

Decision No. 21133

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

ORIGINAL

IN THE MATTER OF THE APPLICATION
of Martinez-Benicia Ferry and
Transportation Company, a corpora-
tion, to lower and increase rates.

Application No. 14963.

J. E. Rodgers and A. F. Bray,
For Applicants.

BY THE COMMISSION:

O P I N I O N

Martinez-Benicia Ferry and Transportation Company, a corporation, filed the above entitled application with this Commission on August 16, 1928, asking for authority to readjust its rates on the ground that the rates at present are non-compensatory.

A public hearing was held before Examiner Williams at Martinez on September 20, 1928, at which time the matter was submitted.

Subsequent to submission, active work was begun upon the construction of the Southern Pacific Company's railroad bridge across the Carquinez Straits from a point on the south bank of the river approximately three-quarters of a mile east of Martinez to a point on the north bank a mile and one-quarter east of Benicia. The Commission, desiring to ascertain what effect, if any, this construction work would have upon the traffic of applicant Ferry Company and in order that such a study should become a part of the

record in this matter, made an order February 27, 1929, setting aside submission and opening the matter up for further hearing. Accordingly, a further hearing was held before Examiner Gannon at Martinez on April 17, 1929, and the matter was again submitted.

Applicant conducts a ferry system across the Carquinez Straits between Martinez, in Contra Costa County, and Benicia, in Solano County. The ferry is, to a limited extent, in competition with the toll bridge across Carquinez Straits, approximately nine miles west of the ferry route and with the Antioch Toll Bridge twenty-five miles east. Both of these toll bridges and the applicant Ferry Company are owned by the American Toll Bridge Company.

Prior to the construction of the Carquinez Toll Bridge, which was opened to traffic in May of 1927, the one-way fare for autos upon this ferry was fifty-five (55) cents and for passengers fifteen (15) cents. With the rates then in effect and without the competition of the Carquinez Toll Bridge, the Ferry Company enjoyed a material return. Anticipating the competition that would result, the Ferry reduced its rates at the time the bridge was placed in operation, the rates on autos being fixed at forty (40) cents and on passengers at ten (10) cents. However, the record shows that applicant was unable to maintain its revenues and it is alleged that the operation has subsequently been conducted at a loss and will so continue unless rates are adjusted as requested. Applicant asks that the present rate of forty (40) cents on autos be increased to sixty (60) cents and the rate for freight N.O.S. on automobiles or horsedrawn vehicles be reduced from three and one-quarter ($3\frac{1}{4}$) cents to two (2) cents per hundred (100) pounds. All other rates in the proposed schedule either remain unchanged or are slightly reduced

and affect commodities of small volume,

At the hearing on September 20, 1928, studies covering the operation of the ferry for the year ending May 31, 1928, and for a number of years prior thereto were presented. These studies were brought forward to December 31, 1928, at the hearing on April 17, 1929.

The results from operation for the years 1926, 1927 and 1928, as shown by exhibits, are as follows:

	<u>Year ending December 31,</u>		
	<u>1926</u>	<u>1927</u>	<u>1928</u>
Revenue,	\$155,150.99	\$117,538.34	\$95,866.13
Expense,	125,124.22	118,545.45	108,110.31
Taxes,	3,275.44	4,565.22	112.50
Rent of S.S. "Issaquah,"	-	-	3,500.00
Total,	\$128,399.66	\$123,110.67	\$111,722.81
 NET INCOME,	 \$26,751.33	 \$5,572.33	 \$15,856.68

The reduction in revenue is the result of the decrease in rates and the competition afforded by the two toll bridges.

The reduction in operating expenses for the year 1928 as compared with 1926 and 1927, exclusive of fluctuations in the maintenance of equipment and terminals, has been brought about largely by the use of the S.S. "Issaquah" and the inauguration of the thirty (30) minute schedule. Prior to June, 1928, two boats, the "City of Martinez" and the "City of Seattle," were operated upon a twenty(20) minute schedule. Since that date, the Ferry has rented the S. S. "Issaquah" and has operated that boat only, maintaining a thirty(30) minute schedule. The "City of Seattle" has been kept in operation and is used as a spare boat for stand-by and peak traffic service. The "City of Martinez" was taken out of service in June, 1928. Since

that time is has been beached and its engines dismantled.

