

ORIGINAL

Decision No. 11264

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

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In the matter of the application of)
Bakersfield and Kern Electric Rail-)
way Company, a California corpor-) Application No. 7230
ation, for an investigation of its)
charges and service.)

Murray Bourne, for applicant
E. F. Brittan, City Attorney, for
City of Bakersfield
George W. Wilkins; for Boosters
Club of East Bakersfield
J. J. Denel, for Kern County Farm
Bureau
Jay A. Hinman, for the East Side

BY THE COMMISSION:

O P I N I O N

In this application Bakersfield and Kern Electric Rail-
way Company, operating the street railway in Bakersfield, Kern
County, asks the Commission to -

- (a) investigate the earnings and expenses of appli-
cant and rate of return yielded thereby;
- (b) to permit applicant to file a new and revised
schedule of rates, tolls, fares and charges suf-
ficient to properly compensate applicant for ser-
vice rendered;
- (c) to determine what, if any, additions, extensions
or increases of applicant's system or facilities
should be made and terms and conditions thereof,
and
- (d) for such other relief as in the premises shall ap-
pear proper.

In the application it is alleged that at the present
time, and for a number of years past, the earnings accruing to ap-
plicant from the operation of the railway have not been sufficient
to compensate it for its effort and investment, and that it is

being requested and called upon by its patrons to increase and to extend its service, which extension and increase appear to be wholly unreasonable and impossible.

Public hearings were held in Bakersfield June 6, 1922, and September 8, 1922, before Examiner Eddy.

At the first hearing applicant presented its case, submitting various exhibits, including a valuation and statements of revenues, expenses and return earned. At this hearing it was arranged that the Engineering Department of the Commission would have an opportunity to examine these exhibits before a further hearing and it was suggested that the Engineering Department make an independent investigation of the service, operating and financial conditions.

The Boosters' Club of East Bakersfield asked that the Commission consider an extension of the railway into East Bakersfield, this rail service to supersede the present bus service. (East Bakersfield, as herein used, means that portion of the City of Bakersfield lying north of the Southern Pacific tracks and adjacent to Baker Street.)

The Engineering Department was thereafter instructed by the Commission to proceed and, about one week prior to the second hearing, its valuation and the report on the service, operating and financial conditions of applicant were prepared and submitted to the parties to this proceeding.

Valuation

At the second hearing Mr. H. G. Weeks, the Commission's Transportation Engineer, introduced the Engineering Department's valuation of the properties of applicant and its report on the service, operating and financial conditions of these properties, the former being identified as Commission's Exhibit No. 1 and

the latter as Commission's Exhibit No. 2. He also introduced a report dealing with the original cost of the properties, supplemental to the valuation, as Commission's Exhibit No. 3.

In Commission's Exhibit No. 1 the valuation of the properties of Bakersfield and Kern Electric Railway Company as of June 30, 1922 is stated as follows:

Class of Property	As of June 30, 1922.		
	Historical Reproduction Cost	Condition Percent	Historical Repro- duction Cost Less Depreciation
Operative	\$558 464	61	\$339 342
Non-operative	12 062	71	8 586
Total	570 526	62	347 928

The valuation submitted by applicant in its Exhibit No. 1 is as of June 30, 1915, but since by use of applicant's Exhibit No. 2 we find only \$3720 as net additions from this date to December 31, 1921, the difference in dates is not important and applicant's 1915 valuation may be compared with the valuation of the Engineering Department. The comparison for operative property alone cannot be made as applicant's valuation did not present this segregation and because also some property operative on June 30, 1915 was, on June 30, 1922, non-operative:

Valuation of	Date of Valuation	Operative and Non-Operative Property		
		Reproduction Cost	Per cent	Reproduction Cost Less Depreciation
Applicant	June 30, 1915	\$638 164	87	\$555 814
Engr. Dept.	June 30, 1922	570 526	62	347 928
Difference		67 638	25	207 886
Applicant exceeds En- gineering Department		12%		60%

The record does not disclose any evidence which warrants a change in figures submitted by the Engineering Department.

