Decision No. 10930

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of Pacific Electric Railway Company for an order granting permission to increase rates for the transportation of passengers between points on the Pacific Electric Railway in the State of California.	Application No. 3791.
In the matter of the application of Pacific Electric Railway Company for an order granting permission to increase rates for the transportation of passengers using local service between points on the Pacific Electric Railway Company in the City of Los Angeles, California.	Application No. 4403.
In the matter of the application of Pacific Electric Railway Company for an order granting permission to increase rates for the transportation of passengers between points on the Pacific Electric Railway Company in the following cities, communities and territories in the Counties of Los Angeles, Orange, Riverside and San Bernardino, California, to wit: Claremont, Colton, Glendale, Huntington Beach, Long Beach, Newport Beach, Pasadena, Pomona, Redlands, Redondo Beach, Riverside, San Bernardino, San Gabriel, San Pedro-Wilmington, Santa Ana, Santa Monica, Sawtelle-Soldiers Home, South Pasadena, Upland, Van Nuys, Venice, Santa Monica-Ocean Park-Venice-Playa del Rey, Lankershim, San Fernando, Sherman, Culver City, Hermosa Beach, Manhattan Beach, El Segundo, Gardena, Torrance, Compton, Watts, Seal Beach, Fullerton, Whittier, Brea, El Monte, San Dimas, Covina, La Verne, Ontario, Rialto, Arcadia, Monrovia, Glendora, Sierra Madre, San Marino, Alhambra, and Burbank.	Application No. 4407.

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In the matter of the application of Pacific Electric Railway Company for an order granting permission to increase rates for the transportation of petroleum and petroleum products, carloads, classified fifth class in current Western Classification, as contained in Pacific Electric Railway Company's local, joint and proportional freight tariff C.R.C. No. 235, applying between points on lines of Pacific Electric Railway Company in California to the basis of four and one-half cents per hundred pounds higher than rates in effect on May 25, 1918, but not to exceed fifth class rates as increased effective June 25, 1918.	Application No. 4733.
In the matter of the application of Pacific Electric Railway Company, a corporation, for an order granting permission to increase rates and to establish just and reasonable rates for the transportation of persons and property between points in the State of California.	Application No. 5806.
In the matter of the Commission's investigation into the electric street railway service of the Pacific Electric Railway Company and Los Angeles Railway Corporation in the Hollywood District of the City of Los Angeles.	Case No. 1602.
The Chamber of Commerce of San Pedro, Complainant, vs. Pacific Electric Railway Company, Defendant.	Case No. 1607.

Frank Karr and R. C. Gortner, for Pacific Electric Railway Company;
Edwin O. Edgerton and S. M. Haskins, for the Los Angeles Railway Corporation;
Joss E. Stephens, W. P. Mealey, Milton Bryan,

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H. Z. Osborne, Jr. and F. A. Lorenz, for the City of Los Angeles;
J. H. Howard, for City of Pasadena;
William Hazlett and R. V. Orbison, City Manager, for City of South Pasadena;
Arthur A. Weber, for City of Santa Monica;
Arthur A. Weber and Charles W. Lyon, for Santa Monica Bay Realty Board, Venice Chamber of Commerce, Santa Monica-Ocean Park Chamber of Commerce, Santa Monica City Club, West Los Angeles Improvement Association and Venice Merchants Association;
T. C. Gould and Grant N. Lorraine, City Manager, for City of Alhambra;
Thomas B. Reed, for City of Covina;
Frederick Baker, for City of Azusa;
H. B. Lynch, Bert B. Woodard and Wm. H. Reeve, City Manager, for City of Glendale;
Clyde Woodworth, for City of El Segundo, City of Inglewood and City of Beverly Hills;
Geo. L. Hoodenpyl, Bruce Mason and P. E. Howes, City Manager, for the City of Long Beach;
Geo. H. Scott, for City of Santa Ana;
Charles W. Lyon, for City of Venice;
E. O. Winburn, for City of Watts;
William Guthrie, for City of San Bernardino;
Walter F. Dunn, for City of El Monte and City of Arcadia;
Miguel Estudillo, for City of Riverside;
John P. Dunn and A. Black, for City of Monrovia;
Frank L. Perry, for cities of Manhattan Beach, Hermosa Beach and Redondo Beach;
Thomas A. Berkebile, for City of Monterey Park;
C. L. Welch, for Hollywood, and Santa Monica Boulevard Improvement Association;
Earl Crandall and G. E. Delevan, Jr., for City of Manhattan;
George R. Wickham, for City of Hermosa Beach;
W. E. Guerin, for City of Pomona;
P. A. Stanton and J. P. Transue, for City of Seal Beach;
F. P. Gregson, for Associated Jobbers of Los Angeles;
J. S. Horn, for Los Angeles Central Labor Council;
W. H. Engle, for people of Edendale and Northwest Welfare Association;
Harold Janss and F. A. Cattern, for Northeast Los Angeles Improvement Association;
Shannon Crandall, for Los Angeles Chamber of Commerce and Torrance Chamber of Commerce;
Perry G. Briney, for Llewellyn Iron Works and the Union Tool Company of Torrance;
Henry E. Carter, for Wilmington Chamber of Commerce;
Rollin L. McNitt, for Eagle Rock Chamber of Commerce;
I. G. Lewis and Milton Bryan, for San Pedro Chamber of Commerce;
W. E. Mellinger, for Hermosa Beach Chamber of Commerce;
Harlan G. Palmer and E. M. Tilden, for Hollywood Board of Trade;
Robert Young, for Hollywood Chamber of Commerce;
Howard F. Shepherd and C. L. Welch, for Santa Monica Boulevard Improvement Association;
O. G. Ball and A. L. Colby, for Dayton Improvement Association;

