

ORIGINAL

Decision No. 18656.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the Matter of the Application
of FRESNO TRACTION COMPANY, for
an order permitting it to increase
its rate of fare upon its street
car lines.

Application No. 12653.

Everts, Ewing, Wild & Everts, by D. S. Ewing
and F. G. Everts, for Applicant.
Loren A. Butts, City Attorney, for City of
Fresno.

LOUTTIT, COMMISSIONER:

O P I N I O N

In this application the Fresno Traction Company states that the existing rate of fare charged on its street railway system within the City of Fresno is insufficient to pay operating expenses, taxes and afford a reasonable return upon its capital investment, and requests that the Commission make an order increasing its rate of fare sufficiently to allow the Company to earn a return of eight (8) per cent on the used and useful property devoted to public service in the City of Fresno.

A public hearing was held in this application at Fresno on October 25, 1926.

It appeared at the hearing that the company was operating over two lines for which no certificate of convenience and necessity had been issued by this Commission and the company was

requested to make application for such a certificate. Accordingly the company filed Application No. 13371 and by the Commission's Decision No. 18065, dated March 14, 1927, certificate of convenience and necessity was issued authorizing the operation by the company of these two lines. After the issuance of this certificate the present application was submitted for consideration.

In its application and the statements attached thereto the company has given in detail a record of its revenue and expenses during the year 1925. It is alleged in the application that the present capital investment of the Fresno Traction Company is \$1,328,796.27. It is set forth in the company's exhibit that the operating loss, exclusive of any return on this investment during the year 1925, for its lines in the City of Fresno amounted to \$3,569.81 and by including a return on investment a deficit of \$110,280.00 occurred.

In addition to the statement of operations for the year ending December 31, 1925, attached to its application, the Company also submitted exhibits showing its receipts and disbursements for other periods in general subsequent to December 31, 1925, and also exhibits containing the franchises under which it operates. No detail setting forth the method used in the determination of the investment amount as stated above was submitted.

The Commission's engineers made a thorough investigation of the books and records of this utility. A report on the historical valuation was prepared and presented by J. G. Hunter, while the service, operation and financial condition was shown in a report prepared by J. E. Cooper and N. A. Wood.

No evidence tending to establish the reasonable investment or the present fair value of the properties of the railroad company was offered by the company. I am of the opinion that there is cast upon the utility seeking an increase of rates the burden of proving by competent evidence a true valuation of the properties involved upon which an interest return is expected.

The Commission's engineers, in their report on valuation submitted in this proceeding, made a thorough study of a valuation prepared in an earlier proceeding (Application No. 7705) and of the additions and betterments constructed subsequent to the date of that valuation, and it appears from the evidence submitted by the Commission's engineers that the present fair value of the Fresno Traction Company's local street car system in the City of Fresno, including the lines within the 6-cent fare zone, is not less than \$1,328,796.27, the amount alleged in its application in this proceeding, and it is recommended that this sum be accepted for the purposes of this proceeding as the rate base upon which shall be computed a return to the Company.

The Fresno Traction Company renders both a local and interurban service. The local service consists of seven street car lines operated within the city or immediate vicinity, while the interurban service, which consists of two lines, is extended from the termini of two local lines several miles outside the City of Fresno. The basic fare on the local lines is six (6) cents, while the interurban fare varies with the distance.

The Commission's engineers, in their study of operations, have adopted a different method of apportioning revenues

and expenses between the City lines and the outside lines than that used by the Company. Three of the local lines which are entirely within the six (6) cent fare zone operate for short distances beyond the City Limits, and since the six (6) cent basic fare which applicant desires to increase applies to the ends of these lines, the Commission's engineers have considered them part of the local system.

The Traction Company in its allocation of its revenues and expenses has used a method based on the number of car miles operated. After determining that 87.9951% of the total car mileage of the system was operated within the City Limits of Fresno, it has credited city operations with this percentage of the system revenue and charged city operation with a like percentage of the total operating expense. The two county lines operate through a sparsely settled territory and have but few patrons and from a table compiled from the Company's records, it appears that the revenue per car mile for these lines outside the City amounts to but \$.0439 while that for lines within the City amounts to \$.1674, or approximately four times as great, and that 99% of the total system revenue is collected on the local lines. It therefore appears that the City's operation should be credited with a considerably larger proportion of the total revenue than that reflected by the Company statement.

