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Decision No. 20021.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

ORIGINAL

In the matter of the application of PACIFIC GAS AND ELECTRIC COMPANY, a corporation, for an order of the Railroad Commission of the State of California authorizing applicant to increase its rates and fares, and to file and place in effect, a new schedule of rates and fares for the transportation of persons on its street railway system in the City of Sacramento.

Application No. 13,773.

C. P. Cutten, for Applicant.

R. L. Shinn, City Attorney, and H. C. Bottorff, for City of Sacramento, protestant.

LOUTTIT, COMMISSIONER:

O R D E R

In the above entitled proceeding, Pacific Gas and Electric Company asks authority to increase the rates of fare charged upon the lines of its street railway system in the City of Sacramento, County of Sacramento, State of California.

The fares now charged upon applicant's street railway consist of a 5-cent cash fare and a weekly pass good over the entire system, transferable, with unlimited use to the holder during the calendar week for which issued, which sells for $1.00. Applicant now desires to increase the cash fares to 7¢ and the weekly pass to $1.50.

Hearings in this matter were held in Sacramento on September 28, 1927, and February 24, 1928.

Studies covering elements of value, financial results from operation, rates and service were prepared and presented in evidence.

The Sacramento Street Railway System as operated by the Pacific Gas and Electric Company consists of eleven street car lines operated over approximately 46.5 miles of track. Seventy-five cars are owned, of which number approximately 65 are regularly used in maintaining the present schedules. In addition to the above street car lines, the Railway operates five bus lines which act as extensions to its rail service. The length of these bus routes is approximately nine miles.

The record shows that the traffic upon applicant's system reached its peak in 1922, during which year 15,830,036 revenue passengers were carried and that in subsequent years the volume of traffic has fallen off. During 1926, 14,995,829 revenue passengers were carried. The decrease in revenue resulting from this decline in traffic has been somewhat offset by a concurrent decrease in operating expense which was effected largely by the adoption of part one-man operation.

Considerable evidence was presented having to do with the quality of service rendered. The cars, with few exceptions, are old and capable of maintaining only relatively slow schedule speeds. The average age of all equipment owned is slightly over twenty-eight years. A majority of these cars have been reconstructed in a manner so that they might be used for one-man operation and lack, to a large degree, provisions for passenger comfort found in equipment of later design. This fact, together with the competition of the privately owned automobile, undoubtedly accounts for the decline in traffic.

No substantial differences exist in the various estimates presented as to the value of the property or as to the financial results from operation. The applicant submitted an estimate of Historical Reproduction Cost as of December 31, 1926, of its property used and useful in its street railway operations. This estimate was checked by the Commission's Engineering Department and found to be reasonably correct. To this amount was added various items to obtain a representative figure for a rate base for the year 1927. The following tabulation shows the various amounts used in the two estimates submitted:

	Railway's Estimate	C.R.C.Engr.Dept. Estimate
Historical Reproduction Cost, as of Dec. 31st, 1926,	$2,374,300.	$2,374,300.
Additions and Betterments,	133,335.	46,000.
Material and Supplies,	24,000.	24,000.
Apportionment of General Offices at San Francisco,	45,000.	10,475.
Total,	$2,576,635.	$2,454,775.

It appears that the Commission's engineers used actual expenditures for Additions and Betterments for the first six months of 1927 instead of an estimate as contained in applicant's figures, and that the apportionment of General Offices used by our engineers is the same as that shown in Decision No. 9843, which is referred to later in this opinion.

The record justifies the conclusion that the sum of $2,460,000. is a reasonable figure to be used as a rate base for the purpose of this proceeding.

The estimate of the financial results from operations for the year 1927, as submitted by applicant and by the Commission's engineering department, is as follows:

	Estimate of Applicant	Estimate of C.R.C. Engr. Dept
Operating Revenue,	$685,000.	$685,500.
Operating Expense, excluding Depr'n,	$548,750.	$534,000.
Depreciation,	53,733.	53,600.
Total,	$602,483.	$587,600.
Operating Revenue,	$82,517.	$97,900.
Taxes,	41,000.	43,700.
Net Income,	$41,517.	$54,200.

