

Decision No. 20020

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of STOCKTON ELECTRIC RAILROAD COM-
PANY for an order permitting it to
increase its rate of fare upon its
street car lines.

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) Application No. 13593.
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- A. L. Levinsky, for Applicant.
J. L. Johnson, City Attorney, for the
City of Stockton.
F. E. Murphy, for certain citizens of
Stockton.

ORIGINAL

SEAVEY, COMMISSIONER:

O P I N I O N

This is an application by the Stockton Electric Rail-
road Company for an order of this Commission permitting it to
increase the rate of fare charged upon its street car lines in
the City of Stockton, it being claimed that the existing six
cent fare is insufficient to pay operating expenses and taxes
and afford a reasonable rate of return upon the capital invest-
ment, and that unless said rate of fare is increased, the rail-
road company will be compelled to operate at a loss. No speci-
fic rates of fare are requested in the application, nor is a
reasonable rate of return defined.

Public hearings were held in this matter in Stockton
on June 7th and October 21st, 1927, and in San Francisco on
November 10th, 1927.

The Stockton Electric Railroad Company is engaged in the business of operating a street railway system in the City of Stockton. It was incorporated on December 29th, 1891, under the laws of the State of California and has an authorized issue of capital stock of \$500,000., all of which is outstanding and controlled by the Southern Pacific Company. The company has no funded debt.

The company at present operates 14.41 miles of line, most of which is double track; the equivalent single track mileage being 27.97 miles. Of this trackage, 22.01 track miles are owned by the company and 5.96 track miles were, on the date of submission of this application, leased from Central California Traction Company at an annual rental of approximately \$12,700.

At the hearing in Stockton on June 7th, 1927, the applicant presented Exhibit No. 1 in which the value of its property, as of December 31st, 1926, is shown to be \$1,110,736.85, this sum being made up as follows:

<u>Estimated Reproduction Cost New</u>		
<u>as of June 30th, 1914:</u>		
Operative Property,		\$247,147.54
Material and Supplies,		<u>27,713.80</u>
Total,		\$874,861.34
 <u>Net Additions July 1st, 1914, to</u>		
<u>December 31st, 1926:</u>		
Property,	\$192,405.97	
Material and Supplies,	<u>43,469.54</u>	<u>235,875.51</u>
Total to December		
31st, 1926,		\$1,110,736.85

Subsequent to this hearing, a complete inventory and appraisal of the Company's property as of June 30th, 1927, was made by the Valuation Division of the Commission's Engineering Department and was placed in evidence at the hearing held in Stockton on October 21st, 1927. A summary of the results of this appraisal is given in the following tabulation:

	<u>Historical Reproduction Cost</u>		<u>Reproduction Cost New</u>	
	<u>Amount</u>	<u>Less De- preciation</u>	<u>Amount</u>	<u>Less De- preciation</u>
Operative, \$	979,702.	\$592,246.	\$1,514,680.	\$836,405.
Non-operative,	<u>52,794.</u>	<u>50,997.</u>	<u>54,095.</u>	<u>51,616.</u>
Total,	<u>\$1,032,496.</u>	<u>\$643,243.</u>	<u>\$1,568,775.</u>	<u>\$888,021.</u>

No allowance was made for materials and supplies in the Engineering Department valuation. The Valuation Engineer stated, however, that in his opinion an amount between \$20,000. and \$21,000. would be a reasonable allowance to cover the materials and supplies which are normally required by the company. At a subsequent hearing applicant presented testimony to the effect that the amount invested in materials and supplies for the benefit of Stockton Electric Railroad is approximately \$45,000.

Upon considering the evidence in this proceeding, I am of the opinion that, for the purpose at hand, \$1,000,000. may be fixed as a fair and proper rate base.

In support of its claim that the company was not earning a sufficient amount to pay operating expenses and a reasonable return on its investment, the company filed exhibits showing in detail the railway operating revenues, expenses and taxes during the period from January 1st, 1920, to December 31st, 1926. A summary of these exhibits, showing the railway operating revenues, expenses and income available for return each year, follows:

<u>Year</u>	<u>Operating Revenue</u>	<u>*Operating Expense</u>	<u>Operating Income</u>	<u>Rate of Return</u>
1920	\$320,456.66	\$299,381.94	\$21,074.72	2.11%
1921	346,595.77	311,423.91	35,171.86	3.52
1922	342,367.91	300,205.24	42,163.67	4.22
1923	335,484.38	311,391.84	24,092.54	2.41
1924	311,930.79	292,539.37	19,390.42	1.94
1925	311,761.84	295,633.89	16,127.95	1.61
1926	314,189.75	291,079.06	23,110.69	2.31

*Includes Taxes, Depreciation and Rent of Facilities.

The exhibits indicate that the operating revenue has declined from a peak of \$342,367.91 in 1922 to \$311,760.84 in 1925, the revenue for 1926 being slightly higher than for the year 1925. The amount available for return in 1926 was \$23,110.69, which is a return of approximately 2.3% on the rate base suggested.

The Transportation Division of the Commission's Engineering Department made a study of the company's operations and at the hearing on October 21st, 1927, a report on the service, operations and financial condition of the company was presented in evidence by Assistant Engineer, N. A. Wood, of the Commission's staff.