From Commission's Exhibit No. 3 it appears that the annual reports submitted to the Commission show Investment in Road and Equipment to December 31, 1921 of \$840,972.71 and that an analysis of applicant's records shows that this does not repre-

sent the actual cost of the properties. This is because it includes not only the cost of the present system but the cost of facilities retired and replaced, but not retired from the books; because, on August 1, 1910, new books were opened and certain accounts were appreciated and the opening entries on the new books were found to be greater than the corresponding closing entries of the predecessor company and also because franchises were entered at large values, in excess of cost.

Exhibit No. 3 also shows that omitting the so-called overhead accounts (engineering, interest, etc.) and land, in which two items it is reasonable to expect a difference, the historical reproduction cost is but two-tenths of one per cent less than the restated book cost as appears from the following figures:

Book Cost, restated	\$493 512	Note
Historical Reproduction Cost	492 627	Note
Difference	885	

Note: Figures exclude Accounts 501-Engineering,
502-Land and all General Accounts-546 to 550

The fact that these two figures are so nearly together indicates a close check, one figure against the other.

Physical Characteristics

The Bakersfield and Kern Electric Railway, which is controlled, through stock ownership, by San Joaquin Light and Power Corporation, has no competition, operating and owning 10.22 miles of revenue tracks, 4.515 miles of which are double track and 3 route miles of motor bus service, all within the City of Bakersfield. Over 90% of the track mileage is laid with grooved rail and permanent pavement, both being the result of municipal requirements, and both high percentages for a system of this size.

Service is given by eleven cars and six busses. Six of the cars are equipped with a good type of motor and air brakes and the remainder are of an older type with hand brakes. All of the busses are truck chassis with solid tires; three are Ford,

two are Studebaker and one Pierce Arrow. The latter has a twenty-five passenger body; the others twelve passenger bodies. The railway owns two motor generator sets totaling 525 K.W. and located in the steam generating station of the San Joaquin Light and Power Corporation.

Service and Operation

The railway service given may be considered reasonably good in view of the amount of traffic possible to develop in a city of this size. The bus service is evidently not so satisfactory, because of the poor riding qualities of the busses, delay and interruptions, thought to result from the poor condition of the street surface. The road appears to be economically operated. The railway cost of operation per car mile is one of the lowest in the state, the level tracks being, of course, an important factor. The bus service is not so economical as the rough streets result in excessive repair and depreciation costs. Aside from the suggestion of eliminating early and late trips and for an extension of one-man operation, the Engineering Department did not point out any economies which would reduce operating expenses, although it mentions that paving the streets over which the busses operate would not only improve the service, but reduce the cost of bus operation.

Return and Rate of Return

In Commission's Exhibit No. 2 the following rate base was suggested:

Historical Reproduction Cost as of June 30, 1922	\$558,464.00
Materials and Supplies as of June 30, 1922	9,850.00
Total, suggested rate base	<u>568,314.00</u>

There is presented in Commission's Exhibit No. 2 an analysis of applicant's revenues, expenses and service. The operating expenses have been carefully examined in great detail and applicant's figures restated where necessary and also brought

up to a later date. The engineers making the valuation computed as they proceeded a depreciation annuity consistent with the valuation. This was then considered in connection with operating expenses so that the figures for operating expenses, including depreciation, as stated in the following quotation, are free from either duplications or omissions that might otherwise be present.

It appears well to quote from this exhibit, the figures in which were not controverted, as to applicant's revenues, expenses, income and rate of return:

Item	"Income Statement		
	Actual Year 1921 Restated	Actual Year to June 30, 1922	Estimate Year to June 30, 1923
"Operating Revenues	\$138 452	\$130 266	\$136 000
"Operating Expenses (including depreciation \$13568)	109 038	106 921	106 508
"Railway Operating Revenue	29 414	25 305	29 492
"Taxes, operative	8 827	9 338	9 477
"Net Income Available for Return	20 587	13 967	20 015
"Return on Rate Base above	3.61%	2.46%	3.52%
<u>"Estimated Savings</u>			
"Omission first and last single trips			\$1100
"One-man operation throughout			12000
"Total			13100
"Total, as rate of return			2.30%

"It will be noted that for the year ending June 30, 1923 and continuing the present system of operation the rate of return is shown as 3.52%, but that certain economies in operation, we believe, may be effected which will decrease the operating expenses \$13,000, equivalent to an increase of rate of return 2.30% so that with these savings applicant should earn at the rate of 5.82%.

