

Decision No. 14408

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of Fresno Traction Company for (a) authority to abandon certain street railway franchises in Fresno; (b) for certificate of public convenience and necessity for the exercise of resettlement franchises; and (c) to execute to Union Trust Company of San Francisco, as Trustee, a supplementary mortgage covering such resettlement franchise rights.)

ORIGINAL

Application No. 7705.

Frank Karr, O. L. Everts and E. J. Foulds, for applicant.
E. M. Johnston, City Attorney, and Geo. W. Jones,
Deputy City Attorney, for the City of Fresno.

MARTIN, COMMISSIONER:

FIRST SUPPLEMENTAL OPINION

Pursuant to the desire of both the City of Fresno and Fresno Traction Company to have the Commission make a valuation of the properties of the applicant in this proceeding in order to establish a sum on which earnings should be calculated in order to carry out the intent of Section 12 of the resettlement franchise authority for the exercise of which was granted by Decision No. 10401, dated May 3, 1922 in this proceeding, a further hearing was held in San Francisco on August 1, 1923, at which the Engineering Department of the Commission filed a report on the valuation of properties of Fresno Traction Company and Fresno City Railway Company. This valuation report has been designated as this Commission's Exhibit No. 1.

This report covers a historical valuation made of the consolidated properties of the Fresno Traction Company and Fresno City Railway Company which are in reality administered and operated

as a single property. The totals of this valuation are given as follows:

<u>Class of Property.</u>	<u>Historical Reproduc- tion Cost.</u>	<u>% of total Operating Property.</u>
<u>OPERATIVE PROPERTY</u>		
<u>Within City of Fresno</u>		
Specifically located	\$ 976 350	
General property apportioned	<u>226 323</u>	
Total	\$ 1 202 673	79.79
<u>Without City of Fresno</u>		
Specifically located	\$ 283 422	
General property apportioned	<u>21 225</u>	
Total	\$ 304 647	20.21
Total System, Operative,	\$ 1 507 320	100.00
<u>NON OPERATIVE PROPERTY</u>		
Within City of Fresno	\$ 37 191	
Without City of Fresno.	<u>135 255</u>	
Total system, non operative	\$ 172 446	

At this hearing also the Engineering Department presented a report on service, operation and financial conditions of the Fresno Traction Company. Neither the City nor the Company raised any question as to the details in either of these reports. The Company, however, did file a statement of exceptions which indicate certain amounts which the applicant contended should be included in the valuation. These exceptions or additional claims are summarized as follows:

(1) Material and supplies on hand	\$ 66 347.00
(2) Right of way on Wishon Avenue	11 619.00
(3) Working capital	17 431.17
(4) Development expense	<u>414 332.18</u>
Total	\$509 729.35

Aside from these exceptions Fresno Traction Company indicated that it considered the report of the Engineering Department as substantially correct as a historical valuation of the properties

as of June 30, 1922, but also indicated that it was its position that the historical cost of the property was not the proper value to be considered as a "rate base." The determination of a rate base and of a reasonable rate of return are ~~not~~ inseparable in connection with any proceeding and for practical purposes one of these elements should be as definitely fixed as possible. The Commission has in general found that the use of the reasonable historical cost undepreciated of a utility property such as the one in question as the rate base on which to calculate a return is, as a practical matter, fair to both the utility and to the public. There appears to be no reason in this case why this method should not be followed.

Although no amount was included in the above totals of the historical reproduction cost of these properties to cover the item of material and supplies on hand the following statement is found on page 28 of the Commission's Exhibit No. 1:

"Material and supplies on hand were not included in the valuation. The latest inventory as of November 30, 1921, shows \$43,258.08 invested which was close to the average inventory for the last five years."

In fixing a valuation figure for the property of applicant, it would appear proper to include a reasonable amount for the item of materials and supplies and the amount of \$43,000.00 which was the approximate average inventory of this item for the last five years would seem to be such a reasonable amount. It would also appear proper that this \$43,000.00 item should be divided as between value of the property in the City of Fresno and without the City of Fresno in the same proportion as the total valuation figures are divided between that portion of the property within the City of Fresno and that portion without the City of Fresno, or, as has been indicated above, approximately eighty per cent within the city and twenty per cent without the city.

Applicant contends that title to the strip of right of way 22 feet in width extending from Olive Avenue to McKinley Avenue along the center of Wishon Avenue is vested in it, and that the reasonable value of said right of way as of June 30, 1922, was \$11,619.00. It appears that Wishon Avenue is a dedicated street, and that the public has and enjoys the use of the full width of Wishon Avenue for ordinary street purposes, and that the street railroad's present occupancy is of substantially the same nature as it would be, did it hold a permanent franchise exempt from special restrictions. It also appears that the permanent right to occupy this street north of Olive Avenue was obtained by the Company without cost, and that it is not proper, therefore, to include any item for the value of this right in this valuation.

The matter of including items for working capital and development cost of a street railway property for the purpose of establishing a "rate base" is not in accordance with the well established policies of this Commission and these items will, therefore, not be included in this valuation. It therefore appears that the value of this property, as of June 30, 1922, corresponding to that amount termed "capital value" in the resettlement franchise under which the Fresno Traction Company is now operating, should be as follows:

	<u>System Total</u>	<u>Within City of Fresno only</u>
Historical Reproduction Cost as of June 30, 1922 (Historical)	\$1,507,320.	\$1,202,673.
Allowance for Materials and supplies	<u>43,000.</u>	<u>34,000.</u>
Total as of June 30, 1922	\$1,550,320.	\$1,237,073.

FIRST SUPPLEMENTAL ORDER

Fresno Traction Company and City of Fresno having requested this Commission to establish a sum on which earnings

should be calculated in order to carry out the intent of Section 12 of the resettlement franchise, authority for the exercise of which was granted by Decision No. 10401, valuation of the property having been made and submitted in evidence in this proceeding, a public hearing having been held, the Commission being apprised of the facts, the matter being under submission and ready for decision,

IT IS HEREBY ORDERED that the sum on which earnings are to be calculated in order to carry out the intent of Section 12 of the resettlement franchise, authority for the exercise of which was granted by Decision No. 10401, dated May 3, 1922, in this proceeding, is hereby fixed as of June 30, 1922, as follows:

Property within the City of Fresno,	\$1,237,073.
Property outside of the City of Fresno,	<u>313,247.</u>
Total property of Fresno Traction Company,	\$1,550,320.

The effective date of this order shall be twenty (20) days from and after the date hereof.

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 27th day of December, 1924.

C. Leary
James Martin
Egerton Shore
J. F. Whittney
Commissioners.