The above estimated results from operations are based upon the existing rates and service of this Railway. The difference in the above net incomes is due to a difference in the estimates of operating expenses, that of applicant being approximately $15,000. greater than that of the Commission's engineers.

Both of the above estimates of operating expense are based upon the Company's records and present methods of accounting. There is included in such records an amount of approximately $30,000. for indirect expense during the year 1927, which amount is apportioned to street railway from the general expenses of the Pacific Gas and Electric System. This apportionment, added to the direct charges, results in a comparatively high burden being placed upon this street railway for supervision and general expense and appears to be excessive. It is my conclusion that a reasonable apportionment would materially reduce the total amount charged to this railway for supervision and general expense and that this railway with such proper apportionment and under present methods of operation may reasonably expect to earn a net income of $71,500. during the year 1927.

The study made by the Commission's engineers included certain suggested economics of operation. These economies contemplate the putting into effect of complete one-man operation; a reduction in the duplication of service along 28th Street, "Y" Street and Sacramento Boulevard; the elimination of service given by the 3rd and "P" Street car line and a saving to be effected by speeding up service. It is estimated that these economics would result in an annual net saving of $51,500. and would, after adequately allowing for taxes and a proper apportionment of supervision and general and miscellaneous expense, result in a net income of $116,000.

A net income of $71,500. will result in a return of 2.9% upon the above rate base of $2,460,000. and with the above economies placed in effect applicant may reasonably expect a return of 4.7%.

This carrier was before the Commission in 1921 seeking an increase in its fares (Application No. 6138). The Commission, in its Decision No. 9843 (20 C.R.C. 956), at that time concluded that the Company could earn a reasonable return with a five-cent fare if certain economies were effected, the most important being one-man car operation, but before this change was possible it was necessary for the city to modify an ordinance which prohibited such operation. This the City did and the Company proceeded to put one-man operation into effect on most of its lines as soon as the equipment was available. Notwithstanding these changes in operation, the record shows that subsequent to 1921 the Company has failed to earn a return in excess of three (3) per cent for any one year and an average of less than two (2) per cent for this period. These figures, however, are based upon the Company's method of operation and accounting. But, even after taking these factors into consideration, it appears that this railway has not earned an adequate return for a number of years past and that neither the return now being earned under existing service and rates nor the return which would be earned if the suggested economies were made effective is reasonable or adequate.

The record clearly justifies the conclusion that applicant is entitled to additional revenue. The evidence indicates that the schedule of rates asked for by applicant, which consists of a 7-cent cash fare, with a weekly pass for $1.50, will increase gross revenue approximately $135,000. Such an increase in revenue, with the economies of operation and changes in accounting herein suggested, would result in a return of 9.2%. It is also estimated, upon the same basis, that a 6-cent cash fare will result in a return of 6.5%. I am extremely doubtful if either of these rate schedules will produce these results unless simultaneously the Company considerably improves its service by providing better and more comfortable equipment and faster service schedules. Such improvements would require additional capital expenditures. In view of all the facts, I am of the opinion that a schedule of fares approximately midway between the above two fare schedules would be reasonable, and a 7-cent cash fare with four one-way tickets or tokens for 25¢ is therefore recommended. I am of the opinion that very little advantage will flow either to the public or the railway from a weekly pass selling at the rate of $1.50 concurrently with a single trip at 7¢, as proposed by applicant; however, there appears to be no objections to the Company further experimenting with this type of fare. The inclusion of the weekly pass in the rat schedule should, therefore, be left optional with the Company for th present.

