

Decision No. 12159

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

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In the matter of the application of)
The Rodeo-Vallejo Ferry Company, a)
corporation, for leave to increase) Application No. 8512.
passenger fares between Mare Island)
and the City of Vallejo.)

tum Suden and tum Suden, by Peter tum Suden,
for applicant

S. W. Morgan, C. Neilsen and E. J. Dorris,
for Mare Island Employees Association

P. J. Willett, for the Commandant of Mare Island
Navy Yard

W. H. Depew, for Central Labor Council of Vallejo

WHITTLESEY, COMMISSIONER

OPINION ON REHEARING

This matter again comes before the Commission on the petition of applicant for a rehearing, which was held in Vallejo on April 26, 1923.

At this time applicant amends its original application, which requested an increase of from two and one-half cents a single trip to five cents, and from five cents a round trip to ten cents, by now leaving the fares to be fixed by the Commission.

The original opinion in this matter described the service given, but it may be added at this time that practically all of applicant's patrons are civilian employees of the Mare Island Navy Yard, who go from Vallejo to the Island in the morning and back at night, with some riding to Vallejo and back in the noon hour for lunch. Applicant has no direct competition

in this service, but is subject to some extent to competition by reason of the government causeway, over which the employees can travel back and forth either by automobile or on foot. At present about fifty per cent of the employees use the ferry and this seems to be a somewhat stable condition, as the causeway was built some years ago and the relative number of employees using the causeway has had ample time for adjustment.

Valuation and Rate Base

Mr. H. G. Weeks, the Commission's Transportation Engineer, presented a valuation of the properties of applicant used on the Vallejo-Mare Island run, as follows:

Historical Reproduction Cost,
Valuation as of March 26, 1923 ----- \$50,176.

Inasmuch as the revenue is collected in cash in advance on this run this service is analogous to street railway service and following the policy of the Commission nothing will be added to represent working capital and, therefore, the Historical Reproduction Cost of \$50,176 is adopted as a rate base.

Revenues

Applicant submitted in exhibit "A" a statement of revenues for the year ending March 31, 1923 as follows:

Ticket sales	\$25,318.33
Rent of building	<u>405.00</u>
Total	\$25,723.33

In considering revenues for the future, applicant estimated 1500 round trips for 305 days in the year 1923, total 459,000, but it should be noted that the number of passengers fluctuates with the number of civilian employees at the Navy Yard and that the number of employees ferried in 1922 varied from about 5000 in January to 3000 the latter part

of the year. For this reason figures representing the past year cannot be used in estimating the future.

Mr. Weeks estimates 1700 round trips per working day of 300 days a year, which makes 510,000 round trips for the year, based upon the experience of December 1922 to March 1923. Applicant estimated with a higher rate about 200 less round trips daily, representing the travel during the noon hour, which would not be continued at the higher rate. A figure of 500,000 represents a fair estimate to use on the determination of reasonable rates.

The rent of the wharf building, according to applicant, should produce \$480. annually.

There was filed, January 24, 1923, with the Commission a petition signed by the applicant, the Commandant of Mare Island, and the Navy Yard Association of Mare Island Employees wherein these parties agree that the applicant be allowed to increase its fare to twenty round trip tickets for \$1.50 with a single round trip of ten cents, all tickets to be good until used and to be transferable.

Expenses

The record of operating expenses for the year ending March 31, 1923, together with estimates for the ensuing year are presented in Table I following:

TABLE I
Operating Expenses

Item	Year 1922 Carrier's Records	Estimates for Ensuing Year		
		By Applicant	By Commission's Engineer	Applicant exceeds by
(a)	(b)	(c)	(d)	(e)
Repairs to floating equipment	1 846.94	1 600.00	1 300.00	300.00
Repairs to terminals	7 698.67	3 000.00	1 000.00	2 000.00
Transportation Ex- penses	16 646.06	13 174.00	15 500.00	-2 326.00
Fuel and lubrica- ting oil	3 874.95	5 400.00	3 720.00	1 680.00
Insurance	1 425.54	1 425.36	1 425.36	0
Heat, light, power and water	662.87	672.00	700.00	-28.00
Telephone & telegraph	93.65	72.00	108.00	-36.00
City lease, wharf location	120.00	120.00	120.00	0
Printing & stationery	300.15	180.00	300.00	-120.00
Supervision & account- ing	835.60	2 100.00	700.00	1 400.00
Subtotal A		27 743.36	24 873.36	2 870.00
Depreciation	5 534.69	5 414.52	# 1 103.00	4 458.52
Subtotal B		33 157.88	25,976.36	7 328.52
Contingencies 2%	0	668.30	0	668.30
Subtotal C		33 826.18	25,976.36	7 996.82
Taxes	262.65	257.16	264.00	-6.84
Total	39 301.77	34 083.34	26 240.36	7 989.98

Corrected for slight error in calculations.

There are apparently considerable differences in columns "b", "c", and "d" for repairs to terminals, transportation expenses, fuel and lubricating oil, supervision and accounting and depreciation.

Taking up first the carrier's recorded cost of repairs to terminals \$7,698.67, the evidence indicates that this figure cannot be used as a basis for an estimate of the future

repair costs. It was shown that an order for the repairs to the terminals above noted was given to the Bay Construction Company without competitive bids. Pay-rolls were not attached to vouchers supporting these expenditures and there was not sufficient detail to show clearly what work had been done. Compared with similar jobs the amounts charged appear exorbitant for this work.