M. L. Garrigus, for certain citizens of Central-South Hollywood;
Soward Cole and Edwin O. Palmer, for Santa Monica and Vine Boulevard Business Men's Club;
R. J. Harwood, for Hollywood Vermont Association;
Anthony Pratt, for Municipal League;
E. C. Moore, for Vermont Avenue and Griffith Park Improvement Association;
W. H. Cline and Van M. Griffith, for Los Angeles Park Commission;
W. E. Sibertson, for West Hollywood Association;
A. A. Pratt, for himself as patron of Pacific Electric and driver of automobile;
H. W. Kidd and F. D. Howell, for Motor Transit Company;
Rollin L. McNitt, for Pasadena-Pomona Stage Line, Pasadena-Ocean Park Stage Line, Mount Wilson Stage Line, Arrowhead Springs Company;
S. W. Thompson, for United Stages, Inc;
F. Landier, for Auto Bus Operators in San Pedro;
A. W. Burt, for Protestants, residents of San Antonio Heights;
C. F. Sawyer, for himself as a resident of Hollywood;
A. F. Hall, of Long Beach, in propria persona;
G. O. Clark, for West Ivanhoe Improvement Association;
E. L. Duffy, for Maywood Commercial Improvement Association;
C. D. Swanner, for Seal Beach.
E. L. Brady and Walter L. McIntyre, for Rose Hill Improvement Association;
Mrs. Emma C. Newton, for residents of Avila;
L. V. Shepherd, for Highland Park Chamber of Commerce;
H. H. Wilson and Phil B. Hart, for Florence Improvement Association;
George H. King, for Chamber of Commerce of Glendale; also James W. Rhodes, Secretary;
J. P. Transue, for Seal Beach Chamber of Commerce;
William Hazlett, also representing citizens of Richardson and Atwater Station on the Glendale Line; also Dickinson and Gillespie, property owners, Richardson Station;
W. P. Wolff, for residents of Hauser Station;
John E. Carson, for Chamber of Commerce of Glendora;
H. D. Anderson, for Chamber of Commerce of Watts;
J. M. Page, Secretary, Chamber of Commerce of Pomona;
Frank Walton, for Springdale, Willowbrook and Compton;
John T. Ackley, for Monterey Park Chamber of Commerce;
W. T. Sterling, for High School Teachers' Association;
Walter Gould Lincoln, for Baldwin Park Chamber of Commerce;
Mr. Poor, for Clean Government League;
Benjamin W. Shipman, for Wilmar Chamber of Commerce.

BY THE COMMISSION:

OPINION AND ORDER ON RE-HEARING.

Decision No. 9928 in this proceeding was rendered by the Commission on December 24, 1921. On December 31, 1921, application for re-hearing was filed by the Hollywood Chamber of

Commerce, asking, among other things, that the effective date of Decision No. 9928 be suspended until after a further hearing and that adequate time be given to petitioner to prepare an amended petition in greater detail. On the same day the Commission made its order granting the petition for re-hearing, but leaving Decision No. 9928 in full force and effect pending a decision on re-hearing. The Hollywood application was subsequently amended several times, as will later be discussed in this opinion.

Applications for re-hearing were also filed by the City of Alhambra (on January 5, 1922), by the City of Glendale (on the same date), by the City of South Pasadena (on January 9,1922), by the City of Pasadena (on January 21, 1922), and, on the same date, by the City of Manhattan Beach.

An amendment to its application was filed by the Company on January 24, 1922.

Hearings on these petitions were held in Los Angeles on January 24, 25 and 26, 1922. On January 28, 1922, after partial re-hearing, the Commission made its First Supplemental Opinion and Order (Decision No. 10,017) and ordered certain changes in the forms and in the price of commutation tickets. In all other respects the original order remained in effect.

Further hearings on the applications for re-hearing were held in Los Angeles on March 20, 21, 22 and 23, 1922. Additional testimony and exhibits have been introduced, briefs have been filed, and the matter is now ready for decision.

1. Contentions of applicants for re-hearing.

(a) Hollywood Chamber of Commerce.