Experience seems to indicate a rather wide range of variation in the results obtained from fare changes in different cities.

and it, therefore, appears desirable that the fare structure herein authorized should be considered entirely as an experimental plan. If experience shows that the rate structure herein specified does not work out satisfactorily, means should be provided whereby the Commission can expeditiously make such changes as may appear proper. For this reason, the present order should reserve the right to change, by supplemental order, the rates herein authorized.

The following form of order is recommended:

ORDER

Pacific Gas and Electric Company having applied to this Commission for an order granting authority to increase the rates of fare upon the street railway owned and operated by it in the City of Sacramento, Sacramento County, hearings having been held, basing its order upon the above findings of fact and other facts contained in the record, the matter being submitted and ready for decision,

IT IS HEREBY ORDERED that Pacific Gas and Electric Company 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, and on not less than five (5) days' notice to the public, for its street railway system in the City of Sacramento the following: a seven (7) cent cash fare and four (4) one-way tickets or tokens for twenty-five (25) cents.

For all purposes 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 to it may seem necessary and desirable

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and in the public interest.

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.

Leon O. Whitsell
C. L. Seavey
Ezra W. Decoto
Thos. S. Louttit

DISSENTING OPINION

My conclusion as to what should be done here differs somewhat from that of my associates.

Within the last year this Commission has had before it applications for rate increases from nearly every street railway company in the state. This application and the Stockton Electric Railroad Company application, decided concurrently herewith, disposes of the last of these. As disclosed by these various applications, two facts stand out in respect to the street railway utilities. One is that generally the number of passengers carried is not increasing as population increases. The second is that horizontal fare increases or violent rate changes tend to lessen the riding habit. In most of the proceedings which have been before the Commission it has been plain that the productivity of existing fare structures has not been sufficient to yield a reasonable return upon the investment in the system and the disposition of the particular proceeding has called for the exercise of the best judgment possible in determining the particular fare structure which, under all the circumstances, was the most likely to keep the system going and in a sound condition. Rate regulation, in its usual sense, has quite largely broken down in respect to street railways, competitive and economic conditions being much more potent in determining the final fare structure than any determination of the regulatory body.

In Sacramento there is a system which has been operating under a 5 cent fare, which is the fare probably more productive of patronage than any other. It has been operating in a growing community. Nevertheless, its patronage has been steadily declining. Unlike the situation disclosed in Re Los Angeles Railway Co. (Dec.No.19521), the applicant here has not been making a fair return on the average and there is no ground for concluding that the 5 cent fare will yield it a reasonable return in the future unless perhaps substantial and somewhat costly improvements in service would get more people to ride. At the present time with all operating economies in effect, with a re-allocation of certain overhead expenses which would have the effect of reducing its operating expenses, the earning set-up shows a return on investment of slightly less than 5 percent. This can hardly be deemed a fair return even under the present low yield of money invested in utility enterprises and the Commission cannot under the record refuse relief in the way of an authorized fare change.

The Company asks for a 7 cent fare. The majority opinion authorizes it to put in effect a 7 cent fare, with 4 tokens for 25 cents. It may be that this is the proper and best fare structure under all the circumstances. It seems to me, however, that it represents too violent a change and may result in a falling off of patronage to a dangerous extent. I believe a 6 cent fare, representing a less violent fare change, would be better. This, if the estimates in the record on the effect of a 6 cent fare are borne out, would put the Company in the position of earning approximately 6 percent return on its investment. While this is a low rate of return, I believe the Company would be better off thus than it would be under the somewhat higher fare structure authorized in the majority opinion which, according to the estimates in the opinion, would better its earning position but very little over the 6 cent fare and the form of which has a somewhat dangerous potentiality of driving away patronage.

The form of the order should be changed so that the applicant is not required to establish a new fare at once. It may well be that the applicant upon further consideration will deem it wiser to put into effect the operating economies suggested and then try to work out its future by improved service, thus seeking to increase its revenue by increasing its patronage rather than by the increased fares to which it is legally entitled but which may be of doubtful benefit to it.

W. J. Carr
Commissioner.