

Decision No. 19592.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

ORIGINAL

In the Matter of the Application of PENINSULAR RAILWAY COMPANY for an order granting permission to increase rates for the transportation of passengers on the lines of Peninsular Railway Company in the State of California.

) Application No. 13,583.

In the Matter of the Application of SAN JOSE RAILROADS for an order granting permission to increase rates for the transportation of passengers on the lines of San Jose Railroads in the State of California.

) Application No. 13,584.

Louis Oneal, William F. James and Arthur B. Shoup, for Applicants.

Archer A. Bowden, for the City of San Jose.

LOUTTIT, COMMISSIONER:

O P I N I O N

In these proceedings authority is sought to increase fares for the transportation of passengers over the respective lines. Application No. 13,583 was filed by the Peninsular Railway Company, while Application No. 13,584 was filed by the San Jose Railroads.

Public hearings were held on both applications at San Jose on June 15th and October 19th, 1927, and in San Francisco on November 5th, 1927. At the first hearing, it was stipulated by the parties that the two applications should be consolidated for hearing and decision.

At the hearing in San Francisco on November 5th, the matters were submitted, on the condition that the applicants

secure from this Commission a certificate of public convenience and necessity to exercise the rights and privileges of certain franchises for the operation of street cars granted by the City of San Jose and County of Santa Clara, respectively. Such certificate has been granted in Decision No. 19,153, dated December 23, 1927, in Application No. 14,217.

Both of these companies are engaged in the business of providing urban and interurban electric railroad service in and in the vicinity of the City of San Jose, the principal activity of the Peninsular Railway Company consisting of interurban service between San Jose, Palo Alto and Los Gatos, and intermediate communities. This company also operates certain street car lines in the City of San Jose and its immediate vicinity. The principal service of the San Jose Railroads is street railway business in San Jose, although the company operates a suburban service to the district east of the city. Both companies are owned by Southern Pacific Company, through stock ownership, and are operated by the same officials and under the same local management, many of the employees furnishing service to both companies.

The existing local fare in the City of San Jose and the urban territory immediately adjacent is six (6) cents, this fare being established on the lines of the San Jose Railroads under authority of Decision No. 5,636, dated July 26, 1928, on Application No. 3,788, and on the local lines of Peninsular Railway Company under authority of Decision No. 5,624, of the same date, on Application No. 3,789.

In December, 1920, both companies again filed applications for increases in rates; Peninsular Railway Company, Application No. 6,413, and of the San Jose Railroads, Application No. 6,414, which were dismissed by Decision No. 9823 and Decision No. 9824, respectively, dated November 29, 1921. In connection with these proceedings, the Commission's engineering staff made

a complete investigation of the service, operating and financial conditions of the two companies and presented a report in evidence. In this report, certain recommendations were made which, with a few exceptions, have been carried out by the companies. Some of these recommendations which were not carried out or only partially carried out are as follows:

1. That the overhead percentage charged for store expense to San Jose Railroads by Peninsular Railway Company be increased from six (6) per cent to twenty-two (22) per cent;
2. That the rate for shop expense charged to San Jose Railroads by Peninsular Railway Company be increased from six (6) per cent to thirty (30) per cent;
3. That the rate of four (4) cents per car mile charged Peninsular Railway Company for the use of San Jose Railroads' tracks be increased to eight (8) cents per car mile, and
4. That the operation of street cars on the so-called Alum Rock line of the Peninsular Railway Company be turned over to San Jose Railroads, Peninsular Railway Company to reimburse the latter company for any operating loss.

In the case of store expense, the rate was increased to twelve (12) per cent, while shop expense has been increased to twenty (20) per cent. The eight (8) cent per car mile charge for use of San Jose Railroads' tracks has been put into effect, and, in addition, Peninsular Railway Company now charges San Jose Railroads Company eight (8) cents per car mile for operation over Peninsular Railway tracks. With respect to the last recommendation, no attempt has ever been made to reimburse San Jose Railroads for the losses incurred in the so-called Alum Rock operation.

The principal matter to be determined in the present proceedings is the local urban fares to be charged in and in the vicinity of the City of San Jose and, as most of this local service is provided by the San Jose Railroads, consideration will first be given to the application of this company.

