

Decision No. 17440

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of)
Pacific Electric Railway Company,)
a corporation, for an order grant-)
ing permission to increase street)
car and motor coach rates or fares)
in the City of Pasadena, County of)
Los Angeles, State of California.)

Application No. 11049.

In the Matter of the Investigation)
upon the Commission's own motion)
into the operation by the Pacific)
Electric Land Company, a corporation,)
and the Pacific Electric Railway)
Company, a corporation, of motor ve-)
hicles for the transportation of)
persons for compensation, in and)
about the City of Pasadena.)

Case No. 2210.

Frank Karr, for Applicant.

J. H. Howard, City Attorney, for City of Pasadena.

George A. Damon, for Pasadena Engineers' Society.

SEAVEY, COMMISSIONER:

OPINION - CASE 2210

AND

OPINION ON REHEARING - APPLICATION 11049.

In the above application, No. 11049, Pacific Electric Railway Company asks permission to increase street car and motor coach rates or fares in and about the City of Pasadena, County of Los Angeles, State of California. Public hearings in this matter were held in Pasadena on June 5th and August 26th, 1925, upon which record the Commission issued Decision No. 15849, dated January 14th, 1926, holding that motor coach rates were not legally before it, and denying increase of rates on local street cars of applicant. On February 10th, 1926, an order granting rehearing was issued.

On January 16th, 1926, through Case No. 2210, the Commission instituted an investigation into the operations by Pacific Electric Railway Company of motor coaches in and about the City of Pasadena, the record in Application No. 11049 having shown that part of these operations extended a short distance outside the City of Pasadena. On March 16th, Application 11049 and Case 2210 were consolidated and on April 1st, 1926, the matter was submitted. On May 7th, 1926, the Company filed a formal application, No. 12820, for certificate to operate motor coach lines in and about the City of Pasadena, which certificate, in a modified form, was granted by this Commission in Decision No. 17439. Case No. 2210 will therefore be dismissed and only Application No. 11049 considered further in this opinion.

Applicant alleges that the operation of street railway and motor coach service for the year ending January 31st, 1925, resulted in a loss to the company of \$162,506.08. Certain corrections were subsequently made, reducing this amount, and the final amended loss, as determined by the Company and shown in their Exhibit C-1, amounted to \$145,816.01. In the determination of both the above amounts the Company included a deduction from revenue for interest on investment at six per cent per annum.

A detailed statement of the results from operation for the year ending January 31st, 1925, as shown in Pacific Electric Railway Company's Exhibit C-1, follows:

	<u>Street Rail- road Division</u>	<u>Motor Coach Division</u>	<u>Total</u>
Operating Revenue	\$313,473.36	\$296,493.29	\$609,966.65
Operating Expenses	<u>244,632.08</u>	<u>399,116.66</u>	<u>643,748.74</u>
Net Revenue	68,841.28	(102,623.37)	(33,782.09)
Taxes	<u>18,008.17</u>	<u>21,580.30</u>	<u>39,588.47</u>
Net Income	50,833.11	(124,203.67)	(73,370.56)
Interest on Investment at 6% per annum	<u>48,869.37</u>	<u>23,576.08</u>	<u>72,445.45</u>
	\$ 1,963.74	(\$147,779.75)	(\$145,816.01)

Note: (\$---) represents loss.

The above revenue is earned in the Pasadena local service. Approximately 99% represents fares paid by passengers, the remaining 1% being revenue from car privileges and transportation of mail.

The Pacific Electric Railway Company, in its Exhibit "C" attached to the application, shows a total operating expense of \$655,566.89. A detailed check of these expenses was made by both the Commission and the City of Pasadena. A number of corrections were found necessary and as a result the Company subsequently submitted Exhibit "C" (amended) and finally Exhibit "C-1". The City agreed that the expenses as shown in Company's Exhibit "C-1" fairly represent expenses charged by the Company, but alleges that, for the purpose of determining a fair return, certain bus expenses should be adjusted, namely, gasoline expense, bus depreciation and indirect expenses allocated to the Pasadena bus service. Gasoline expense, as stated by the Company, amounts to \$36,308.36. The City points out that for various reasons the Pacific Electric Railway Company was unable, during a portion of the year ending January 31st, 1925, to purchase gasoline at wholesale rates, but that now, due to completion of proper fuel storage facilities, they were able in the latter part of the year to buy their gasoline in car-load lots, at a price of $4\frac{1}{2}$ cents per gallon below the retail market quotation.