The Hollywood Chamber of Commerce (hereinafter referred to as Hollywood), in the original and amended petitions for re-hearing, attacks our decision in this proceeding on a number of

items. Relief is asked on fourteen (14) different points. A number of these have already been disposed of and some others have reference to Case 1714, in which Decision No. 10929 was rendered on Sept. 2, 1922. The points remaining for decision are:

1 - that the rates for street car service within the City of Los Angeles be restored to the rates existing prior to Decision No. 9928;

2 - that an experimental rate structure be put into effect, beginning with a 4¢ fare within each zone, and a 7¢ fare for cross-zone travel, with the financial result of such fares kept under advisement by the Commission, and that if such fares should be found inadequate to pay operating costs and a fair return, that gradual increase be made, and the experiment continued until the correct fare is arrived at by actual experiment;

3 - that adequate credit be given the street car lines of Los Angeles for freight and interurban service for "the costly rights of way out of the City of Los Angeles" and that there be charged against the freight traffic "a just proportion of the expense caused by the dilapidated and antiquated and out-of-date and motley equipment";

4 - that from the valuation and operative real estate all rights of way, except an adequate width for the purpose of operating the lines, and all excessive land, be eliminated;

5 - that the value of the land which has been created by lapse of time and development of communities be treated as revenue and not as capital demanding a return;

6 - that due allowance be made for the savings in operating expenses that will be caused by the investment of the new capital in new improvements on the Hollywood lines;

7 - that the number of free riders "other than its officers and members of the State Railroad Commission and its Agents and Employees" be charged directly against the Company and not charged against the car riders.

In an amendment to the Hollywood petition of March 16, 1922, it is further alleged that the rates fixed by the Commission in Decision No. 9928 are excessive in so far as Hollywood is concerned and "will produce more than enough to pay operating expenses and other legitimate expenses and a fair return on the

capital invested," and that, if any increase in rates is necessary over the old rates, "only a small increase" is necessary.

In support of these points Hollywood contends that the valuation of the property of the Company, as made by the Commission's engineering department, and the rate base adopted by us are excessive. It is urged that this case is not a proper one for the exercise of the authority conferred upon the Commission by Section 21, Article XII of the Constitution and Section 24a of the Public Utilities Act to relieve carriers in special cases from the inhibition of the so-called long and short haul clause; that such authority should only be used in "special cases" and that the present instance is not a special case. The relation of the Pacific Electric to the Southern Pacific is dwelt upon and it is urged that the operation and management of the Pacific Electric is for the purpose of advancing the interests of the Southern Pacific rather than for the benefit of the community through which the Pacific Electric operates. The elimination from the valuation and the rate base of large holdings of real estate and rights of way is urged. It is said that many of the lands are held by the Company ostensibly as carriers of passengers, but they are "actually, and almost wholly, used as carriers of freight." The relation of the freight to the passenger service is discussed in the petition and it is alleged that passenger service and passenger equipment are neglected in favor of freight service and equipment and that, as a result, the passengers are required to bear the burden of the freight service. The methods used by the Commission's engineers in the valuation of lands is protested as erroneous and it is urged that the original cost less depreciation rather than the present value of lands should be made the basis of the valuation. The inclusion in the rate base of the present value of donated lands is declared to be unfair to the public and places an undue burden on the rate-payer.

In the fixing of the rate base it is alleged that insufficient allowance has been made for the saving to the Company from the construction of the proposed tunnel and the acquisition of the proposed new cars for the Hollywood service. It is alleged that, by reason of the complicated character of the Company's service and the combination of interurban street railway and freight operation, "it is not within the bounds of reason or possibility to form any theory upon which a just passenger fare can be based, except by experiment and experience as applied to the operation of this special company." The institution of a system of universal transfers good on both the lines of the Pacific Electric and the Los Angeles Railways is urged.

There was in the original petition for re-hearing a protest against the zone arrangement and the zone boundaries as fixed by the Commission, but this protest was withdrawn during the course of the hearing and this petitioner is now satisfied to have the zone boundaries remain as they are at present.

We shall deal with the contentions of this petitioner in such detail as may be possible in this opinion.

(b) Alhambra, Glendale, South Pasadena, Pasadena, Manhattan Beach, and other communities.

The petitions of these cities are generally of the same character. Objection is made to the rates as being too high and as giving the company a greater revenue and a greater return than is justified. It is urged that a particular service to a particular community should be considered on its own merits and not in relation to other services. The interurban service is thought by petitioners to carry an undue burden of the cost of the system operations and rate discrimination is charged in favor of the Los Angeles local service. It is also claimed that the present rates in providing a separate rate structure for local and interurban transportation

which prohibits the charging of a greater compensation as a thru rate than the aggregates of intermediate rates.

The objection made to the form of commutation tickets has been remedied, as far as possible, in Decision No. 10,017.

Glendale complains also about inadequate depot facilities and inadequate equipment in the Glendale service and protests against the condition of the grades and the railway crossings in the streets of the City of Glendale. These matters, it has been arranged, will be taken up directly between the City of Glendale and the Company and they will not need to be further considered in this proceeding at this time.

During the course of the hearing, communities and individuals other than those having filed formal application for re-hearing desired to enter their protest and it was stipulated that all parties wishing to join in the petition for re-hearing shall have exactly the same standing as parties having filed applications for re-hearing. The Company stipulated that it would not hereafter interpose any jurisdictional objection to such applications on the ground that they were not filed with the Commission in time.

(c) Company's amendment to its application.

