

Decision No. 5624-

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

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In the matter of the application
of the Peninsular Railway Company
for permission to increase pass-
enger fares.
.....)

Application No. 3789.

- Wm. F. James, Louis Oneal and Frank Karr, for applicant.
- Earl Lamb and Thos. E. Reed, for City of San Jose.
- Norman E. Malcolm, for the City of Palo Alto.
- D. T. Jenkins, for the town of Los Gatos.
- W. F. Hyde, for Los Altos Improvement Club.

LOVELAND, Commicisioner.

O P I N I O N

Applicant is a corporation operating an electric railroad for the transportation of freight and passengers in and about the cities of San Jose and Palo Alto and between points in the territory co-terminous with Palo Alto on the north, Los Gatos on the south, San Jose and Alum Rock Park on the east and Congress Springs on the west, all in the county of Santa Clara.

Alleging that present revenues are insufficient to overcome operating expenses and certain fixed charges and directing attention to deficit of some \$223,000 for fiscal year ending April 30, 1918, applicant requests increases in its passenger fares sufficient, when added to the present passenger revenue and that derived from other sources to enable it to meet the annual fixed charges and operating costs.

Application was supplemented by exhibits filed at the hearing one of which consisted of a tariff containing the proposed rates or fares. These rates are based generally three cents per mile for single fares and one-cent per mile for commutation fares, observing as a maximum the short line mileage rates of competing line at common points. In some instances this results in reductions but in most cases increases are brought about on account of the low basis previously employed.

The new rate schedule eliminates the thirty-ride family ticket and in lieu thereof proposes a cash coupon ticket containing 125 coupons at a face value of 5 cents each entitling the holder of each coupon to ride thereon; in other words, interchangeable, - which will be sold for \$5.00 or a reduction of 20%.

This tariff also contemplates cancellation of 46-ride commutation ticket to San Jose and 50-ride ticket to Stanford. These tickets were originally established for the benefit of students over 19 years of age but it is testified they were misused and usurped the place of the 60-ride ticket.

The arrangement for the sale of certain round-trip tickets by conductors, also four and ten-day round trips, and Saturday to Monday fares are likewise abolished.

On the street car divisions it is proposed to increase the fare from 5 to 7 cents with privilege of purchasing tickets good within the 7-cent fare zone in blocks of 5 for 30 cents.

The new schedule will in general conform as closely as practicable to that in effect on the line of its federal controlled competitor, the Southern Pacific Company.

The following table shows present and proposed rates between some of the more important points.

Between	SAN JOSE				LOS GATOS				LOS ALTOS				PALO ALTO				
	Way	Station	Station	Days	Way	Station	Station	Days	Way	Station	Station	Days	Way	Station	Station	Days	
Los Altos	(Pres.)	.35	6.00	4.20	.50	.50	9.15	5.45	.50	-	-	-	-	.20	3.45	2.80	-
	(Prop.)	.45	6.60	5.10	.75	.50	9.30	7.15	.85	-	-	-	-	.20	3.60	2.55	-
Mayfield	(Pres.)	.50	6.00	4.65	.50	.65	9.35	5.65	.50	.15	3.00	2.80	-	.05	3.00	-	-
	(Prop.)	.50	6.60	5.10	.75	.65	11.40	8.75	1.05	.15	3.60	1.85	-	.10	3.60	1.85	-
Palo Alto	(Pres.)	.50	6.00	4.65	.50	.70	9.35	5.65	.50	.20	3.45	2.80	-	-	-	-	-
	(Prop.)	.60	6.60	5.10	.75	.70	12.60	9.70	1.05	.20	3.60	2.55	-	-	-	-	-
Saratoga	(Pres.)	.20	4.80	2.75	.25	.10	3.00	2.30	-	.40	9.00	4.20	.50	.60	9.00	5.65	.35
	(Prop.)	.35	6.70	5.15	.50	.15	3.60	2.00	-	.40	6.75	5.15	.55	.60	10.05	7.60	.75
Los Gatos	(Pres.)	.25	5.00	3.00	.40	-	-	-	-	.50	9.35	5.45	.50	.70	9.35	5.65	.50
	(Prop.)	.35	7.40	5.70	.70	-	-	-	-	.50	9.30	7.15	.85	.70	12.60	9.70	1.05

Before proceeding to a discussion of the issues involved in this action it is appropriate to give a brief description of the property and character of its traffic supplementary to that appearing in the introductory portion of this opinion.