At the hearing on June 15th, the applicant presented a statement showing the estimated Historical Reproduction Cost of its operative property, as of December 31st, 1926, to be \$1,571,841.65.

At a subsequent hearing, the Valuation Division of the Commission's Engineering Department presented a valuation as of December 31st, 1926, showing the Historical Reproduction Cost of the operative property on that date to be \$1,497,288.06, or \$74,553.59 less than the company figures. The company stipulated that it would accept the Commission's Engineers' figure for the purpose of rate making and since this figure appears to be a reasonable and proper one for a rate base, it will be so considered.

In support of its claim that increased fares are required, the company filed exhibits of operating revenues and expenses for each year from January 1st, 1920, to December 31st, 1926, which are summarized in the following tabulation:

<u>Year</u>	<u>Operating Revenue</u>	<u>Operating Expense</u>	<u>Taxes</u>	<u>Rwy. Operating Income</u>
1920	\$401,586.53	\$305,192.84	\$21,911.19	\$74,482.50
1921	410,771.89	332,689.10	24,377.21	53,705.58
1922	430,119.10	318,393.97	28,752.02	82,973.11
1923	419,749.15	345,374.10	28,849.35	45,525.70
1924	390,640.54	334,679.94	26,626.78	29,333.82
1925	389,550.94	343,033.55	25,426.18	21,091.21
1926	385,545.71	348,034.41	25,265.54	12,245.76

From this table it is apparent that the operating revenue is now showing a reduction each year, while the operating expenses have shown a slight increasing tendency, the result being that the railway operating income available for return is growing smaller each year. In 1926 this income amounted to \$12,245.76, a return of less than one per cent on the Historical Reproduction Cost. In this year, however, the company incurred considerable extraordinary maintenance expense and it is probable that the operating income in 1926 is not representative of the present results of operation by the company.

In Exhibit No. 28, the applicant has forecast a net

railway operating income available for return of \$29,500.00, which is approximately two (2) per cent on the Historical Reproduction Cost.

The Transportation Division of the Commission's Engineering Department made a study of the company's operations and reports that no material savings in operation can apparently be made as such changes as they believe should be made are not of sufficient importance to materially change the result. It appears that rather loose inter-company accounting relations exist between the Peninsular Railway Company and the San Jose Railroads and that a more stringent apportionment of the expenses incurred for the benefit of each company would result in savings to the San Jose Railroads.

This is particularly true in regard to the so-called Alum Rock operation, this being an instance where the San Jose Railroads provides passenger service over Peninsular Railway Company's tracks in order to fulfill the franchise obligations of the latter company. This service apparently is provided at a considerable operating loss to the San Jose Railroads. As before mentioned, it was the recommendation of the Commission's engineers in the former proceeding that the San Jose Railroads be reimbursed for this loss. The record in the present proceeding indicates that not only has Peninsular Railway Company failed to do this, but also that the company's officials have very slight, if any, knowledge as to either the amount of revenue collected annually on this line or the cost of providing the service. From such information as appears in the record, it is concluded that the revenue collected beyond the junction of King Road and Santa Clara Avenue, or on that portion of the Alum Rock line which is owned by the Peninsular Railway Company, does not exceed four thousand (4,000) dollars per year. The books of the

company are equally vague as to the cost of providing this service. It is definitely established, however, that San Jose Railroads pays the Peninsular Railway Company eight (8) cents for each car mile operated over the six miles of track involved and this rental includes the maintenance and is presumed to include the power. It appears, however, that San Jose Railroads, during the greater portion of the time, furnishes the power not only for its own operation, but also for such freight movements as the Peninsular Railway Company may make over this track.

It appears from the record that the cost of providing service on this line is approximately \$17,000.00 per year and the revenue is about \$4,000.00, resulting in a loss of \$13,000.00, annually.

It is recommended that an accurate accounting be kept of both the revenue and the cost of service on this line and that proper adjustment be made, by Peninsular Railway Company, reimbursing San Jose Railroads for such losses as may be incurred.

The following tabulation shows the estimated operating results of the San Jose Railroads:

Reference	Year	Operating Revenue	Opr. Expenses: Incl. Taxes	Available for Return	Rate of Return: H. R. C.
Commission's Exh. #33,	1927	\$365,320.	\$332,145.	\$33,175.	2.22%
Applicant's Exh. #29,	1928	349,169.	337,122.	12,047.	0.80%

If proper accounting for the losses incurred in operating the Alum Rock Line is made, the amount available for return will be increased nearly one per cent.