"These figures may be compared with those presented by applicant in its Exhibit No. 3 as follows, although applicant did not make any estimate for the future.

	Applicant's Exhibit #3	Engineering Dept. 1921 Year to June 30, 1923	
Rate Base	\$630 666	\$568 314	\$568 314
Net Income available for return	22 067	20 587	20 015
Rate of Return on rate base	3.50%	3.61%	3.52%

"The estimated savings in the cost of operation as above stated consist of the omission of the first and last single trips of all the cars and busses, which our investigation leads us to believe are now unnecessary. It also includes a change to one-man operation on the so-called main line. This also appears feasible, but will require the cooperation of everybody concerned to make it successful. This is because the running time between the Southern Pacific Station and Nineteenth and Oak Street is now rather short on the fifteen-minute headway for two-man operation, and in order to maintain this headway with one man on the cars it is so important to gain every possible advantage that we believe the City of Bakersfield should obviate the five positive stops now required of the company.

"The next statement shows the rate of return under different conditions and different rates of fare. It has been our experience that an increase in fare from 5 cents to 6 cents usually adds about 12% to the gross revenue instead of increasing it to the same extent that the fare is increased, 20%. In a smaller city like Bakersfield we doubt if this 12% will be realized and have used 10%.

<u>"Rate of Return Statement</u>		
	<u>Rate of Fare</u>	
<u>Conditions</u>	<u>5c</u>	<u>6c</u>
"Present system of operation	3.52%	5.74%
"With suggested savings in operation	5.82%	8.04%

Extensions of Service

As mentioned above, the Boosters' Club of East Bakersfield appeared and asked that the present bus service on Baker and Niles Streets be superseded by rail service.

Protestant's Exhibit No. 1 shows that between February 2, 1921 and September 5, 1922 building permits have been issued by the City of Bakersfield for 237 buildings, practically all dwellings, to be erected in East Bakersfield. The total cost as shown by these permits is \$606,025. This indicates a considerable growth in this section of the city and were it not for other considerations would be regarded as an important factor in extension of applicant's lines into East Bakersfield. The Boosters' Club suggested the construction of an extension on the following route:

Commencing at the present tracks at Grove and Kern

Streets northerly along Kern to Monterey, easterly on Monterey to Williams, northerly on Williams to Flower, westerly on Flower to Kern and southerly on Kern to the point of beginning at Grove Street, this line forming a loop approximately 3 miles in length.

The Engineering Department estimates the cost of this extension based upon a grade crossing of twelve (12) tracks of the Southern Pacific across Kern Street at \$172,575.00. The annual cost of service, based upon shuttle service, with two new cars, transferring at Grove and Kern Streets, is \$29,815.00, including interest on the additional investment. The revenue from the Baker and Niles Street busses amounts to approximately \$12,900.00, or, on the basis of the ratio of system total passengers handled, the revenue of these bus lines would be approximately \$17,600.00. It is evident that under present conditions such an additional investment is not justified. Since it seems important that the railway reach the Southern Pacific station, operation is estimated on the basis of a transfer at Grove and Kern Streets.

The Engineering Department also made an estimate of the cost of extending the railway on the route operated by the present bus service in East Bakersfield, based also upon a grade crossing of the Southern Pacific tracks. The total estimated cost is \$93,472.00 and the estimated cost of operation, including interest on the total investment, is \$20,170.00. It is evident that here, too, revenues would not meet operating expenses and a reasonable interest charge on the new investment. This plan would have the advantage of operation without a transfer.

The evidence is unanimous that a grade crossing of

applicant's tracks with either the twelve Southern Pacific tracks at Kern Street or the eight at Baker Street would not be safe. Under these circumstances it appears that a formal proceeding involving the crossing of the Southern Pacific tracks either at grade or at separated grades must be filed and decided by the Commission as no determination of the crossing question can be made until the parties at interest, particularly the Southern Pacific Company, are given an opportunity to appear and be heard.