At the hearing on April 17, 1929, applicant presented testimony through witnesses representing the railroad bridge contractors and the engineering department of the Southern Pacific Company to the effect that no direct use would be made of the Ferry for the transportation of labor and materials used in the construction of the bridge. These witnesses stated that their own floating equipment would be used for this purpose. They further stated that in excess of two hundred and seventy-five men would be employed at an expenditure, for labor, of over One and one-quarter Million (1,250,000) Dollars. It was their opinion that the expenditure of this amount for labor would result in a stimulation of business in Martinez and Benicia which would increase, to some extent, the traffic on this ferry line.

The testimony of Mr. George J. Calder, Vice President and Chief Engineer of the American Toll Bridge Company agreed, in general, with that of the witnesses above referred to. He estimated the indirect traffic resulting from the construction of the bridge would not be in excess of One Hundred (100) Dollars a month. He stated that the traffic upon the Carquinez Toll Bridge and the Antioch Toll Bridge had shown a steady increase and that the traffic on these bridges for the first three months of 1929 was approximately ten(10) per cent greater than for the same months of 1928. The traffic for the month of March, 1929, was approximately thirty (30) per cent greater on the Carquinez Toll Bridge than for the same month of 1928. He explained that the large increase in traffic for the month of March,

1929, could be attributed to the facts that the month of March, 1929, had one more Sunday than March of 1928, that Easter Sunday fell in March of 1929, and that the weather conditions were ideal, while in March of 1928 they were particularly bad.

J. E. Cooper, Assistant Engineer for the Commission, presented figures showing that the general traffic upon Ferries in the San Francisco Bay District was increasing from year to year, that the traffic of the Martinez-Benicia Ferry, for the first three months of 1929, had increased approximately thirteen (13) per cent as compared with the same months of 1928, and that traffic for the month of March, 1929, was twenty-eight (28) per cent greater than March, 1928. These increases are quite similar in amount to those upon the Carquinez Toll Bridge. From his study of traffic and conditions affecting same, he concluded this Ferry's traffic was now following somewhat the normal upward trend of automobile traffic and that, for the same reason, the Ferry might expect an increase in traffic for the ensuing year of ten (10) per cent.

Based upon this estimated increase in traffic and the reduced cost of operations, due to the use of the S.S. "Issaquah" and the thirty-minute schedule, he estimated the results from operation for an ensuing year to be as follows:

Revenue,		\$104,500.
Expense,	\$103,400.	
Taxes,	150.	
Rent of S.S. "Issaquah,"	<u>600.</u>	
		<u>\$104,150.</u>
NET INCOME,		\$350.

In estimating the annual rental to be paid the American Toll Bridge Company for the S.S. "Issaquah," the Commission's engineer

pointed out that the Commission had permitted the amortization of that boat through rates down to the salvage value of \$10,000. at the time it was used in the Rodeo-Vallejo Ferry Service, which Company was and is owned by the same interests that now own the Ferry here under consideration. In his estimate of results from operation for the year 1929, Mr. Cooper included six (6) per cent of that amount, or \$600., as the rental to be paid by the Martinez-Benicia Ferry for its use at the present time. The annual rental charged to expenses by the Ferry is \$6,000. The basis for this amount is not explained. It appears from the record that the operation of the S.S. "Issaquah" by the Martinez-Benicia Ferry will result in substantial savings in operating expenses and its use by this Ferry is justified. The rental of the "Issaquah" by the Martinez-Benicia Ferry is an inter-company transaction and for the purposes of this matter, compensation for its use may be cared for either by the inclusion of an equitable amount therefor in the rate base or a reasonable rental in operating expense. The first of these methods appears fair and has often been used by this Commission and will be used in this instance.

Mr. Cooper estimated that the construction of the bridge with the attendant expenditures for labor would result in an increase in traffic, in addition to the normal increase, of approximately five (5) per cent, based upon the traffic during 1928. This increase in traffic would result in an increase in revenue of approximately \$4,800. as compared with the increase of \$1,200. estimated by Mr. Calder. Inasmuch as construction of the bridge will not be begun until approximately the middle of 1929, the Ferry may expect, based upon a 5% increase in traffic, to receive only approximately \$2,000. additional revenue for that year. It is concluded that under exist-

ing rates, the Ferry may reasonably expect the following results from operation for the year 1929:

Revenue,		\$106,500.
Expense,	\$103,400.	
Taxes,	<u>500.</u>	
Total,		<u>103,900.</u>
NET INCOME,		\$2,600.