On January 24,1922, the Company asked leave to file an amendment to its original application. This amendment sets forth the two types of passenger transportation service rendered, namely; interurban passenger service and street car service; it enumerates the distinguishing characteristics of each service, gives a list, with terminals, of such tracks over which joint operation is carried on and alleges --

> " * * * * that in order to separate the local passenger service from the interurban passenger service, it is necessary and to the public interest that a higher rate of fare be established on the interurban passenger cars within the zone points in and adjacent to the City of Los Angeles than that established on the local street cars for street

"car service, in order that the interurban service be not unduly burdened and expense of operation unduly increased by local passengers occupying the car space intended for interurban or zone car haul passengers, and to more adequately pay a reasonable rate for the higher class of service rendered; and also that the passenger fares to and from the large number of interurban and suburban points served by interurban passenger car service may be put upon a just and reasonable and non-discriminatory mileage basis."

The Company asks, in order that no doubt may exist as to its right to charge a mileage scale of rates and a minimum interurban passenger car fare in the territories where a local street car service is given, that an investigation be made into such special cases and for authorization after investigation to establish such scale of rates as shall be found just and reasonable for such different classes of service, even if the interurban passenger fare should be greater than the local street car fare over the routes and between the points set forth and notwithstanding the provisions of Section 21 of Article XII of the Constitution of the State of California and of Section 24-a of the Public Utilities Act.

Formal objection was made by counsel for several communities to the filing of this amendment on the ground that the time for amendment of the application had expired. In overruling this objection and permitting the amendment, the Commission has acted in accordance with its established procedure. In proceedings of this nature, the Commission attempts, in so far as is possible, to avoid technicalities. Under the provisions of the Public Utilities Act, the Commission can and does permit amendments to the pleadings even at the time of hearing, providing that the interests of other parties are not prejudicially affected.

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In this proceeding great latitude was allowed the cities and other complainants in the matter of filing and amending their petitions and introducing testimony. The same latitude, we think, should be allowed the Company. Every available means was employed to facilitate the bringing forth of all relevant facts and information in these cases and nothing has appeared which would indicate that any of the parties were placed at a disadvantage by permitting the amendment at the time it was offered, or that their interests were prejudicially affected thereby.

2. Los Angeles local service.

The claim of Hollywood for a reduction in the local fares and all other claims of this applicant rest upon the proposition that the Hollywood service is separate and distinct from all other services rendered by the Company. It is claimed that such service is separate not only from all freight service, from all interurban service and from all local service outside the City of Los Angeles but, further, that it should not be considered as a part of the Pacific Electric local service in the City of Los Angeles but should be separated as a distinct operation performed with a separate and distinct property and facilities. On this basis the principal witness for Hollywood, Mr. Ost, has proceeded to analyze the exhibits heretofore introduced in these cases and particularly Commission's Exhibit No. 1 and Commission's Exhibit "A", Case 1602, and the Board of Public Utilities' Exhibit "A", Case 1602. He has attempted, on the basis of these exhibits, to allocate to the Hollywood service all the property required for such service and to apportion to it proper operating expenses and proper operating revenues. The result of his set-up is an estimate of gross income from the Hollywood service which will not meet the total cost of service

(including operating expenses, 6% interest on a valuation of $3,672,811.00 and an amount for depreciation of $100,000.00) by the sum of $46,512.00. Counsel for Hollywood concludes from these figures that the Hollywood rates should be reduced, that the charge for crossing from one zone into another should not exceed 1¢ in addition to the zone fare, and that the entire Hollywood cross-zone fare should not exceed 7¢.

It is quite clear from all of the evidence that the correctness of these estimated results in Exhibit No. 1 of the Hollywood Chamber of Commerce cannot be taken for granted. Even if we were to accept the basis for the Hollywood set-up, we would not be satisfied that the gross income estimate of $273,857.00, under the rates in effect prior to January 1, 1922, could be realized. Not only do we disagree with the results of Exhibit No. 1, but we are compelled to reject the basis for the entire estimate.

We are convinced, after a careful review of the evidence, that the facts do not justify the conclusion that the Hollywood service should be singled out and segregated from the other local services on other Pacific Electric lines in the City of Los Angeles, for the purpose of establishing rates for that line, irrespective of all other parts of the local system. According to our view, the segregation of a particular line for the purpose of rate regulation should only be made where it clearly appears that such line constitutes a distinct unit. Where, as in this case, it clearly appears that the local service to the various districts within the City is a unified system of transportation, rates should be established for the local system as a whole, rather than for particular lines. To do otherwise under the circumstances, would suggest discrimination in favor of a particular section of the City to the detriment of other sections.

We are convinced that the only natural and justified segregation of the services rendered by this company falls into three different and distinct classes: The freight service, the interurban, and the local or street car service. Each of these services, we believe, should be self sustaining. Just and reasonable rates should be fixed for each and no one should be forced to carry the burdens of another. We further conclude that as to local or street car service, not only the City of Los Angeles, but each and every other city or community having a local street car service, should be treated as a unit and that the possible losses in one community should not be charged against another community or against another class of service.

