

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Investigation
on the Commission's own motion into
the reasonableness of the rates,
rules, services, regulations, and
practices of the Golden Gate Ferry
Company.

Case No. 2221.

Devlin & Brookman, and Dudley D. Sales,
for Golden Gate Ferry Company.

SEAVEY, COMMISSIONER:

O P I N I O N

This is an investigation on the Commission's own motion to determine the reasonableness of the fares, rates, charges, practices, rules and regulations of the Golden Gate Ferry Company. Public hearings were held at San Francisco on April 12th, May 4th, and June 19th, 1926.

The Golden Gate Ferry Company operates an auto ferry between slips at the foot of Hyde Street in San Francisco and slips located adjacent to the Northwestern Pacific Railroad Company's terminal at Sausalito. The property owned and operated by the company consists of certain wharves, slips and miscellaneous structures located at the Hyde Street terminal on lands leased from the Harbor Commissioners and certain wharves, slips and miscellaneous structures located at the Sausalito Terminal on lands owned by the company. The fleet of ferry boats operated includes the following described boats:

Motor ship Golden Gate, a diesel electric, double-end motor-driven screw boat.

Motor ship Golden West, a diesel electric, double-end motor-driven screw boat.

Steamship Avon J. Hanford, a double-end screw-driven boat.

Steamship Harry E. Speas, a double-end screw-driven boat.

The reasonableness of the present rates will now be discussed.

The total investment in Property and Equipment as of December 31st, 1925, as determined by the Commission's Engineering Department was \$1,633,118.05, this amount being the investment as shown by the company's books and records.

In arriving at its estimate of a rate base, the engineering department has added to the investment shown above \$219,912.88, as balance to be paid on M.S. Golden State, now under construction and about to be placed in service, and \$43,000.00, an allowance for materials and supplies. This results in a total amount of \$1,896,030.93. The Company contends that an additional sum of \$33,650.00, which is 50 per cent of the estimated additions and betterments for the year 1926, should be added.

It would appear that certain of these estimated additions and betterments are, in fact, renewals and should consequently be charged to the depreciation reserve, which the company has set up. That the company has not considered this in its estimate is perhaps explained by the fact that it has not been its practice to use this reserve except as a source from which to borrow funds for making improvements or other corporate purposes and that no charges have ever been made to the reserve at any time for any renewal. Inasmuch as this reserve has been set up to ultimately care for these costs, the costs when actually incurred should not be charged to capital or again charged to operation. Other of the items shown in the Company's estimate of additions appear to be items of cost which will be properly chargeable to investment when incurred. This latter group, as shown by the detail, amounts to \$27,500.00.

It appears that a reasonable average rate base for the year 1925, if established, would have been approximately \$1,520,000.

The financial results of operation of this carrier for the year ending December 31st, 1925, according to the company's records, appear as follows:

Operating Revenue		\$793,936.63
Operating Expense	\$438,186.26	
Depreciation	<u>77,925.09</u>	<u>516,111.35</u>
Net Revenue		\$277,825.28
Taxes		<u>42,504.84</u>
Operating Income		\$235,320.44

If the item of depreciation in this statement were corrected by reducing it \$23,782., to provide for the charging to operating expense of an allowance for depreciation on a 5 per cent sinking fund basis, in accordance with the well established custom of this Commission in rate proceedings, instead of on a straight line basis, as charged by the company, the operating income for 1925 would be increased to \$259,102.44. An income of this amount shows a rate of return of 17 per cent upon a rate base of \$1,520,000.

The Commission's Engineering Department made an estimate of the results of operation for 1926. A similar estimate was prepared by the company. The two estimates differ only in a few relatively minor particulars and the record is quite complete in its analysis of the differences. It may be concluded from the evidence presented that the financial results of operation for the year 1926, which may reasonably be expected, are as follows:

Operating Revenue	\$852,028.
Operating Expense	<u>522,727.</u>
Net Revenue	\$329,301.
Taxes	<u>50,943.</u>
Operating Income	\$278,358.

If, to the investment of \$1,633,118.05, found as of December 31st, 1925, there were added the items of further investment proposed to be incurred by the company during 1926, amounting to \$233,662.88, and also an allowance of \$43,000.00 for material and

supplies and working capital, there would result a total rate base figure of \$1,909,780.93. The anticipated operating income for 1926 of \$278,358. would give a 14.6 per cent return on such a rate base figure.

The above results of operation and the per cent return are based on the type and frequency of service given by the Golden Gate Company prior to this proceeding, augmented only by the fifth boat now about to be placed in service. The reasonableness and adequacy of this service will now be discussed.

An investigation similar to the present proceeding was made in the latter part of 1924 and the early part of 1925 (Case 2039) at which time certain rate decreases were ordered into effect. At that time the company owned and operated but three boats and in the decision rendered by this Commission in said Case 2039 (Decision No. 14725) the service given was found inadequate and an additional boat was recommended and an allowance made in the rate base for its purchase. In Decision No. 14725 the Commission said

"While the normal traffic has apparently been well taken care of in the past with this capacity and service, the congestion that develops on Saturdays and Sundays, and especially on holidays, would be relieved considerably if a boat of larger capacity than the Hanford were available for peak traffic. Moreover, it must be recognized that the route of travel served by the Golden Gate Ferry Company will be subject to a considerable increase of traffic and with that increase of traffic a more frequent regular service will be justified. Accordingly there is little doubt in our minds that the ferry facilities on this route must be substantially increased in the near future."

