

Decision No. 14684

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

ORIGINAL

In the Matter of the Application )  
of the Peerless Stages, Inc., a )  
Corporation, for an order author- )  
izing an increase in rates. )

APPLICATION NO. 10743

Harry A. Encell and James A. Miller, for Applicant  
A. L. Whittle, for Key System Transit Company, Protestant.

SQUIRES, Commissioner:

O P I N I O N

The Peerless Stages, Inc., a corporation, operating automobile passenger and express service between Oakland and San Jose and intermediate points, and between San Jose and Santa Cruz and intermediate points, has petitioned this Commission to fix just, reasonable and compensatory fares to be applied to the transportation of passengers over its line between Oakland and San Jose and points intermediate thereto.

A public hearing in this matter was held on February 11, 1925, and all interested parties having been given an opportunity to be present and to be heard, and the case having been submitted is now ready for an opinion and order.

Applicant alleges that the present fares between Oakland and San Jose and intermediate points are non-compensatory, and

proposes fares which, in its opinion, are just, reasonable and necessary to provide a sufficient income to meet operating expenses, fixed charges and not a reasonable return upon the value of the property devoted to the public service.

The operating lines of applicant are divided into the Oakland and the Santa Cruz divisions. The Oakland division comprises the territory between Oakland and San Jose, and the Santa Cruz division the territory between San Jose and Santa Cruz.

No increases are requested in the present fares on the Santa Cruz division nor in the territory between Oakland and Hayward, on the Oakland division. The increases proposed on the Oakland division would, in the aggregate, amount to approximately twenty per cent in the gross revenue. In some cases the individual point to point increases are less than twenty per cent, in others considerably more, and practically all of the fares are on an arbitrary basis not measured by the actual length of haul.

It is also proposed to sell, for the price of 25 one-way fares, commutation books containing 25 round trips, to be used during the calendar month for which the book is issued and not good on Sundays and holidays.

Applicant contends that the establishment of commutation fares will decrease its revenue. However, since its president and general manager testified that in his judgment less than five per cent of the total number of passengers carried would be transported at these reduced rates, it is reasonable to expect that their establishment would, instead of decreasing, tend materially to stimulate its traffic. Hence, I cannot find that the future revenue will be seriously curtailed by the proposed commutation fares.

Applicant submitted exhibits showing that for the period January 1, 1924 to September 30, 1924, inclusive, for both the Oakland and Santa Cruz divisions, the total transportation revenue was \$195,962.96 and the total transportation expense \$195,523.95, a net operating income of \$439.01. For the Oakland division the transportation revenue was given as \$165,795.20 and the transportation expense \$169,712.64, an operating loss of \$3917.44. For the Santa Cruz division the transportation revenue was given as \$30,167.76 and the transportation expense \$25,811.31, a net operating income of \$4,356.45.

A representative of the Finance Department of this Commission introduced an exhibit, being a statement from the books of applicant, covering the entire year 1924, which showed that for the Oakland and Santa Cruz divisions the total operating revenue was \$263,215.37, and the total transportation expense \$254,371.74, a net operating income of \$8,843.63. For the Oakland division the transportation revenue was \$225,914.27 and the transportation expense \$222,457.44, a net operating income of \$3,456.83. For the Santa Cruz division the transportation revenue was \$37,301.10 and the transportation expense \$31,914.30, a net operating income of \$5,386.80. The net profit for both operating and non-operating departments for the year 1924 was \$3,078.34.

Applicant's statement covered only the period from January 1, 1924 to September 30, 1924, while the Commission's exhibit was for the entire calendar year of 1924; hence it follows that the latter is more comprehensive and, as such, should be given paramount consideration in arriving at just, reasonable and compensatory fares.

The applicant claimed a total investment as of September 30, 1924 of \$187,332.57, made up of intangibles \$5000.00 and tangibles \$182,332.57, and on this amount asks for a return of fifteen per cent.

Included as a part of the tangible assets are 32 automobiles which, according to a check made by the representative of this Commission's Finance Department, are given a book value by the applicant of \$170,400.02, or a claimed average value per car of \$5,325.00. No satisfactory evidence was offered to establish the actual value of these automobiles. Of the 32 cars in operation 2 were built in 1910; 1 in 1911; 7 in 1912; 4 in 1913; 4 in 1914; 3 in 1916; 2 in 1917; 1 in 1918; 3 in 1922; 2 in 1923, and 3 in 1924, an average age of approximately eight years. It thus appears that with the exception of the last eight cars, all of the equipment was constructed in the year 1918 or prior thereto.

Applicant has charged into its operating expenses, as depreciation for the year 1924, a total of \$43,268.26, or at the rate of 25 per cent per annum, this notwithstanding the fact that it has in use cars built in 1910 and 1911, and that the average age of all of its automobile equipment is approximately eight years, indicating that at the rate of 25 per cent the equipment, in the natural order of business, has already been depreciated twice out of the earnings. During the year 1924, before depreciation was deducted, but including maintenance charges of \$54,946.77, applicant earned a profit of \$41,316.56 on the Oakland division, and \$10,795.33 on the Santa Cruz division, a total for the two divisions of \$52,111.89.

The evidence shows that the Peerless Stages, Inc. was created by a consolidation of the properties and operating rights of a number of individuals who commenced common carrier service in the years 1914 and 1915. The corporation secured its charter January 30, 1922 and commenced operations July 7, 1923.