The City made a study of the price of gasoline during the year ending January 31st, 1925, and found the average retail market price to be 18.37 cents per gallon, and the average price paid by the Company to be 16.13 cents per gallon. The City contends that for the purpose of determining future rates, it should be assumed that the Pacific Electric Railway would continue to buy $4\frac{1}{2}$ cents per gallon below the retail market, which, based on the average market price of 18.37 cents per gallon, would result

in 14.12 cents per gallon. All the gasoline prices above stated include the state tax of 2 cents per gallon. Excluding this tax, which is set up separately in the Company's accounts, there would result a reduction of 14.225 per cent in this expense, or \$5,164.86.

There appears to be no reason why the Company should not continue to purchase gasoline at wholesale prices and consequently, for rate making purposes, the \$5,164.86, as determined above, should be deducted from operating expenses.

The Pacific Electric Railway Company includes in operating expenses \$85,002.61 to cover depreciation of motor coaches. This depreciation is based on a four year life and is determined by the straight line method. The City contends that a six year life should be used and shows that by the straight line method this would result in a figure of \$54,269. The City presented certain experience records used in the determination of their life, but these records were not based entirely on motor coaches of the same make or type or in the same kind of service. In view of the type of motor coach used in the Pasadena service and the unusually high grade of service desired by the City, the use of an average life for these motor coaches in excess of five years does not at this time appear reasonable in estimating depreciation. In the determination of the annual amount, however, it has been the Commission's practice to use the annuity or sinking fund method. Based upon a five per cent sinking fund method and a five year life, the annual depreciation amount for those busses allocated to the Pasadena service would be \$59,339.70. For the purpose of determining rates this amount should be included in operating expense rather than the \$85,002.61, as shown in Exhibit "C-1".

Certain of the operating expenses are common to the entire Pacific Electric system. The City points out that the portion of these expenses allocated to the Pasadena bus operations amounts to 18.32 per cent of the total operating expense of that service,

whereas the ratio of such allocated expense to total expense for Pasadena rail operations is 15.6 per cent. The City concludes that these ratios should be similar, that the allocated expenses of the bus division are unreasonably high, and that the total operating expense of the bus division should consequently be reduced 3 per cent. From the evidence there seems to be no reasonable basis for such a reduction.

Making the above adjustments, the results of operation may be stated as follows:

	<u>Street Rail- road Division</u>	<u>Motor Coach Division</u>	<u>Total</u>
Operating Revenue	\$313,473.36	\$296,493.29	\$609,966.65
Operating Expense	<u>244,632.08</u>	<u>368,288.89</u>	<u>612,920.97</u>
Net Revenue	68,841.28	(71,795.60)	(2,954.32)
Taxes	<u>18,008.17</u>	<u>21,580.30</u>	<u>39,588.47</u>
Net Income	50,833.11	(93,375.90)	(42,542.79)

Note: (\$---) represents loss.

The railroad presented in its Exhibit "F" an "Inventory of Property Used in the Operation of Local Street Car and Auto Bus Service in the City of Pasadena as of April 27, 1925." This inventory includes the total value of all the property used either exclusively or jointly in the local service.

This property includes certain substations, car houses, section houses and electric department quarters, tracks, cars, garages and auto busses, some used exclusively for local service and others jointly for local and interurban service. All of the street cars operated in the local service in Pasadena are of the one man safety or Birney type, and are leased equipment.

The values are determined as follows:

1. The value of the substations, car houses, section houses and electric department quarters and track and overhead is the Historical Reproduction Cost as determined in the Railroad Commission's "Valuation of Pacific Electric Railway Company as of December 31, 1920," with additions and betterments to April, 1925, added.

2. The value of leased equipment is the value used as a basis for determining the annual rent paid by the Company for the use of same and is the depreciated value as of December 31, 1923.

3. The value of the garage and busses is the actual cost of same as determined from the Company's records of cost of acquisition.

The total value so determined of the property used in the operation of the local street car and auto bus service in the City of Pasadena as of April 17, 1925, was \$2,119,341.40.

A check of this valuation was made by the Commission's Engineering Department, as a result of which an agreed value of \$1,941,726.86 was determined and is shown in the Pacific Electric Railway Company's Exhibit "F-1" and the City of Pasadena's Exhibit No. 1. Inasmuch as the cars are leased they are not included in this valuation, an allowance being included in operating expense for the lease of same.

No allocation of values to local service was made by the Company. The Company in its Exhibit "C" sets up a deduction from Railway Operating Income marked Interest on Investment. This interest is based on the value of the property used in local service and is computed monthly. The base varies each month in accordance with the additions and betterments of that month. The interest shown in Exhibit "C" is the interest for the twelve month period ending January 31, 1925, computed on the value of the property used in local service as it varied from month to month during that period and including only that portion of the interest so computed as should be allocated to the local service. It thus appears that neither of the values as found in Applicant's Exhibits "F" and "F-1" is used by the Company in the determination of results from operation but that instead the average value over a twelve month period ending January 31, 1925, is used.