To this extent, we have considered segregation and differentiation justified. The freight service, the interurban service, and the local service of each city are, in fact, distinct units of the Pacific Electric system. To go further and distinguish between individual freight lines and attempt to fix different freight rates according to the density of traffic and physical characteristics, or to segregate individual interurban lines with different mileage and commutation rates for each line according to varying traffic characteristics, or to similarly pick out an individual line of the local service in any city, for the establishment of particular rates on such line, would not only greatly complicate the entire problem of fixing a reasonable rate, but would almost inevitably result in such inequalities, both as to rates and service between

different communities, as would practically amount to unjust discrimination. Not only have we considered any such method of rate making impossible of practical application, but we also believe it is apparent that traffic characteristics on each line and on each service are continuously changing and that a rate structure based on such a theory would be utterly lacking in stability. The resultant effect of such unnatural dismemberment of the system for rate making purposes would, in our opinion, be highly prejudicial to the welfare of the communities served by it. We have, therefore, adhered to a scheme and plan of rate making practiced throughout the United States and fully sanctioned by law, which will minimize undue preferences and discrimination between communities and to the greatest possible extent foster the development of an adequate and unified system of transportation. Acting on such conclusions, we have treated the Pacific Electric local service in Los Angeles as one unit.

It is true that in Case 1602, which before consolidation into this proceeding dealt with the Hollywood service exclusively, we attempted to estimate the cost of operation and revenue on the Hollywood lines, but this was in a service case and not a rate case and it was done not with any thought of establishing a separate rate of fare but in order to determine to what extent the traffic on the Hollywood lines required and justified the installation of additional equipment and additional facilities. The very fact that Case 1602 was consolidated with the present proceeding, as soon as the rates became an issue, would show that the Commission considered rate-fixing by individual lines or groups of lines impracticable.

Nothing developed at the re-hearing has changed our conclusions. Neither has the City of Los Angeles, of which Hollywood is a part, asked for a different rate for different portions of the city.

We have, however, given careful thought to such adjustment of zone points as seems desirable to be made in view of the testimony introduced on re-hearing and also to the possibility of making an adjustment of inter-zone fares applicable to the entire Los Angeles local service. Local service is now given on the so-called Watts-South Pasadena line from Watts at the southern terminus to Mission Road and Fair Oaks Avenue, the northern terminus. South Pasadena objects to the present limit of the second zone on the local Los Angeles service at Thorne Street and points out that the local service continues beyond Thorne Street to Mission and Fair Oaks, a distance of 1.77 miles. Under the present

rate structure the single one-way fare on the local line for this distance is 14 cents. It has been suggested that a third zone might be created for South Pasadena to embrace the local service between Thorne Street and Mission and Fair Oaks. We are not persuaded that an additional zone for so short a distance is justified and have come to the conclusion that this territory should be included in the second zone. With this inclusion the total length of this local line will be 9.32 miles. We believe this extension of the second zone is justified since there now exists and has existed for a long time a local street car service to the proposed limit of the second zone in South Pasadena. The Company attempted to show a distinction between the South Pasadena local service and local service elsewhere and to maintain that the South Pasadena service beyond Thorne Street should be put into the interurban class. We have concluded that the service north of Thorne Street is local in its character, the same as south of Thorne Street.

In Alhambra and Glendale, where it is also contended that local service rates should apply, the situation is different. Local service has not in the past existed and is not now in operation to these points. We are not prepared at this time to order the inauguration of local service in addition to the existing interurban service and, until local service is in fact established, we see no justification for establishing local rates.

A change also appears to be justified in the first zone limit on the Sierra Vista line. The first zone boundary on that line is now at Indian Village, a distance of 4.47 miles. We believe the limit of the inner zone should be placed at Rose Hill Park, a distance of 5.57 miles.

It is likely that in the future additional local service will have to be established by the Company within a second zone limit on lines where no local service exists at present.

The need for such local service will become most urgent, probably, in the territory that may be served by an extension of the Edendale line between the present terminus of that line and the Southern Pacific crossing at Tropico. This neighborhood is building up rapidly with a character of development that appears to be particularly dependent upon local street car service.

With the results of operations on the Los Angeles local service before us for the first five months of 1922, we conclude that a modification of the inter-zone rate is justified and that the benefit of a lower fare may be given to the regular rider analogous to the reduced commutation fares in the interurban service. We believe it is practicable and desirable to establish a form of monthly commutation 60-ride coupon ticket without limitation as to use, good for 40 days from date of sale and good for a ride through two zones and with transfer privilege, the same as 10-cent cash fare, and that this form of ticket can be sold by the Company for $4.80, a reduction of $1.20 below the same number of single cash fares and the equivalent of 8¢ for a ride through two zones. We believe that such a ticket will not only prove a great convenience and benefit to the regular car rider in the outlying districts, but that the loss in revenue to the Company will be offset, partially at least, by an increase in traffic.

In Decision No. 9928, supra, the order contained a provision requiring the Company to file a stipulation to institute a universal transfer arrangement in the City of Los Angeles between the Company's local lines and the lines of the Los Angeles Railway on such terms as may appear just and reasonable. Such a stipulation has been filed. It is our intention to institute a

proceeding toward the consummation of such a universal transfer arrangement.

