

Decision No. 13965

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application )  
of Bakersfield and Kern Electric )  
Railway Company, a California )  
corporation, for an investigation )  
of its charges and service. )

Application No. 9550.

ORIGINAL

Murray Bourne, for Applicant.  
E. F. Brittan, City Attorney, for City  
of Bakersfield.  
Charles K. Badger, for East Bakersfield  
Boosters Club.

WEITBRESEY, COMMISSIONER:

O P I N I O N

In the above entitled application, Bakersfield and Kern Electric Railway Company requests the Commission:

(a) To make further investigation of applicant's service, facilities and methods of carrying on its business.

(b) To grant to applicant the right to file a new and revised schedule of rates and of service sufficient to produce a fair rate of return on the value of applicant's property used in public service.

(c) To grant applicant such further different or additional relief as shall seem proper in the premises.

In this application it is alleged in effect that the revenue received through the operation of applicant's street railway system under the existing cash fare of five cents does not now, nor has it for several years, paid operating expenses, taxes, depreciation charges and a fair interest return on the property devoted to public use.

A public hearing was held on this matter in Bakersfield,

May 15, 1924.

On October 5, 1921, applicant herein filed its Application No. 7230 with the Commission, seeking practically the same relief as asked for in the application now under consideration. The Commission made an investigation in connection with Application No. 7230 and a public hearing held, whereupon an order was issued by the Commission's Decision No. 11264 dated November 25, 1922. In this decision, the Commission expressed the opinion that if applicant would establish "one man operation of cars" and "omit the first and last single trip" the revenue received would then pay operating expenses, depreciation and a fair interest return upon the property devoted to public use. Thereupon Application No. 7230 referred to above was dismissed without prejudice.

Applicant immediately put into effect the suggestions contained in the Commission's decision referred to above. The result has been that the operating expenses decreased as anticipated by the Commission, but due to the depression in the oil business and other industries around Bakersfield, and the increased use of the automobile, the revenues unexpectedly decreased. As a result, applicant's net operating revenue has decreased from \$158,452. in 1921 to \$124,000. in 1922 and to \$105,042. in 1923.

Bakersfield and Kern Electric Railway Company operates some 10.66 miles of single track electric railroad, of which 4.52 miles are double tracked, in addition to three bus lines which extend a total distance of approximately 2.9 miles beyond the ends of the electric lines.

The operating conditions of applicant's street car system is shown in the following tabulation taken from applicant's Exhibit No. 2 and Commission's Exhibit No. 1:

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	Applicant's Exhibit #2	Commission's Exhibit #1	Applicant's Exhibit #2	Commission's Exhibit #1
Historical reproduction cost of operating properties	\$567,256.	\$568,314.	\$575,864.	\$574,422.
Total Operating Revenue	123,898.	124,000.	105,042.	105,042.
Total Operating Expense including taxes and depreciation	114,125.	114,275.	97,946.	98,518.
Net earnings available for return	9,773.	9,725.	7,096.	6,524.
Rate of return on investment (per cent)	1.723	1.711	1.232	1.136

The slight difference in the valuation shown by applicant's exhibit as compared to that of the Commission is due to different consideration of open accounts on the utility's books. Both, applicant's and Commission's valuation is based on the Commission's engineer's estimate of historical reproduction cost of applicant's operating properties as of June 30, 1922, as shown in the Commission's Exhibit No. 1 in Application No. 7230 referred to above, plus additions and betterments.

Commission's Exhibit No. 1 in this proceeding shows applicant's capital investment in operative property as of December 31, 1923 to be \$580,529. and as of March 1, 1924 as \$580,599.

The following tabulation from Commission's Exhibit No. 1 shows the operating conditions of the Bakersfield and Kern Electric Railway System during the past five years:

	1919	1920	1921	1922	1923
Operating revenue, passenger cars,	\$103,698	\$119,018	\$121,734	\$108,837	\$ 91,535
Operating " Auto Busses,	15,530	14,908	16,718	15,113	13,507
Total operating revenue	117,028	113,926	138,452	124,000	105,042
Operating expenses, street cars,	46,602	58,530	59,646	62,845	53,589
Operating " Auto Busses,	26,435	27,841	31,047	29,181	22,065
Taxes,	7,457	6,197	10,548	10,323	9,010
Depreciation	15,148	13,517	15,144	11,925	13,854
Total operating expenses, taxes and depreciation,	95,642	108,085	116,385	114,275	98,518
Car mileage, street cars,	363,173	384,240	383,405	383,104	364,934
" " auto busses,	195,259	173,153	167,974	157,307	141,835
Total car mileage	568,432	557,393	551,379	540,411	506,769
Revenue Passenger-street cars,	2025166	2331760	2436326	2176924	1829455
Revenue, " Auto Busses,	261873	293026	349250	315850	280895
Total Revenue, passengers,	2285039	2624786	2777576	2492774	2110350

Considering the bus lines of Bakersfield and Kern Electric Railway by themselves, the revenue collected thereon during the past two years does not pay the operating expenses, as may be seen by the following tabulation:

	B U S   L I N E					
	Baker Street		Niles Street		West Park	
	<u>1922</u>	<u>1923</u>	<u>1922</u>	<u>1923</u>	<u>1922</u>	<u>1923</u>
Passenger receipts	\$5,872.	\$5,330.	\$5,692.	\$6,145	\$4,557	\$4,033
Total operating expense	7,765.	5,830.	10,407.	7,427	7,524	6,959
Net revenue (deficit)	3,891.	2,500.	3,715.	1,282	2,967	2,926

The above statement shows the loss incurred by the operation of the through Bus lines. Crediting them with only the cash receipts collected on the busses naturally shows a large deficit; but without the busses the receipts on the electric cars would certainly be less and some portion of those receipts should be credited to the bus lines. However, it is not practical to segregate the receipts and operating expenses of any part of this street car system so as to show correctly the net result of operating such a part, although it is probable that the busses do operate at some loss. It is doubtful if the elimination of these bus feeders would prove advantageous to the company, and it would certainly inconvenience many persons now using them. It is the desire of the Bakersfield and Kern Electric Railway Company, as well as this Commission, to keep the system intact as it now exists if it is economically possible to do so.

From the foregoing, it is apparent that applicant is reasonably entitled to immediate relief in the way of increasing its net revenue. This increase may be brought about by decreasing the operating expenses or increasing the gross revenue or a combination of both. The operating expenses may be classified as those over which applicant has control and those over which it has no control.

With respect to decreasing the operating expenses over which

the company has control, the Commission in its former decision, made certain recommendations in this respect, which have been carried out by the company. The evidence now before this Commission definitely leads to the conclusion that the management of the utility has introduced every reasonable economy in the management of its street car system, including the one-man car operation, and it now appears that applicant is operating its system as economically as it reasonably can under the conditions prevailing and maintain the present service. Therefore, very little, if any, relief may be expected from further reductions in operating expenses under the control of the company.

As to reducing the operating expenses, over which the company has no control, a very important item to be considered is that of taxes. Applicant is required to pay the following taxes: State tax of  $5\frac{1}{2}$  per cent of the gross revenue; County tax on non-operative property; Capital Stock tax, which is a federal tax of \$1.00 per \$1000 on the net surplus balance of the company after deduction of \$5000 exemption; Federal Income tax, which previous to 1922 was 10 per cent and subsequently  $12\frac{1}{2}$  per cent of the net income after deduction of bond and other interest; and a Franchise tax to the City of Bakersfield. Applicant's total taxes during the past five years, which amounted to approximately 7.6 per cent of the gross receipts, have been as follows: 1919 - \$7,457; 1920 - \$8,197; 1921 - \$10,548; 1922 - \$10,323; 1923 - \$9,010.

By the terms of the franchise, applicant is required to pay the City of Bakersfield two per cent of the gross earnings on certain franchises, three per cent on others, and in some cases no taxes at all. During the fiscal year ending May 31, 1923, the franchise tax amounted to 1.66 per cent of the gross operating revenue, or 29.87 per cent of the net revenue from the railway operation of the company. The franchise tax during the past five years has been as follows: 1919 - \$1,660; 1920 - \$2,042; 1921 - \$2,264; 1922 - \$2,135; 1923 - \$1,949.

Although there is no way to eliminate the various State and Federal taxes, as long as the property is privately owned, it may lie within the power of the City of Bakersfield to eliminate the City franchise tax.

