companies forming the group referred to above and while the character of service performed is similar, if not identical, the proposed rates are the same as those authorized by Decision No. 7986, in Application No. 5841, August 23, 1920, for eight large companies, represented by

Woodward Campbell, Agent.

The schedule of class rates proposed is approximately 25 per cent higher than rates now in effect. A comparison of the two scales follows:

CLASS RATES  
(Rates in Cents per 100 Pounds)

	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>
Present -	27½	25	21½	19	12½
Proposed -	34½	31½	27	24	15½
Increases-	7	6½	5½	5	3

Under the application the commodity rates vary both as to the percentages of increases proposed and, in instances, as to the basis upon which the charges would be assessed. The proposed tariff also contains reduced rates, additional rules and regulations and new rates applying to service not heretofore covered by schedule.

A hearing on the application was held at San Francisco on August 30, 1920, at which testimony and exhibits were offered on behalf of Merchants Transportation Company only, further hearing on applications of carriers associated with this company being, by reason of failure to bring forward supporting facts, postponed to a later date. Oral testimony adduced went largely to support applicant's allegations as to increased operating costs, with special reference to labor, fuel, materials and supplies.

Exhibit No. 1 is a general balance sheet as of June 30, 1920, showing assets amounting to \$95,557.83, including reserve for depreciation of \$12,105.66. Practically all of the vessels and equipment were constructed or purchased new in 1919. An operating statement for the year ending June 30, 1920, the only full year applicant operated as a public utility, filed as Exhibit

No. 2, shows a net profit of only \$414.82. This statement, however, includes in the operating expenses depreciation on vessels of 12%, on equipment 15% and on furniture and fixtures 10% per annum, amounting to \$12,105.66; also an interest item of \$4,800.00 and, therefore, the net profit given does not represent the actual result. At the Commission's direction, an operating statement was compiled making an estimate for twelve months ending June 30, 1921, using the increased rates proposed in the application and the increased operating costs now in effect and in immediate prospect, averaging approximately 25%. The result is as follows:

Gross operating revenue	\$127,058.46
Gross operating expenses, including taxes, in- surance, rent, etc.	109,665.74
Net operating profit.	17,392.72
Less interest on loan(\$4,800.)	16,905.66
Depreciation (as claimed) (12,105.66)	
Estimated net income for 12 months ending June 30, 1921.	487.06

In submitting these estimates applicant stated that it was highly improbable, in view of the ideal operating conditions obtaining last year, upon which these estimates are based, that the net profit indicated, or any profit at all, will be realized. In 1919 a strike among employees of competing lines drove an unusual volume of business to applicant; the high market price of the principal commodities carried, the resulting short harvest period and the peak loading, added materially to the revenues. These favorable conditions cannot, it is stated, recur in the ordinary course during the next fiscal year to the financial advantage of applicant.

It is a matter of common knowledge, and the record in this proceeding abundantly shows, that operating expenses have greatly increased during the past few years. The depreciation charged for the year ending June 30, 1920, as heretofore stated, was 12% on vessels, 15% on equipment and 10% on furniture and fixtures, which basis is in excess of the average claimed by companies and individuals operating vessels of a similar class in the same territory. Common carriers, as well as other public utilities, are entitled to earn, in addition to current operating expenses and a return upon the investment, an amount sufficient to make good depreciation to the property due to wear and tear and natural causes. The loss is constantly taking place and, therefore, an amount of money should be set aside each year for replacing the property when the parts become unfit for further use. Because of the comparative newness of this equipment the amount to be set aside annually for depreciation is difficult to determine.

In Application No. 5841, of Woodward Campbell, Agent for eight of the larger companies operating between San Francisco, Sacramento and Stockton, the oral testimony on depreciation varied, depending upon the class of the vessel, being 10% on high class boats receiving careful attention, to 20% on barges doing the heavy and rough work, but in the exhibits furnished in that proceeding the depreciation was based upon 10% per annum on all of the depreciative property. In that application, the carriers were granted authority to increase rates, it being shown that most of them operated at a loss before any deductions were made for depreciation.

The net operating profit of this applicant, as estimated for the year ending June 30, 1921, is \$17,792.72, while the claimed value of the property devoted to the public service is \$95,557/83.

If depreciation of 10% be allowed, or \$9,555.78, instead of \$12,105.66, the estimated net income would be \$8,236.94, or approximately 8½%.

The Commission does not here pass upon the reasonableness of a depreciation of 10%, but is relying upon the sworn testimony of some twenty witnesses who appeared in Application No. 5841 and this Application, No. 5982.

The question of depreciation is being made the subject of an independent investigation and the results of the investigation will be considered when the reports are received from the carriers whose rates we have permitted to be increased.

The proposed rates are no higher than those now being assessed by the principal boat lines in the Sacramento River and San Francisco Bay districts and in consideration of all of the statements and testimony, and by reason of the conditions generally surrounding the service, I am of the opinion that this application should be granted, with the understanding, however, that at the end of a period of twelve full months, dating from the effective date of the tariffs containing the increased rates, applicant shall submit to the Commission a complete operating statement showing revenue and expenses in detail during such period.

I recommend the following form of order:

#### O R D E R

Merchants Transportation Company having applied to this Commission for authority to increase and adjust freight rates and establish rules and regulations, as set forth in an exhibit designated Local Freight Tariff No. 3 (C.R.C.No.3) filed with and made

part of the application, a hearing having been held thereon and the matter having been submitted.

IT IS HEREBY ORDERED that applicant be, and the same is hereby authorized to publish, file and place in effect schedule of rates, rules and regulations conforming to the said exhibit, entitled Local Freight Tariff No. 3, C.R.C. No.3, accompanying the application.

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 6<sup>th</sup> day of October ~~September~~, 1920.

Edw. C. Edgerton  
H. D. Loveland  
Frank P. Brown  
H. B. Boudige

Commissioners.