In the same decision we directed the Company to acquire new equipment for the Hollywood service, to re-arrange the Hill Street terminal and construct a tunnel westerly from that terminal to First Street and Lake Shore Avenue and to inaugurate certain motor-bus feeder lines in Hollywood territory. We required these improvements and capital expenditures (at a cost of $3,000,000.00) because it was absolutely necessary, in our opinion, to have the present urgent transportation needs of this section of the city taken care of, notwithstanding the uncertainty and the conflicting views as to the ultimate development of local transportation in Hollywood.

The Company has agreed to meet those requirements. Fifty (50) new cars of an improved type have been ordered for the Hollywood service and first deliveries have been made. Right of way and land for the tunnel has been bought, plans have been prepared and application has been made to the Los Angeles City Council for the necessary tunnel and line franchise. The Company has further agreed to institute certain bus feeder lines and franchise applications are pending before the City Council. The City has indicated its willingness to act on these franchise applications as soon as decisions are made by this Commission in the present proceeding and in Case 1714. In the latter case the Hollywood Chamber of Commerce has asked the Commission to make an order for the extension of certain car lines of the Los Angeles Railway Corporation northerly into Hollywood territory, for the removal of discrimination in fares, and for universal transfers. The complaint in the matter of extensions was dismissed by us in Decision No. 10929 on grounds set forth in the decision.

There appears to be no reason now, as soon as the

necessary city franchises are granted, for any further delay in the consummation of the requirements referred to and we expect the Company to use all possible diligence in completing the Hollywood construction and service program in the matter of the tunnel and equipment, as well as in the matter of motor-bus feeder lines.

The point urgently reiterated by Hollywood that there now exists unjustifiable discrimination by reason of different service and different rates on the two street railway systems serving the city, the Pacific Electric and the Los Angeles Railway, and that such discrimination should be removed by order of this Commission, is a most important one and, in Decision No. 10929 , supra, we have called attention to the jurisdictional difficulties involved. We may, with propriety, here state our belief that satisfactory local street car transportation cannot be brought about in Los Angeles and that the needs of the growing city cannot be met until there is a unification of the two local systems into one single system under one ownership and one operating management. Obviously, this can be accomplished in one of three ways: the Pacific Electric to take over the Los Angeles Railway lines, the Los Angeles Railway to take over the local lines of the Pacific Electric, or the City to take them both. Short of such unification it will be very difficult, if not impossible, to advance the local transportation development parallel to the development and the needs of the City. The powers of the City or of this Commission to order extensions (and the railroads deny that there is such power in either jurisdiction) are circumscribed by law and rates and service must, under the law, be governed by the peculiar circumstances pertaining to each separate property. It is clearly in its best interests that the City should fully realize these conditions and the limitations of the present scheme of street

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railway transportation. These fundamental questions should have consideration in the conference we have suggested in Decision No. 10929, supra.

3. Interurban rates.

We see no justification for making any changes in the interurban rates fixed in Decision No. 9928. The contention made by the petitioners for re-hearing that some of the interurban rates are excessive and produce a greater net revenue than the Company is entitled to is not based on fact. The comparison frequently made by applicants of interurban rates with local rates is misleading. That there is a real distinction between interurban service and local service cannot be doubted and the only fair and non-discriminatory rate-making system for interurban service, in our opinion, is on the mileage basis. In strictly local street car service a rate structure based on mileage, of course, cannot apply.

Density of traffic in interurban service cannot be a controlling factor in fixing the mileage rate. On a system like the Pacific Electric, which radiates in all directions from the center of the City of Los Angeles, uniform mileage rates must apply. The lines with a greater density of traffic automatically render their patrons a superior service because such service is more frequent and in other ways often more desirable.

The distinction which has been pointed out between the interurban service and the local service disposes of the contention urged on behalf of some of the cities that the allowance of a through rate on certain interurban lines which was higher than the aggregate of the intermediate rates on the local lines, was in violation of Section 21 of Article XII of

the Constitution. As we have indicated, the rates for inter-urban service are established on a mileage basis, which would be wholly inapplicable to the local service.

The complaint of the City of Seal Beach appears to require attention. In Decision No. 9928 the Commission ordered the discontinuation of the so-called beach blanket rates with the exception that the Company was required to maintain on Saturdays, Sundays and holidays a round-trip excursion rate of 70 cents applying between Los Angeles and all beach resorts from Port Los Angeles on the north to Anaheim Landing on the south. In computing mileage, the Company has applied a uniform rate to communities such as Long Beach and San Pedro by

figuring the distance to a point as central as possible for each community. An exception appears to have been made in the case of Seal Beach, where different fares are in effect, depending upon the absolute mileage to each stop. We believe that this situation should be remedied in this and all similar cases and a single central mileage computed to Seal Beach and to other communities. The City of Seal Beach contends, further, that the same mileage should apply as applies to Long Beach and San Pedro, regardless of the actual mileage. This contention is made because this condition existed in the past, prior to the effective date of Decision No. 9928 and, further, because certain contributions were made in the form of right of way and possibly other forms when the line was built into Seal Beach.