For the purpose of this report, petitioner's line may be roughly divided into three traffic districts consisting of;-

- 1- Joint San Jose Railway-Peninsular Railway Division between points in San Jose and Alum Rock Canyon.
- 2- Campbell-Los Gatos division consisting of line between San Jose and Los Gatos via Campbell.
- 3- Main Division, or balance of line, viz:
San Jose to Congress Springs and north of Congress Junction to Palo Alto.

There are also two minor divisions consisting of street car lines in Palo Alto and the 15th Street or Naglee Park line in San Jose.

As to the first division this is being considered under application of like character on part of the San Jose Railroads, and it is therefore unnecessary to make further comment herein.

Travel on the Campbell-Los Gatos division is comparatively light and confined almost entirely to commutation traffic. This portion of the line parallels the highways and is subject to sharp competition of automobile lines which quote the same one-way fares as petitioner but have not yet met its commutation rates. This no doubt accounts for the character of travel on this portion of the property.

On the main division there is a considerable steady current of travel between San Jose, Palo Alto and intermediates under one-way and round-trip fares.

Applicant's Traffic Manager testified that travel on this line is extremely heavy at the present time due to the establishment of an Army division at Camp Fremont. This has resulted in a material increase in passenger revenue which it is testified will diminish with the discontinuance of the camp.

Traffic in the territory between San Jose and Monta Vista and between Palo Alto and Monta Vista is confined largely to commutation and school travel.

The main division is in keen competition with automobile lines which cut the one-way fare between Palo Alto and San Jose 5 cents and meet the four-day round trip rate of 75 cents, but have not yet adopted the low daily round trip rate of 50 cents between these points.

It is the opinion of the transportation company's traffic manager that this company will be unable to secure the proposed increases, if granted, unless a corresponding advance is made on part of the auto lines. Approximately 80% of applicant's operating revenue is derived from passenger traffic.

The company has an outstanding bonded indebtedness of \$500,000.00 covered by first mortgage bonds, which are held by the Southern Pacific Company to the extent of \$379,000.00 and by the public to the amount of \$121,000.00. There is also an open book account with the Southern Pacific Company showing an outstanding indebtedness as of date above mentioned of \$4,630,711.25, consisting of principal advanced to applicant for additions and betterments and accrued interest thereon. The physical valuation of this road as presented by applicant as of April 30, 1918, is \$4,530,639.19.

Applicant filed an exhibit consisting of statement of revenues and expenses showing actual figures for year ending April 30, 1918, and estimated amounts for 12 months period ending May 31, 1919, from which the following figures have been taken:

	: Year ending : Apr. 30, 1918 : (Actual)	: Year ending : May 31, 1919 : (Estimated)
Operating Revenue	: \$ 269,669.39	: \$ 322,290.91
Operating Expenses	: <u>219,545.63</u>	: <u>254,049.74</u>
Net Operating Revenue	: 50,123.76	: 68,241.17
Taxes	: <u>16,519.35</u>	: <u>18,495.00</u>
Operating Income	: 33,605.21	: 49,746.17
Non-operating Income	: <u>37,654.93</u>	: <u>36,298.68</u>
Total Income	: \$ 71,260.14	: \$ 86,044.85
Deductions from Total Income		
Rents and Interest on Debt	: <u>294,472.27</u>	: <u>306,121.84</u>
Deficit	: \$223,212.73	: \$ 220,076.99

The estimated operating revenues for the year ending May 31, 1919 are based on an increase in passenger revenue of \$45,430.67 under proposed tariff and increase of some \$10,000 in freight rates already allowed which figures are predicated on past movement of passengers and freight.

It will be noted from the foregoing table that while approximately \$55,000 additional revenue will be acquired it will not be sufficient to overcome the enormous deficit which will be encountered at the end of the fiscal period. This is due mainly to large interest debits which will be later discussed and to increased operating costs.

In the latter regard exhibits were introduced showing present and estimated expenses of operation from one of which the following tabulation has been prepared.

RAILWAY OPERATING EXPENSES FOR YEAR ENDING
APRIL 30, 1918, AND ESTIMATED COSTS FOR YEAR
MAY 31, 1919.

	:Year ending :Apr. 30, 1918, :(Actual)	:Year ending :May 31, 1919, :(Estimated)
1. Way and Structures	\$ 19,229.57	\$ 37,605.83
2. Equipment	25,221.73	29,557.39
3. Power	50,225.53	50,358.36
4. Conducting Transportation	85,117.34	97,477.11
5. Traffic	2,416.95	1,739.88
6. General and Miscellaneous	38,116.30	38,111.12
7. Transportation for Investment Credit (Deduct)	-781.79	-800.00
Total Operating Expenses	:\$219,545.53	:\$254,049.74

The items appearing in the first column represent amounts actually expended. The estimated figures in the second column are mainly predicated on increased wages and costs of materials and supplies although in some instances necessary renewals of track and equipment are contributory factors.