This Commission has, we believe, the power to order an extension, but such an order cannot be made where the evidence indicates that the extension would be operated at a loss; and as to an increase in fare designed to take care of such a loss it must be obvious that this cannot be determined until the cost of the facilities necessary is found and since the crossing of the Southern Pacific may add to the costs above stated, it is impossible at this time to even estimate the added operating costs which will undoubtedly result from rail service into East Bakersfield.

At the last hearing a committee of three engineers, one representing the City, one the applicant and one the Commission was suggested; this committee to make a further study of extensions and make a report to the Commission. Since, however, a formal proceeding for the determination of the crossing feature, as mentioned above, will be necessary regardless of the report of this committee and because such proceeding may either never be filed or filed so far in the future, it seems advisable at this time to issue a decision on the basis of dealing with conditions as they are and without consideration of an extension into East Bakersfield. At the same time it is suggested to applicant and to the City of

Bakersfield that either or, both jointly, file such a grade separation proceeding as a step necessary in the question of an extension into East Bakersfield.

The street railway in Bakersfield takes roughly the form of a cross. The Chester Avenue line operates on two opposite arms, north and south, while the main line forms the other two opposite arms, east and west. The two lines intersect at the business center, where a large part of the traffic originates and is destined. The Chester Avenue arms are roughly $3/4$ of a mile in length. The west arm of the main line is divided as to service, every other car going to the Santa Fe depot, about $6/10$ of a mile, the alternate car running to West Oak Street, one mile. The east leg of the main line is the longest, something over $1\frac{1}{2}$ miles, terminating at the Southern Pacific station. The bus lines extend from the Southern Pacific station and also from the line terminating at the Santa Fe depot. Fifteen minute service is given on the Chester Avenue line and from the Santa Fe station and Oak Street, so that on the main line east of "F" Street cars are operated on a $7\frac{1}{2}$ minute headway.

This data is presented for consideration in connection with an increase of fare as it appears that with distances so short and with a fifteen minute headway the tendency to walk, no doubt, would be very strong and there is considerable doubt if an increase in fare will result in an increase in revenue.

Bakersfield has had a healthy growth the last decade. The number of passengers and revenues should increase; operating expenses, because of declining or stationary material and labor costs, should either remain as they are, or decrease. The rate of return of 5.82%, supra, is approximately twice

the average rate heretofore earned by applicant.

Applicant should have the opportunity to perfect the recommended changes in service and the City of Bakersfield to amend regulations affecting the positive steps now required, and because of the reasonable doubt that an increased fare would produce additional net revenue and since it is concluded that a return of 5.82% is a fair and reasonable return, and that conditions are more propitious than unfavorable toward a future increase of this rate of return application should, therefore, be dismissed as to permission to file a new and revised schedule of rates.

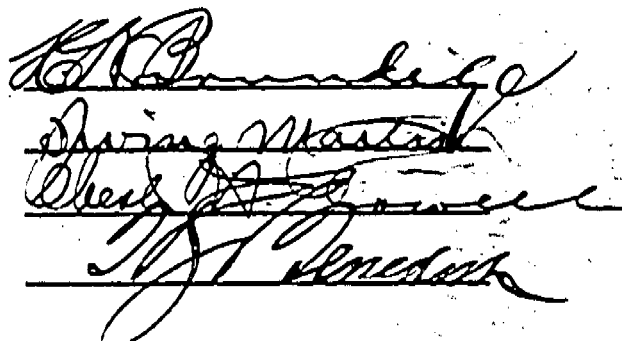
If, however, within a reasonable time it shall appear that the conclusions and estimates upon which this decision is based are not substantiated by applicant's actual experience, the matter can again be considered by the Commission.

O R D E R

Bakersfield and Kern Electric Railway Company having asked for an investigation of its earnings, expenses and the rate of return yielded thereby; for permission to file new and revised rates; for a determination of what, if any, additions, extensions or increases of applicant's system should be made; public hearings having been held, the matter having been submitted for the reasons stated in the foregoing opinion,

IT IS HEREBY ORDERED, that the application herein be and it is hereby dismissed without prejudice.

Dated at San Francisco, California, this 23rd
day of November, 1922.



Commissioners