The franchises also provide that in addition to the franchise tax, applicant is required to pay the cost of installing and maintaining a portion of the pavement on the streets where its tracks are installed. In the past, the maintenance charge in keeping up the pavement has amounted to only a small percentage of applicant's operating expenses. It is very evident, however, that if applicant is required to live up to the terms of its franchise with respect to maintaining a portion of the paved streets, it will have to pay a considerable sum of money in the near future to maintain and replace pavements which will soon need attention. If the City of Bakersfield could, under the conditions, relieve applicant of paying the franchise tax and maintaining the pavement along the streets in which its tracks are laid, as required by the terms of the franchises, it would undoubtedly have a good effect upon future service and future rates.

While a modification in the city franchises, which would relieve the company of all or a portion of the expenses referred to above, would have a material effect upon improving the present unremunerative conditions under which applicant is operating, this relief, however, would not in itself entirely adjust the present situation. Therefore, applicant is reasonably entitled to further relief in the way of an increase of its rates. Such increase, however, must be in keeping with what the service is reasonably worth to the utility patrons. If the rate is set unreasonably high, it will have the effect of driving business away from the company and thereby decrease rather than increase the business. From the information at hand, it appears that applicant cannot at this time expect to receive a revenue that will pay maintenance and operation charges, taxes, depreciation, and full interest return upon the property devoted to public use.

The Weekly Pass form of fare is now becoming quite prevalent. There are over thirty-five cities in the United States where the Weekly

Pass is in effect and from reports, it is in most cases giving satisfactory results. It has been found that this form of fare materially increases the operating revenue of street car systems where it has been put into effect without any material increase in operating expenses, and at the same time offers a reasonable rate for transportation to the frequent rider. The general practice is to permit the holder unlimited use, the pass being transferable. The holder of a Weekly Pass very often brings along a cash fare rider who would not otherwise patronize the street cars. Also, the Weekly Pass form of fare tends to increase the amount of riders throughout the day, while it does not materially increase the peak loads, as only one can use the Pass at one time, thereby not materially increasing the operating expenses. Under the present conditions, there are very few people riding the street cars except during the peak hours. The prevailing charge for the Weekly Pass is \$1.00 per week for systems with a single zone, which are more or less comparable to that of applicant. Small changes in the rate for the Weekly Pass can be readily adjusted by the Commission to meet prevailing conditions, without seriously effecting the patrons.

After due consideration of all the evidence now before this Commission, it is recommended that applicant put into effect for the benefit of regular patrons the Weekly Pass form of fare to be sold for \$1.00 per week, with the expectation that this will result in a greater use of the facilities afforded by the company and develop the riding habit in this community; to provide for the less regular patrons, sell seven tickets or tokens for 50 cents; and, for the occasional rider collect a cash fare of 10 cents. The present special car rates should remain in effect. Under the provisions of Section 17 of the Public Utilities Act, common carriers have authority to issue reduced rate transportation to their own employes and members of their families,

and to school children attending institutions of learning. Therefore, no authority is necessary from this Commission to adjust such reduced rates.

The following form of Order is recommended.

O R D E R.

Bakersfield and Kern Electric Railway Company having filed the above-entitled application with this Commission, a public hearing having been held, the matter having been submitted and being now ready for decision,

IT IS HEREBY FOUND AS A FACT that the rates of fare now charged by Bakersfield and Kern Electric Railway Company for the service it renders are unjust and unreasonable in so far as they differ from the rates herein established, and that the rates herein established are just and reasonable rates for such service, and basing its order on the foregoing finding of fact and on other statements of fact contained in the Opinion which precedes this order,

IT IS HEREBY ORDERED that Bakersfield and Kern Electric Railway Company be and it is hereby authorized to establish within twenty (20) days from the date of this Order, the following rate schedule:

Weekly Passes good over the entire system, transferable, with unlimited use to holder during the calendar week for which issued - - - - -	\$1.00
Tickets or tokens good until used for seven continuous rides, with transfer privilege over the entire system, including the bus lines - - - - -	50 cents.
One continuous single trip between any two points on entire system including bus line - - - - -	10 cents



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 27<sup>th</sup> day of August, 1924.

C. Cleary

H. A. Sandeys

Dwight Martin

J. F. Whitting  
Commissioners.