By way of illustration of increased wages applicant presented an exhibit setting forth the wages paid in December 1915 and June 1918 showing in the first instance a monthly pay roll of \$10,974.00 for 148 employes in the various departments or an average of \$74.00 vs. \$13792.00 or an average of \$93.00 for the latter period.

Information was also furnished with respect to advance in prices of materials and supplies. It is unnecessary to discuss this in detail but suffice it to say that practically every article entering into the construction and operation of this carrier has materially advanced in price, the increases over 1915 figures in many instances exceeding 100%. It is estimated that the advance

as a whole will easily approximate 75%.

Applicant's financial status will be clearly portrayed by the following figures, which were prepared from its annual reports by the Commission's Auditing Department.

Income Balance Transferred to
Profit and Loss (deficit)

June 30, 1911	\$ 110,097.60
" " 1912	114,708.65
" " 1913	138,782.64
" " 1914	196,240.34
" " 1915	219,529.59
" " 1916	232,421.18
Dec. 31, 1916	238,794.64
" " 1917	230,438.84

The annual losses sustained by applicant have been met by loans from the Southern Pacific Company, as disclosed by an exhibit on behalf of petitioner, showing a balance due the latter on June 30, 1911 of \$2,526,566.03, which by additional advances and accrued interest made a balance as of April 30, 1918 of \$4,539,601.13.

Evidence discloses that every effort has been made to effect economies in operation. The accounting department is conducted in conjunction with other companies at Los Angeles so as to reduce clerical expense to a minimum. One man cars have been established on the street car divisions wherever practicable, and a constant supervision is maintained over all service matters to keep expenses at the lowest figure possible.

It is clearly apparent from the testimony and exhibits that applicant's operating revenue is insufficient and that immediate relief must be granted if an adequate service is to be continued.

On account of the rapidly increasing operating costs and necessity for additional expenditures due to deferred maintenance, it is apparent that the revenue resulting from proposed increases will be entirely absorbed by these items, but the company feels that it cannot secure any higher rates at the present time, owing to competitive influences.

Applicant is not asking a return on investment, but simply enough revenue to meet its operating and other necessary expenses without giving any consideration to amounts due Southern Pacific Company.

Practically no objection was offered to the proposed advance in fares, it being generally conceded that the company is entitled to additional revenue.

This road is not only of great convenience to the traveling public making ^{regular} use of its facilities, but is particularly essential at the present time to the welfare of the military establishment at Camp Fremont and nothing should be allowed to impair the much needed service which it is in position to render.

Petitioner proposes a 7 cent fare in the street car districts, with privilege of purchasing books containing five rides for 30 cents, which figures 6 cents per ride. An alternative arrangement of this kind is unsatisfactory and more or less discriminatory. A better solution of the problem is to publish a straight 6 cent cash fare.

After careful consideration of the evidence submitted, I am of the opinion that present fares of this company are insufficient and that application to make the increases set forth in Exhibit B should be granted, with the modification that a straight 6 cent cash fare should be established in the street car districts and a corresponding

reduction made in through fares based upon this figure.

That portion covering traffic between San Jose and Alum Rock Park should be dismissed, as it is being considered in similar application of the San Jose Railroads.

The following form of order is submitted.

ORDER

The Peninsular Railway Company having applied under Section 63 of the Public Utilities Act for permission to increase certain passenger fares, as set forth in the opinion which precedes this order, a public hearing having been held and the Railroad Commission being fully apprised in the premises, the Railroad Commission hereby finds as a fact that the existing fares of petitioner are insufficient and that the rates herein established are just and reasonable rates.

Basing this order on the foregoing finding of fact and on the further findings of fact contained in the opinion which precedes this order,

IT IS HEREBY ORDERED that the portion of application covering fares between San Jose and Alum Rock Park be dismissed.

IT IS HEREBY FURTHER ORDERED that the Peninsular Railway Company be and the same is hereby authorized to establish within twenty (20) days from the date of this order the fares contained in Exhibit B, except the 7 cent fares, with privilege of purchasing books containing five rides for 30 cents. In place of the 7 cent fare applicant is author-

ized to establish a straight cash fare of 6 cents and shall make corresponding changes in through fares based on this figure.

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 26th day of July 1918.

Edwin O. Edgerton

W. H. ...

W. G. ...

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Commissioners.