Such considerations cannot be of controlling influence with the Commission and it is clear that a discrimination against other communities would be the result if a different method of mileage computation were permitted for Seal Beach (which is a separate and distinct community approximately two miles distant from the City of Long Beach) than is in effect for other communities.

4. Valuation, rate base, revenues and expenses.

Applicants for re-hearing, Hollywood in particular, protest that the valuation of the Company's property, used and useful in the service to the public, and the rate base are excessive and that, in consequence, a rate of return higher than need be is allowed the Company. The method of land valuation is especially criticised. It will be well, therefore, to again deal briefly with the matters of valuation and rate base, although the method of computation is shown in Decision No. 9928, supra.

The Commission's engineering department made a detailed and painstaking valuation (Commission's Exhibit No. 1), estimating

the historical reproduction cost undepreciated and the historical reproduction cost less depreciation of both the operative property and the non-operative property. In addition, reproduction cost new estimates were made on the basis of a five-year construction period ending December 31, 1920, with estimates for operative and non-operative property before considering depreciation and after considering depreciation. These valuations were made in the same manner and under the methods uniformly applied in the valuation of all public utilities by this Commission. The rights of way and lands of the Company were valued on the basis of the market value, without the allowance of any so-called multiples, of adjoining and similar lands and there were included all lands owned by the Company regardless of how ownership was acquired. A careful division was made between lands necessary and used and useful in the operation of this railroad (these were classed as "operative lands") and lands not necessary and not used for such purpose (these were classed as "non-operative lands").

It is suggested that the inclusion in operative property of a continuous right of way of 75 or 100 feet in width is excessive and that there should be included only a strip of sufficient width to accommodate the tracks and other existing facilities. Such a view, we think, is untenable. A reasonable width for right of way is a necessary requirement for efficient railway service and whether such a width should be 75 or 100 feet for single-track lines, with a greater width for double-track or four-track lines must depend upon circumstances. No hard and fast rules can be laid down. There is included in the Commission's valuation and rate base only such land and such right of way as, in our opinion, is actually

necessary for operating purposes.

It is urged upon us by Hollywood that the value of the land, which has been created by lapse of time and development of communities, be treated as revenue and not as capital demanding a return. Aside from the question of constitutional law in this matter, it is in the record that the total actual original cost of all of the Company's operative lands was impossible of ascertainment. The amount of money to be treated as income from unearned increment, under applicants' theory, would have to be an uncertain quantity, therefore, by a wide margin. It was possible, however, to find the actual cost of rights of way and lands acquired for the recently constructed lines and these figures are in the record. They show that on much of the purchased land the Company paid in excess of the then or present market value and this "excess cost of acquisition" is the backbone of the multiple theory. We have rejected the multiple theory in all public utility rate cases. A change in this practice (which would be a consequence of the adoption of applicants' theory) would, in our opinion, be at variance with the established practice of the Commission and a distinct dis-service to the utility rate-payers of California.

We requested counsel of the several parties in this proceeding to advise the Commission, by brief or otherwise, as to the legal obligation of this Commission concerning the fundamental principles involved in the appraisal of the rights of way, donated lands and bonuses, and also concerning the justice or injustice of charging the same rate per mile to passengers patronizing the paying lines of the system as is charged to passengers travelling on lines that are barely paying operating expenses. Such briefs have been filed by some of the parties. We have given careful consideration to the

opinions expressed and to the citations of the law. We are impressed that no other course can lawfully be followed by the Commission than the one taken in Decision No. 9928, supra.

It is misleading in considering the fairness and reasonableness of a rate to lay too much stress on one rate factor and too little on others. The valuation or the rate base is only one item in a rate set-up. In this particular case it is by no means the most important one. A close scrutiny of the allowance for operating expenses, for instance, is of much greater importance. Other factors of primary importance are the percentage rate of return, the allowance for depreciation, the estimate of expected revenues, the division between operative and non-operative property, the treatment of past losses and of loss from current non-paying operations. Only if the disposition of all of these rate factors is known and understood can a correct estimate of the reasonableness of the rate be reached. In this case we have allowed for normal and average operating expenses. Excess operating costs (such as deferred maintenance expenses) are not allowed in operating expenses, but have been treated as coming from fair return. Past losses have been given no consideration in the present rates. The depreciation allowance is admittedly not larger than absolutely necessary.

After a careful consideration of all the evidence of value submitted in this proceeding, it is our conclusion that the figures submitted showing the historical reproduction cost undepreciated, plus the amount of new capital to be expended for the Hollywood service most nearly approximates the fair value of the property of the carrier, for rate-making purposes. The inclusion in the rate base of the capital to be expended for Hollywood service improvements is proper, for the reason that in the estimates of revenues and expenses, the expected revenues, after such improvements of service have been made and the expected savings in operating expenses were also included.

The Company objected to our engineering department's valuation estimates and made claims for increases aggregating at least $18,500,000.00. We made no decision on these disputed items but did not increase the rate base because of these claims.