In the apportionment of operating expenses between city and county lines, the Commission's engineers have used a formula under which the charges to the two services are distributed according to the units with which they are directly affected, for instance, maintenance of equipment is apportioned according to the number of car miles operated, while track mainte-

nance is divided according to the number of track miles maintained.

The records show that the net revenue received from the operation of the local system for the twelve months' period ending June 30, 1926, based on the allocation made by the Commission's engineers, was \$35,819.80, from which taxes amounting to \$18,606.47 should be deducted, leaving a net income of \$17,213.33.

The study of the Commission's engineers was extended to include operation and service rendered by this utility and in their report they have made certain recommendations with the view of effecting a saving in the cost of operation. These suggestions consist primarily of an increase in the headways of cars on certain lines during the periods of the day when travel is light and changes in the routing on several of the lines to effect a more evenly balanced service with a reduction in the number of car miles operated. These recommendations are assembled into a general plan of re-routing and changes in schedule and a forecast is made of the probable financial result of a year's operation under such a plan based on the assumption that no material change in revenue will result from either a change in business conditions or from a reduction in traffic because of changes in service. The net income under this plan is estimated at \$49,757.00.

It therefore appears that the net income of the Company, based upon the service now rendered, and the rates now in effect, amounts to \$17,213.33 which amount would yield a return of 1.3% on a rate base of \$1,328,796.27. However, if the recommendations of the Commission's engineers are put into effect it is concluded that the Company may reasonably expect a net income of \$49,757.00. To carry out the recommendations of the Commission's

engineers will involve additional expenditures in capital accounts estimated at \$36,900.00. Adding this amount to the rate base of \$1,328,796.27, previously found, results in a total of \$1,365,696.27. The estimated income just stated would yield a return of 3.6% on this rate base.

In my opinion neither the return from the service as it now exists with a six (6) cent basic fare nor the return that may be expected if the recommendations of the Commission's engineers are carried out, is reasonable and since it appears that no further saving in operating expenses can be realized without seriously impairing the service rendered, the only means of securing an adequate return for the company on its local system is by an increase in the fare.

It is doubtful that the service changes, if carried out, will greatly affect the revenue. The suggested reduction of service during the peak periods of travel in the morning and evening from that now in effect is negligible and some additional service is proposed during these hours. The principal reduction in service would occur during the slack periods in the middle of the day and even here the changes in headway are slight.

As to the effect an increase in fare will have on the volume of traffic, there is very little evidence in the record. Applicant introduced no direct testimony as to what, if any, deflection in travel could be expected and the only testimony in this respect is a statement of one of the Commission's Engineers that there is usually some deflection due to increased rates but that in the past where rates have been increased in this state many other factors have entered into the problem and that it has been impossible to fix any definite formula for estimating the falling off of traffic due to rate increases.

The changes in re-routing, schedules and service proposed by the Commission's Engineers appear to be satisfactory to the City of Fresno and applicant at the hearing expressed a willingness to try the new plan. It is probable that if the fares are increased there will be, for a time at least, some small reduction in the amount of travel. No specific rate schedule is applied for in the application but I am of the opinion that if a seven-cent basic fare is charged and patrons given the privilege of purchasing tickets or tokens at the price of three for twenty cents, this company can earn a return of about four (4) per cent. If, in addition, the plan of operation suggested by the Commission's Engineers is put in effect, this rate of return may reasonably be expected to increase to approximately $6\frac{1}{2}$ per cent. It is therefore recommended that the Traction Company be authorized to increase the rate of fare on its local lines where a six (6) cent fare is now in effect to seven (7) cents and required to sell tokens or tickets at the price mentioned or three for twenty cents. The following form of order is recommended:

O R D E R

Fresno Traction Company, having made application for an order granting it authority to increase the rate of fare upon its street car lines, a public hearing having been held and the Commission being apprised of the facts,

IT IS HEREBY ORDERED that applicant be and it is hereby authorized to file with the Commission and put into effect within thirty (30) days from the effective date of this order a schedule of rates increasing the present basic six (6) cent fare to seven (7) cents to apply on all lines now operated either entirely in the City of Fresno or partly in the City of Fresno and partly in the unincorporated portion of the County of Fresno and within the present

six (6) cent fare zone and that tickets or tokens, unlimited as to time for use, and each entitling bearer to one ride within the limits of said zone, be offered for sale on the cars of said company at the rate of three tickets or tokens for twenty cents.

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

The Commission reserves the right to make such further orders in this proceeding as may seem necessary and desirable.

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 21st day of July, 1927.

Ernest W. Brown

Clarence W. Brown

Thos. B. Brown

Commissioners.