It is necessary, however, to make an apportionment of the value of jointly used properties in order to develop a rate base

for the local Pasadena service. This allocation is shown in City's Exhibit No. 1. The allocation is based on the agreed value as shown above and is determined by the same method and ratios used by the Company in their determination of interest on investment. In this manner the value of the property used directly in and allocated to the Pasadena service and segregated to rail and bus service is as follows:

Rail Service	\$820,895.00
Bus Service	<u>391,778.00</u>
Total Value	\$1,212,673.00

Referring again to the results from operation, as restated above, it appears that applicant is facing a loss of \$42,542.79 on the entire local Pasadena transportation service without consideration of any return on the value of the property. This loss is entirely due to bus operations. The rail operations show a return of approximately 6.1 per cent on the value of that portion of the property allocable to local street railroad service.

The conclusion is inescapable that the applicant is entitled to a greater compensation than it is now receiving for the total service rendered. The question has been raised, however, as to the justification of the total amount of service now being provided in Pasadena. This service is clearly visualized in Commission's Exhibit No. 1, which map shows the transportation lines to be located at approximately one-quarter mile intervals. A witness for the City stated that Pasadena has more transportation service than is generally provided in other cities similarly situated. There was admission and acquiescence by all parties appearing that the service was not as yet established on a proper basis. This fact was compelling on the Commission in granting temporary routes under the certificate for operation of motor coach lines by applicant.

The applicant has asked for a certain definite increase in fares, as shown by its Exhibit "A-1", and estimates that the application of these fares will result in a total gross revenue of \$775,431.66. Based upon that estimate of gross revenue, financial results of operation may be stated as follows:

	<u>Street Rail- road Division</u>	<u>Motor Coach Division</u>	<u>Total</u>
Operating Revenue	\$398,522.38	\$376,909.28	\$775,431.66
Operating Expense and Taxes	<u>267,105.32</u>	<u>394,100.10</u>	<u>661,205.42</u>
Net Income	\$131,417.06	(\$17,190.82)	\$114,226.24
Rate of Return	16.0%		9.4%

This would show a return of 16.0% on the value of property used or apportioned to the rail lines, a deficit of \$17,190.82 on the bus lines and a net return of 9.4% on the property devoted to the total local service. This rate of return on the total property is excessive. Before the close of these proceedings, the Company filed amended exhibits bringing their valuation, revenue and expense figures up-to-date but these amended figures indicate results of operation entirely consistent with figures formerly submitted and analyzed for the set-up herein used.

The following schedule of rates, it is believed, will be found just and reasonable in accordance with the record before the Commission in this matter, and will, with proper cooperation on the part of the City, in re-arranging the service on a more economical basis, put it within the power of the Pacific Electric Railway to earn an entirely adequate return on the value of the property devoted to this local transportation service.

PROPOSED INCREASE IN FARES - PASADENA LOCAL LINES

	<u>Present Fare</u>	<u>Proposed Fare</u>
One-way cash fare (one zone)	6¢	7¢
One-way cash fare (between zones))		
Pasadena-Altadena)		
Pasadena-Country Club)		
Pasadena-E. Washington St.)	10¢	12¢
Book tickets (one zone)	(10 for 50¢ 5¢ per ride	(8 for 50¢ 6.25¢ per ride
All other fares to remain in effect.		

School children rates should be filed by the applicant in accordance with Paragraph 3, Subdivision A, of Section 17 of the Public Utilities Act.

The following form of order is recommended:

O R D E R

The Pacific Electric Railway Company having applied to this Commission for an order increasing street car and motor coach fares within the City of Pasadena, public hearings having been held and basing this order on the findings of fact and the conclusions contained in the opinion, which opinion is hereby referred to and made a part hereof,

IT IS HEREBY ORDERED that the Pacific Electric Railway Company be and the same is authorized to establish a schedule of fares as follows:

One-way cash fare (one zone)		7¢
One-way cash fare (between zones))	
Pasadena-Altadena)	
Pasadena-Country Club)	
Pasadena-E. Washington St.)	12¢
Book tickets (good within either zone 1 or zone 2))	8 for 50¢

IT IS HEREBY FURTHER ORDERED that Case No. 2210 be and the same is hereby dismissed.

The Commission reserves the right to make such further order in this proceeding relating to service and rates, as may appear just and reasonable.

The effective date of this order shall be twenty (20) days from 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 6th day
of October, 1926.

H. K. Rundige,

W. H. H. H.

Leon A. H. H.

Commissioners.