

Decision No. 18531

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
LOS ANGELES RAILWAY CORPORATION,)
a corporation, for an order read-)
justing rates and establishing just)
and reasonable rates for the trans-)
portation of persons on the)
company's lines in the State of)
California.)

Application No. 13323.

Supplemental Application for Interim Rates.

S. M. Haskins and Paul R. Watkins of Gibson, Dunn & Crutcher, for the applicant.

Jess E. Stephens, City Attorney; Milton Bryan, Deputy City Attorney; and J. L. Ronnow, Deputy City Attorney, for the City of Los Angeles.

George A. Damon, for City Planning Association.

Carl Bush and E. F. Bogardis, for Hollywood Chamber of Commerce.

W. E. Engel, in propria persona.

Clyde Woodworth, City Attorney for City of Inglewood and City of Hawthorne.

LOUTTIT, COMMISSIONER:

O P I N I O N

On May 17, 1927, Los Angeles Railway Corporation filed, in the above entitled matter, a supplemental application in which it asks permission to immediately increase its rates as set forth in Statement "H" attached to the supplemental petition as modified by stipulations appearing in the transcript. The proposed schedule

of rates is based upon a six cent basic fare including free transfer privileges and certain adjustments in the company's bus fares, such increased rates to remain in effect until a final decision is entered in this proceeding.

The Los Angeles Railway Corporation filed its application for readjustment of its rates on November 16, 1926. Hearings on such application have been had on the following dates: January 13; May 17; May 18 and May 28. An adjourned hearing is set for August 9th. At the hearing had on May 28th the application for interim rates was taken under submission.

Applicant urges that, pending the final determination of the issues raised by Application No. 13323, it is not earning a fair return on its property devoted to public use and that it is confronted with an emergency which requires an immediate adjustment of its rates. Applicant reports that it is confronted by an emergency in that as of March 31, 1927, its current liabilities amounted to \$11,029,379.06 including loans and notes payable to the amount of \$5,695,807.75 and matured interest unpaid of \$4,468,275.00; that it is unable to continue to finance itself through open account and must forthwith reorganize its financial structure in order to finance itself and to secure additional capital urgently required through long term bonds issued under proper mortgages; that it is engaged on a three year construction program which calls for a minimum expenditure of \$6,000,000.00; that it can not go forward with this program unless additional revenue is provided; that under existing rates it has not during 1926 and cannot during the present year earn its present fixed charges, making impossible any refinancing until the present emergency is met; that for the last two years by reason of its inability to earn a fair return it has been permanently and irreparably damaged to an amount of not less than \$4,000,000.00 and will be damaged during the present year to an

amount of not less than \$2,750,000.00, and that the interests of the public are being jeopardized by the fact that applicant can not install the improvements required by the growth of the City of Los Angeles.

It is urged by applicant that long and protracted investigations have been made of its affairs by Commission and City engineers and that it has submitted a full and complete case showing that it is entitled to an immediate increase in rates.

Applicant's current liabilities in the main represent expenditures for additions and betterments. The fact that it has \$4,468,275.00 of unpaid interest does not mean that such interest was not earned. In Exhibit 32 applicant shows a credit to profit and loss of \$1,310,301.57. As to the damage that applicant reports it has suffered during the past two years and which it says that it will suffer during the present year, ^{that} is dependent upon what is a proper rate base, a proper rate of return, a proper allowance for operating expenses and depreciation. In other words, a determination of the extent to which applicant has been damaged, if at all, requires a determination of the major issues in this proceeding. As to the 1927 loss, applicant in its original supplemental petition, Statement "F", shows a return of \$691,882.00. At the hearing had on May 17 - 18, it developed that applicant had duplicated ~~in~~ its depreciation charges. When its attention was called to that fact it withdrew statement "F" and substituted Exhibit 45-a, which shows a return of \$970,083.00.

Exhibit 45-a and other financial exhibits have been examined by me and accepting ^{for} the purpose of this decision applicant's estimated operating expenses for 1927, I find that it will have available after the payment of operating expenses (excluding depreciation) taxes, interest and sinking funds, the sum of \$847,400.00. If it were decided that the sinking fund payment, other than the

interest on the bonds held alive in the sinking funds, constitutes the refunding of a capital obligation and therefore should not be paid out of earnings. the ^{sum of} \$234,300.00 should be added to the \$847,400.00, making a total of \$1,081,700.00 available for depreciation. An analysis of the company's records shows that the largest amount it ever charged to depreciation reserve because of the retirement of property was \$759,290.00. There is nothing in the record to show what the charges to the depreciation reserve will be during 1927. While Exhibit 41 shows the amount that will be charged to operation and depreciation on account of the three year construction program, such amount was not segregated between charges to maintenance accounts and depreciation reserve. Neither is there any satisfactory explanation in the record of the material increase in the company's operating expenses from 1923 to date.

I have reviewed the evidence submitted by applicant in so far as it relates to the supplemental application referred to herein and in my opinion applicant is not confronted by an emergency which necessitates the increase of its rates, pending a decision on its application to readjust rates. The adjourned hearing is set for August ninth and it is expected that the application can be taken under submission at the conclusion of that hearing.

I herewith submit the following form of order.

ORDER

Los Angeles Railway Corporation having filed a supplemental application in the above entitled matter for permission to increase its rates which are to continue in effect until a final decision is entered in this matter, (Application No. 13323) and the Commission having considered the evidence submitted by applicant in support of such request and being of the opinion that Los Angeles Railway Corporation is not confronted by an emergency which warrants

an increase in its rates pending said final decision and that therefore the supplemental application should be denied, therefore,

IT IS HEREBY ORDERED that the supplemental application filed by Los Angeles Railway Corporation on May 17, 1927, in Application No. 13323 be, and the same is hereby, denied without prejudice.

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 20th day of June, 1927.

Emmanuel
H. H. Brundige
C. L. Sney
Thos. Howard
Commissioners.