In the Commission's Decision No. 14729, Case No. 2044, dated April 1, 1925, the value of the Martinez-Benicia Ferry and Transportation Company as of June 30, 1924, for rate making purposes, was found to be \$172,000., which amount included an allowance of \$8,330. for working capital.

The additions and betterments from June 30, 1924, to December 31, 1928, amount to \$2,369. For the purpose of estimating the rate of return, Mr. Cooper used a rate base of \$103,000., which was computed by adding to the base of \$172,000. the item of \$2,369., representing additions and betterments, and deducting from the resultant amount the item of \$71,450., contained therein as the value of the S.S. "City of Martinez." He stated that, in his opinion, the "City of Martinez" was not used or useful in the operation of the Ferry and the value thereof consequently should not be included in the rate base.

It appears that the exclusion from the rate base of the value of the S.S. "City of Martinez" is proper. As to the amount that should be included therein for the S.S. "Issaquah," attention is called to the fact that the real owners of this boat and of the Martinez Benicia Ferry were permitted by this Commission to amortize through rates the value of this boat down to the sum

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of \$10,000., representing its salvage value. That this amortization was accomplished is evidenced by the fact that the period of time used in the determination of the amortization ended December 31, 1926, at which time it was thought the Carquinez Toll Bridge would be completed and open to traffic. This work, however, was delayed and the bridge was not open to traffic until May of 1927, which fact permitted the collection through rates, during the five months of 1927, of an amount for amortization in addition to that included in the estimate. Based upon these facts, it appears that \$10,000. is the greatest amount that may equitably be included in the rate base for the purpose of fixing rates upon this Ferry. It is concluded that \$113,000. is a proper rate base to be used in this matter for the determination of a fair and reasonable rate of return upon the investment. Based upon this amount, the Ferry may reasonably expect to earn a return of 2.2 per cent under existing rates during the year 1929.

Based upon the results from operation of this Ferry during the years subsequent to the readjustment of traffic, due to the operation of the Carquinez Toll Bridge and upon the estimated results of operation for the year 1929, it is concluded that the present rates are low and unreasonable and that an increase in said rates is justified and should be authorized.

The Commission's engineer stated that, in his opinion, an increase in rates, particularly an increase of twenty (20) cents in the rates for automobiles, would result in a curtailment in traffic of not less than five (5) per cent, which would offset the increase to be derived from the construction of the railroad bridge. Based upon this assumption and the estimated increase of ten (10) per cent

due to the normal increase in auto traffic, it may be expected that the rates requested by applicant will result in the following net income and return for the year 1929:

Revenue,		\$132,500.
Expense,	\$103,400.	
Taxes,	<u>3,650.</u>	
		<u>107,050.</u>
NET INCOME,		\$25,450.
Return upon Rate Base of \$113,000.		22.5%

A return of 22.5% is excessive and unreasonable.

From an analysis of all the testimony in this matter, it appears that an increase in the rate per automobile from forty (40) cents to forty-five (45) cents is justified. Such an increase would probably not result in any appreciable curtailment of traffic and, based upon the expected increase in traffic due to other factors, would result in a net income for the year 1929 of approximately \$8,700. which amounts to a return of 7.7% upon the rate base of \$113,000. with prospects for somewhat greater earnings for the following year.

An order authorizing such an adjustment in rates will be entered.

O R D E R

Martinez-Benicia Ferry and Transportation Company having applied to this Commission for an adjustment of its rates, public hearings having been held, the Commission being fully apprised of the facts, the matter being under submission and ready for decision,

IT IS HEREBY ORDERED that Martinez-Benicia Ferry and Transportation Company be and it is hereby authorized to establish,

on not less than five (5) days notice to the Commission and to the public, and thereafter to maintain and apply for the transportation of automobiles between Martinez and Benicia the rate of forty-five (45) cents per automobile and to establish the proposed rates on other vehicles, live stock and freight, as shown in Exhibit "C" attached to and made a part of the application.

For all other purposes the effective date of this order shall be twenty (20) days from and after the date hereof.

Dated at San Francisco, California, this 20th day of May, 1929.

Thos. J. Louder

C. J. ...

Leon ...

W. P. ...

Commissioners.