Based on the number of passengers carried during the period January 1, 1924 to September 30, 1924, as shown in applicant's exhibit, and using that basis for the remaining three months of 1924, there

would accrue under the proposed fares additional revenue in the amount of \$40,806.20, which added to the \$8,843.63 secured in 1924, would give a total net revenue of \$49,649.83, or a return of approximately 27 per cent on the claimed investment of \$187,332.57.

It appears to be certain that if the applicant was to begin service at the present time with new and up-to-date equipment, the total of the maintenance and depreciation charges would be very much less than that accumulated and charged into expenses during the year 1924.

It would be manifestly unfair to the traveling public to authorize the increases here proposed upon the basis of the results obtained during the past year, which results would have been entirely different under reasonable maintenance and depreciation charges. Consideration must also be given to the fact that 1924 was the first complete year of applicant's operations, and that it has not been in business for a sufficient length of time and under such conditions as to make its operations an infallible index of what it may do in the future; hence I must conclude that the twelve months' period just passed is not controlling and representative, and therefore should not be employed as a final basis for fixing fares for the future.

Protestant, the Key System Transit Company, filed an exception to the establishment of the proposed commutation fares between Oakland, San Lorenzo, Hayward and points intermediate thereto, on the grounds that it was now rendering adequate service and that its investment would be detrimentally affected. Statements were submitted showing the total number of passengers carried during the years 1922, 1923 and 1924, and the total number of commutation books sold during those years. I have made a careful study of these exhibits and the testimony given in connection with them, but fail to find that the

establishment of commutation fares on the basis proposed by applicant would seriously affect protestant's revenue. Indeed, protestant's superintendent testified that in his opinion the operation of private automobiles was in the past mainly responsible for the loss of this revenue.

The history of applicant's operations and that of its predecessors indicates that there has never been any strong desire to perform service between Oakland and Hayward and intermediate points in competition with the Key System Transit Company. In this application it is not proposed to increase the one-way fares, although the same are now higher than the Key System Transit fares, but are on a lower basis than between other points on applicant's line.

In this connection it seems proper to suggest that applicant in publishing commutation fares give careful consideration to its ability to handle this traffic, especially between Oakland and Hayward and intermediate points. If applicant cannot give a constant and positive commutation service in the territory, monthly transportation should not be sold, for the record indicates that it is a common occurrence for the stages, especially westbound from San Jose to Oakland, to reach Hayward with no vacant seats.

Upon a careful study of this entire record, and taking into consideration the fact that applicant, at the time this proceeding was filed, had operated for only little more than a year; that it commenced operations with the old equipment of its predecessors, and that it has charged in the expense excessive amounts for depreciation, I conclude and find that the application has not been justified in its entirety.

Therefore I recommend that an order be entered authorizing an increase in the one-way adult fare between Oakland and San Jose

from \$1.00 to \$1.10; also the one-way half fare from 50 cents to 55 cents; that the adult round trip fare between the same points be increased from \$1.90 to \$2.00, and the round trip half fare from 95 cents to \$1.00. Applicant should also be authorized to publish commutation fares.

I think the applicant should be required to submit to the Commission on or before the fifteenth (15th) day of each month for a period of six (6) months a statement showing the number of passengers handled between all points on its lines, the earnings under the old and the new fares and the revenue and expenses. Information as to the revenue and expenses should be compiled in conformity with the Commission's order effective January 1, 1922, Uniform Classification of Accounts.

I recommend the following form of order:

O R D E R

This application having been duly heard and submitted by the parties, full investigation of the matters and things involved having been had and basing this order on the findings of fact and conclusions contained in the opinion, which said opinion is hereby referred to and made a part hereof.

IT IS HEREBY ORDERED that the Peerless Stages, Inc., a corporation, be, and it is hereby authorized to establish, within twenty (20) days from the date hereof, the following changes in its fares:

- 1- To increase the one-way adult fare between Oakland and San Jose from \$1.00 to \$1.10.
- 2- To increase the one-way half fare between Oakland and San Jose from 50 cents to 55 cents.
- 3- To increase the round trip adult fare between Oakland and San Jose from \$1.90 to \$2.00.
- 4- To increase the round trip half fare between Oakland and San Jose from 95 cents to \$1.00.

IT IS HEREBY FURTHER ORDERED that the Peerless Stages, Inc., a corporation, be, and it is hereby authorized to establish, within twenty (20) days from the date hereof, commutation fares between Oakland, San Jose and intermediate points on the basis requested in its application, provided such fares are established only between points where adequate accommodations will be afforded the public.

IT IS HEREBY FURTHER ORDERED that the Peerless Stages, Inc., a corporation, file with this Commission on or before the fifteenth (15th) day of each month for a period of six (6) months, after the new rates become effective, statement showing the number of passengers handled between all points on its lines, the earnings under the old and the new fares, and the revenue and expenses; the information as to revenue and expenses to be compiled in conformity with the Commission's order effective January 1, 1922, Uniform Classification of Accounts.

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

Dated at San Francisco, California, this 18<sup>th</sup> day of March, 1925.

H. K. Roundiga  
C. Seaver  
Egerton Shore  
George W. Squires  
Emmerson  
Commissioners.