In this report a complete description of the company's operations was given, as is also an analysis of the past financial results of operation. It is estimated that with the continuance of the present method of operation by the company, an operating income available for return of but \$16,568. can be expected during 1927. Certain operating economies are, however, suggested by the Commission's engineer, which, if carried out, would, in his opinion, increase the amount available for return approximately \$40,000. per annum. The principal saving suggested is the putting into effect of complete one-man operation on the cars of the company. At the present time 28 cars are used in normal daily service, of which 18 are of the one-man type and 10 require the use of two platform men. It appears that the company could install complete one-man operation by slight modification in some of existing cars and that even the purchase of modern equipment to replace the old original cars is economically justified. The abandonment of service on certain short sections of track is also suggested by the Commission's Engineer.

The operation of street cars by one platform man is proving satisfactory on many of the company's lines in Stockton as well as on street railway properties in other cities of the same general class as Stockton. In addition to the reduction of operating expenses possible by the eliminating of the second platform men, other economies have been pointed out by the Commission's engineer, which stand undisputed in this record. It appears that the company carries materials and supplies for the benefit of another electric railroad operating in and in the vicinity of Stockton and that while it can, at its own discretion, fix the amount of store expense it shall charge this company for this service, it has not elected to charge even a fair return on its investment in such stock. From the record in this proceeding, it is apparent that the Stockton Electric Railroad Company has not exhausted all means of reducing operating expenses and that it is failing to put into practice certain operating economies.

It therefore appears proper that before considering the question of whether or not the company is earning an adequate return on its investment, the effect of apparent operating economies should be taken into consideration. The following tabulation shows an estimate of a year's operating results, taking into account the suggested changes as presented by the Commission's engineer:

<u>Operating Revenue</u>		\$311,985.
<u>Operating Expense:</u>		
Maintenance of Way and Structures,	\$22,910.	
Equipment,	29,249.	
Power,	28,006.	
Conducting Transportation,	113,747.	
Traffic,	200.	
General and Miscellaneous	<u>29,304.</u>	
		\$223,416.
Rent of Tracks,		<u>6,979.</u>
Total Operating Expense,		<u>\$230,395.</u>

Net Operating Revenue,	\$81,590.
Taxes,	<u>27,324.</u>
OPERATING INCOME,	<u>\$54,266.</u>

On the rate base previously suggested the prospective operating income represents a return of 5.4%.

This applicant was before the Commission in 1918 (Application No. 3803), seeking an adjustment of its fares. By Decision No. 6016, dated December 23rd, 1918, (16 C.R.C. 349) the basic fare was changed from five (5) cents to six (6) cents. It appears, from the record, that this company has failed to earn a reasonable return on its property during the past four years, after paying operating expenses and taxes.

Exhibit No. 13, introduced by the Commission's Transportation Engineers, shows the results of studies relating to various forms of fares for this carrier. One of the fare structures considered is a basic fare of seven (7) cents with four tokens for twenty-five (25) cents. It is estimated that with this schedule of fares, together with the suggested economies effected, the company will earn a return slightly in excess of six (6) per cent. From the record in this proceeding, it appears that this form of fare is preferable to any of the others considered. It is apparent that in estimating the results that might be expected from a change in fares, there are a great many factors to consider and it seems that the results that obtain in different localities vary greatly with similar changes in fares.

It therefore seems desirable that the fare structure proposed herein should be considered, to a certain extent, as experimental and if, after a reasonable length of time, it is found that this fare is not producing reasonable results, means should be provided whereby the Commission can expeditiously make such changes as may be required. For this reason, the present order

should reserve the right to change by supplemental order in this proceeding the rates herein prescribed.

The following form of order is recommended:

O R D E R

Stockton Electric Railroad 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 establish, within thirty (30) days from the effective date of this order, upon not less than five (5) days notice to this Commission and to the general public, by filing and posting tariffs in the manner prescribed in Section 14 of the Public Utilities Act, and to thereafter maintain and apply the rates and fares prescribed in Exhibit "A" attached hereto and made a part hereof.

The Commission reserves the right to abolish, modify or change, from time to time, by supplemental order herein, the rates of fare above prescribed and to make such further orders in this proceeding as may be deemed right and proper.

For all purposes, the effective date of this order shall be twenty days from and after 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 10th day
of July, 1928.

W. L. Leary

Wm. C. ...

Wm. C. ...

Commissioners.

DISSENTING OPINION

The majority opinion shows that the Stockton system, with proper economies in operations, will be on an earning basis of 5.4%. Under the fares authorized the basis, it is said, will be "slightly in excess of 6%."

The existing rate of return is low. It should be higher. However, increased fares do not always bring about an improved earning position. They do almost invariably drive patronage away. The final rate structure is the result of competitive and economic conditions rather than the declaration of the regulatory body. The search is ever to find the rate structure best calculated to keep the system going and in a healthy condition.

It may be that this is the time to authorize increased fares, but my judgment is that the danger of accelerating a decrease in patronage inherent in a fare increase more than offsets the slight increase in the rate of return the higher fare might produce.

In this critical period for street railway operations fare increases should be avoided if possible. By putting into effect the economies suggested it may be possible to avoid such an increase with all of its danger of driving patronage away.



Commissioner.

EXHIBIT "A"STOCKTON ELECTRIC RAILROAD COMPANYONE -WAY CONTINUOUS PASSENGER FARES

- (1) One way single cash fares seven (7) cents between all points on the company's lines.
- (2) Tokens or tickets, unlimited as to time of use, each entitling holder to one continuous ride with full transfer privileges will be offered for sale at the company office and on all cars at the price of four (4) for twenty-five (25) cents.