After considering all the recommendations for increasing

revenue, together with those looking toward a reduction in operating expense, it is apparent that the company will still fail to earn the rate of return mentioned in the application. There is no evidence in the record as to any rate of fare, the establishment of which will yield to the company a rate of return in excess of five per cent.

It appears that a substantial increase in the amount available for return can be obtained by putting into effect a ten (10) cent fare with four tokens for twenty-five (25) cents. It is estimated that such a fare structure will result in a rate of return to the company of approximately 5 per cent. Such a system of fares also carries with it the advantages that accompany a single coin fare, in that the number of change making transactions is reduced and the use of pennies entirely eliminated. With one-man operation of cars this is a distinct advantage and reflects in better and faster service.

As stated before, the Peninsular Railway operates a certain amount of local service in San Jose and the immediate vicinity. Since the kind of local service offered is similar to that of San Jose Railroads and the two roads are under the same management and have the same wage schedules, it appears reasonable to assume that the cost of operation, at least as far as this strictly local service is concerned, is approximately the same. Therefore, the rates of fare prescribed for the San Jose Railroads should also apply to the city lines of Peninsular Railway and that

company should also be authorized to put into effect these rates. It also appears that it would be desirable from the standpoint of public convenience that the tokens of the two companies be interchangeable and good for transportation on the cars of either line.

It should be understood, however, that the rates of fare above recommended are, to a certain extent, experimental. From the information at hand it appears that they will increase the revenue but not provide the return sought upon the value of the property. If, after they have been tried out for a reasonable length of time, it is found they are not proving satisfactory, means should be provided whereby the Commission can expeditiously make such changes as may appear proper. For this reason, the order that is entered at the present time in these applications should reserve the right to change by supplemental order the rates hereby prescribed.

The following form of order is recommended:

O R D E R

San Jose Railroad and Peninsular Railway Company, having made applications for an order granting authority to increase the rate of fares on their respective street car lines, public hearings having been held and the Commission being apprised of the facts,

IT IS HEREBY ORDERED that applicants, San Jose Railroads and Peninsular Railway Company, be and they are hereby authorized to establish within thirty (30) days from the date of this Order

schedules of fares as prescribed in Exhibits "A" and "B" attached hereto and made a part hereof by filing and posting tariffs in the manner designated in Section 14 of the Public Utilities Act of the State of California.

The Commission reserves the right to make such further order or orders in these proceedings as it may deem necessary and desirable in the public interest.

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 13th day of April, 1928.

Leon Whitell

C. Seamy

Ernest J. ...

Thos. J. ...

M. J. ...

Commissioners.

EXHIBIT "A"SAN JOSE RAILROADS

- (1) One Way cash fare ten (10) cents between all points where the present one way fare is six (6) cents.

- (2) Four (4) tickets or tokens for twenty-five (25) cents between all points where the present one way fare is six (6) cents, subject to the following conditions:
Tickets or tokens shall be offered for sale on all cars and at the company's office, unlimited as to time of use and entitling the holder thereof to one continuous trip in the same general direction subject to the transfer privileges as shown in Item 9 of San Jose Railroads Local and Joint Passenger Tariff No. 4, C.R.C. No. 5.

- (3) Fares to and from all other points will be the same as now shown in San Jose Railroads Local and Joint Passenger Tariff No. 4, C.R.C. No. 5.

EXHIBIT "B"

PENINSULAR RAILWAY COMPANY

- (1) One Way cash fare ten (10) cents between all points located between San Jose and Bascome Avenue and between San Jose and Cherry Avenue.

- (2) Four (4) tickets or tokens for twenty-five (25) cents applicable between the points described in Paragraph (1) above, subject to the following conditions:

Tickets or tokens shall be offered for sale on all cars operated between the above points and at the company's office, unlimited as to time of use and entitling the holder thereof to one continuous trip in the same general direction.

- (3) Fares to and from all other points will be the same as now shown in Peninsular Railway Company's Local and Joint Passenger Tariff 6-C, C.R.C. No. 114.