The Golden Gate Ferry Company subsequently purchased a new boat as recommended at that time by this Commission and now has under construction a fifth boat to be put in service probably in July of this year.

A very thorough investigation and analysis of the service given by the present fleet of the Golden Gate Ferry Company has been made by the Engineering Department in this case having in view the determination of the adequacy of the present service, the possible

service to be given this year when the fifth boat is put into operation and the requirements that will obtain in 1927 if a sufficient and adequate service is to be given at that time.

The results of this analysis were presented in oral testimony by A. G. Mott, Transportation Engineer of the Commission, and by certain charts submitted as Commission's Exhibits Nos. 3, 4, 5 and 6. From this testimony it appears that the existing facilities of the Golden Gate Ferry Company were inadequate to handle the traffic offered during 1925 and that the fifth boat which is to be put in service this year should have been available and used during 1925 and that a sixth boat would have been necessary had a thoroughly adequate service been given. A comparison of the records for the first five months of 1925 and the corresponding period of 1926 shows that traffic has increased 37.3 per cent. Approximately 25 per cent of this increase was probably due to the rate decrease effective May 1st, 1925. Inasmuch as five boats would have been inadequate in 1925, the service to be given in 1926 will be even more inadequate, nor does it appear physically possible at this time to acquire the equipment necessary to provide an adequate service during the peak season of 1926.

Such facilities, however, may be provided for the 1927 traffic. Mr. Mott has estimated that seven boats will be needed at that time to give a sufficient service. This estimate was based upon the probable traffic for 1927 determined by a normal growth of twelve per cent a year. Inasmuch as the decreased rates were in effect for the peak period of 1925, that period consequently reflects the increase in traffic due to that decrease in rates, and therefore the traffic for 1925 has been used as a base to which a normal growth of twelve per cent per year for two years has been added to obtain an estimate of traffic for 1927. From this estimate of traffic it was determined that a seventh boat would be

necessary, 15 days for an average period of 5 hours a day and that on 40 days there will be required the operation of a sixth boat for an average period of 12 hours a day.

An estimate of the results from operation that would obtain were this traffic and service realized in 1927 is shown in Commission's Exhibit No. 7. Inasmuch as this exhibit is based on the similar estimate made by the Engineering Department of the results from operation that would obtain with five boats in operation during 1926, such adjustments as were made in that estimate that are pertinent should also be taken into consideration in this estimate.

Making these adjustments the estimated results from operation during 1927 with seven ferry boats in service are as follows:

Operating Revenue	\$954,240.
Operating Expense	<u>614,690.</u>
Net Revenue	\$339,550.
Taxes	<u>52,327.</u>
Operating Income	\$287,223.

In Exhibit No. 7 there has been added to the rate base figure, stated above as \$1,909,780.93, an allowance of \$720,000.00 for the purchase of two new boats of similar type to that of the boat now under construction and also an allowance for other minor additional facilities amounting to \$15,007.00, resulting in an estimated rate base of \$2,644,787.93. The above net income for 1927 would amount to a 10.9 per cent return on a rate base so estimated for that year.

Thus it appears that the Golden Gate Ferry Company earned a return of 17 per cent in 1925 and that it may expect a return of 14.6 per cent based upon a five-boat service as contemplated during 1926. It further appears that the present service is entirely inadequate for the traffic now obtaining and that to provide an adequate service for 1927 will require the use of seven boats which, if acquired and placed in operation, will, it is expected, result in a rate of return of 10.9 per cent.

Although this latter estimated rate of return is quite liberal, there should be taken into consideration the fact that in addition to the general hazard of the business, this carrier is faced with the possibility of more effective competition from another carrier serving this territory, in which event sufficient traffic might be deflected from the Golden Gate Ferry to materially reduce the rate of return as estimated. Under these circumstances, it does not seem proper to find that this rate of return is unreasonably high. The conclusion is inescapable, however, that based upon the present facilities in service and the quality of the service given with these facilities, the rates now charged by the company would be excessive but on the other hand, these same rates would be reasonable if sufficient money had been invested to provide adequate facilities and a higher grade of service were being rendered.

The Commission is faced with the question of deciding which of two alternatives would be of greater benefit to the public; either that the company be required to reduce its rates commensurate with the inferior service now being rendered, or that it be required to increase its service commensurate with the rates now being charged. The inadequacy of this service on peak days is so striking that it is believed that the latter course will be the more beneficial of the two to the public and the following recommended order so provides:

O R D E R

The Commission having, on its own motion, instituted an investigation into the reasonableness of the rates, rules, service, regulations and practices of the Golden Gate Ferry Company, public hearings having been held, the matter being under submission and ready for decision,

IT IS HEREBY FOUND AS A FACT that the facilities provided and the service rendered by the Golden Gate Ferry Company are inade-

quate to meet the public needs and basing its order upon the foregoing finding of fact and other findings of fact in the opinion preceding this order,

IT IS HEREBY ORDERED that the Golden Gate Ferry Company be and it is hereby directed to construct, purchase or acquire, on or before the first day of February, 1927, at least two additional ferry boats of a capacity and design which shall meet the approval of this Commission and to thereafter operate said ferry boats, together with their existing fleet, or its equivalent, in its service between San Francisco and Sausalito at all times that traffic requirements justify.

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.

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

Dated at San Francisco, California, this 2^d day of

July
~~June~~ 1926.

H. B. ...

C. S. ...

Edward ...

Commissioners.