In determining a fair return for this Company and in estimating the total revenue required to produce the cost of service we had in mind what we believed to be all of the controlling elements of the situation, including the relation of this Company to the Southern Pacific Company, the expected increase in traffic and the matters referred to above. Under the rates fixed in Decision No. 9928, supra, we estimated a net return, after operating expenses, depreciation and taxes, available for fixed charges of 6.3 per cent. But we also required the Company to make good deferred maintenance of road and equipment to an approximate amount of $2,000,000.00 and suggested that this extraordinary expenditure be spread over a period of four years, increasing the operating expenses annually by about $500,000.00 for four years. The Company has agreed to this suggestion and deferred maintenance expenditures are now being made at the rate indicated. This reduces the fair return to between 5 and 5½%. In view of these facts, the claim of an excessive rate of return on an excessive rate base cannot be sustained.

There are now available the operating results, under the rates fixed by the Commission in this proceeding, for the first five months from January to May, inclusive, of the present year. A comparison of these results with the corresponding months for the year 1921 (under the old rates) with the estimates made in Decision No. 9928, supra, is instructive. This comparison shows:

Results of Operations for 5 months ending May 31st

	1922	1921	1922 increase (- = decrease) (+ = increase)
Railway operating revenue,	$7,199,106.45	$6,959,491.43	+ 3.5%
Railway operating expense exclusive of depreciation,	5,409,412.52	5,443,595.09	- .5%
Depreciation,	115,883.03	114,383.72	+ 1.5%
Total operating expenses,	5,525,295.55	5,557,978.81	- .5%
Net revenue from railway operation,	1,673,810.90	1,401,512.62	+ 19.5%
Taxes,	369,493.23	293,657.89	+ 26.0%
Railway operating income,	1,304,317.67	1,107,854.73	+ 17.7%

REVENUE ANALYSIS

	Passenger		Freight		Total Operating	
	1922	1921	1922	1921	1922	1921
Jan.	$977,973.20	$1,013,192.43	$359,506.21	$369,461.67	$1,439,025.76	$1,451,146.95
Feb.	927,272.38	947,479.31	300,631.66	271,366.43	1,315,763.31	1,283,200.97
Mar.	1,025,660.08	1,023,281.98	381,061.15	364,731.07	1,495,509.78	1,457,011.80
Apr.	1,033,274.08	978,226.57	340,013.61	333,979.19	1,451,792.88	1,376,199.44
May	1,096,380.42	983,937.90	359,944.65	321,965.85	1,504,208.36	1,389,380.57

OPERATING EXPENSES
(Exluding Depreciation)

	1922	1921
Jan.	$1,029,938.77	$1,047,433.90
Feb.	960,725.81	977,240.73
Mar.	1,079,013.46	1,051,281.62
Apr.	1,030,683.35	1,088,160.20
May	1,062,440.55	1,063,071.71

Comparing the results shown in this table with the estimates in Decision No. 9928, supra, it is apparent that for the first six months of the present year the expected increase in gross and net revenue has not been fully realized. There are reasons for this condition beyond the influence of the rate structure (especially the unfavorable weather conditions during the early part of this year) and we are still of the opinion that the anticipated financial results may be expected to follow from the rates fixed in this proceeding and that these rates are just and reasonable, all things considered. We see no possibility, however, of the Company being able to earn an excessive fair return. The adjustments required in this decision in local fares and in the zone arrangements will tend to reduce operating revenues and the recent reduction by the Interstate Commerce Commission of freight rates has already had, in a large amount, a similar effect.

We see no justification, therefore, for any change in the rate structure fixed in Decisions Nos. 9928 and 10,017, supra, except to the extent that such changes are discussed in this opinion and it is our conclusion that in all other respects the two prior orders in this case should remain in full force and effect.

O R D E R

Applications for re-hearing having been filed by the various parties to the above entitled proceeding, supplemental hearings having been held, and basing the order upon the preceding opinion and on the entire record, the Commission hereby modifies its orders as set forth in Decision No. 9928, dated December 24, 1921, and in Decision No. 10,017, dated January 28, 1922, in the following particulars:

1. The Pacific Electric Railway Company is hereby ordered to publish and sell a 60-ride local street car coupon book, without limitation as to use and good within and between the inner and outer zones in the Los Angeles local service, as such zones have been heretofore defined and as modified in this decision, at the rate of $4.80 for each book, such ticket to be good at any time within forty (40) days from date of sale.

2. The zone limits for the Los Angeles local service heretofore fixed in Decision No. 9928, supra, are to be modified as follows:

(a) the second or outer zone limit on the northern terminus of the South Pasadena line shall be extended from the present terminus at Thorne Street to Mission Road and Fair Oaks Avenue in South Pasadena;

(b) the inner or first zone limit on the Sierra Vista line shall be extended from the present terminus at Indian Village to Rose Hill Park.

3. In computing rates and distances for the City of Seal Beach, the Pacific Electric Railway Company shall apply uniform rates to the community based on a representative central point.

In all other respects the orders heretofore issued by the Commission in this proceeding shall remain in full force and effect.

The Commission reserves the right to make such further orders in this proceeding relating to service and rates as may

appear just and reasonable.

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 2nd day of September, 1922.

H. D. Benedict

Commissioners.