Furthermore, witness for applicant stated that he believes dock repairs could be kept within \$900. a year for the next ten years, and since our engineer's estimate was not successfully controverted, his allowance of \$1000. should stand.

The next largest item of difference is in transportation expense where applicant's estimate is \$2326. less than that of our engineer. Applicant's estimate is based on a six-day week, but still is less than the actual expense for the year ending March 31, 1923, during part of which time a five-day week was in effect. Our engineer's estimate is on the basis of the last

four months and in spite of being higher than the applicant's estimate is more reasonable.

For fuel and lubricating oil applicant estimates \$5400. or \$1680. above the estimate of our engineer. The latter's estimate was based on the actual expenses for the last four months, when six days a week operation was in effect. Applicant's estimate is based on the average of the past two years. There is no good ground for assuming that the price of oil will be higher for the next twelve months than the price paid during the last four months.

The next largest item of difference is supervision and accounting. Our Engineer's estimate is based on pro-rating the general expenses of the entire Rodeo-Vallejo Ferry Company between the Carquinez Straits and Mare Island runs in the proportion of the gross revenues of each run, while the applicant made an arbitrary estimate; increasing this item \$300. over the cost in the year 1922.

The greatest difference in the estimate of expenses lies in depreciation. Applicant stated that the charge for depreciation was based on the book value of the plant and the rate of depreciation filed with the government income tax.

The record shows that the actual cost to the various owners of the properties used in the Mare Island service at the time they were installed is not known, and that the book value is an arbitrary figure.

In this proceeding the Commission is not interested in how an arbitrary charge standing on applicant's books as the cost of the properties here under consideration is to be written off, unless it takes into consideration at the same time the

actual value of the properties when applicant acquired them. In this case the recorded cost to the applicant was undoubtedly influenced by the fact that the Rodeo-Vallejo Ferry Company had serious competition on its Carquinez Straits run and that in order to remove this competition it thought best to buy out the competitor and in so doing it was necessary to take the Mare Island run, as well as the Carquinez Straits run.

The depreciation rates permitted by Federal authority in computing income taxes cannot be accepted as a basis for this Commission in fixing proper depreciation charges when fixing rates. The amount to be charged annually to operating expenses to cover depreciation of the plant, according to our engineer's estimate is \$1,103.00 calculated on a 5% sinking fund basis from the date various items were installed in this service. He carried forward the sinking fund curve from the date of his appraisal and when rates are to be established on the above basis this is a correct method to follow in order to arrive at the allowance for depreciation.

Had this basis been followed throughout the life of the property and proper accounts kept, there would be on the books of applicant, according to Mr. Weeks' estimate, a depreciation reserve of \$20,345.00 to cover in part the retirement of the cost of the Mare Island run properties. Though this reserve does not exist, nevertheless, applicant should appropriate at least \$1,035.00 of the allowance for fair return and credit the same to its reserve for accrued depreciation.

INCOME AND RETURN:

Under present rates, we estimate the revenues of applicant at \$25,000, the rent of buildings at \$480, making a total of \$25,480. The operating expenses, including taxes for the ensuing year, are

estimated at \$25,137.36. Deducting the estimated expenses from the estimated revenues, leaves a balance for depreciation and return of \$342.64. The amount remaining for depreciation and fair return is unreasonably low and warrants the Commission granting such increase of rates as herein specified. Using 500,000 round trips per year and assuming that the rate of fare will not affect the number of passengers, which is a reasonable assumption for small changes in rates, it is concluded that single trip tickets at three cents each sold in strips of approximately twenty-five is a fair and reasonable rate for the passengers who ride back and forth daily and that single tickets should be sold at the convenient rate of five cents.

The following form of order is recommended.

ORDER OF REHEARING

Rodeo-Vallejo Ferry Company having applied for permission to increase its passenger fares between Vallejo and Mare Island, public hearings having been held, the matter having been submitted and ready for decision and it appearing that transferable single trip tickets at three (3) cents each sold in strips of approximately twenty-five tickets and single tickets at five (5) cents per single ticket are fair and reasonable rates under certain conditions hereinafter specified,

IT IS HEREBY ORDERED, that Rodeo-Vallejo Ferry Company be and it is hereby permitted to increase its passenger fares applying between Vallejo and Mare Island from two and one-half

cents per one-way trip to five cents per single trip, provided transferable single trip tickets, unlimited as to expiration, are also sold at the rate of three (3) cents each in strips of approximately twenty-five tickets.

The authority herein granted to increase rates will not become effective until Rodeo-Vallejo Ferry Company has filed with the Commission in satisfactory form a stipulation duly executed by its Board of Directors agreeing to credit its reserve for accrued depreciation, created to retire properties in service between Vallejo and Mare Island for the year ending December 31, 1923, with at least the sum of \$2,138. and each year thereafter with a like amount, plus 5% per annum on the sum in the reserve resulting therefrom, except as said sum may be modified because of changes in the depreciable property of applicant, or be modified by the Commission.

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 31st day of May, 1923.

O'Searney

Egerton Shore

J. T. Whittier
Commissioners.