

ORIGINAL

Decision No. 5687-

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
SAN FRANCISCO-OAKLAND TERMINAL)
RAILWAYS for an order re-adjusting)
its passenger fares between points) Application No. 3219.
in Alameda County, and points in)
Alameda and Contra Costa Counties,)
California.)

✓ Morrison, Dunn & Brobeck, and Creed, Jones & Dall,
by W. E. Creed for Applicant;

Bishop & Bahler, by H. M. Wade, L. R. Bishop, R. T.
Boyd, for the City of Oakland and the Oakland
Chamber of Commerce;

P. C. Morf and H. L. Hagen, for the City of Oakland;

Frank D. Stringham and B. D. Marx Green, for the City
of Berkeley, and the Berkeley Chamber of
Commerce;

A. F. St. Sure, for the City of Alameda;

C. W. White, for the City of Hayward;

T. V. O'Brien, for the citizens of Hayward;

Sapiro, Neylan, and Ehrlich, by J. E. Neylan, for
the East Oakland Protective League and the
Merchants Exchange of Oakland.

Leon Clark, for the City of Albany.

BY THE COMMISSION

O P I N I O N

This is an application on behalf of the San Francisco-
Oakland Terminal Railways for an increase upon a fair and
adequate basis in the passenger rates and fares for service
rendered on the Traction Division which serves points in the
County of Alameda and points in Alameda and Contra Costa Counties.

The petition alleges that the revenues derived from the operation of the "Traction Division" of the applicant are insufficient to meet the increased costs of operation and to care for a proper depreciation allowance and render a fair and reasonable net annual return upon the value of the property of the applicant used in the operation of the aforesaid "Traction Division."

Public hearings were held in San Francisco before the Commission en banc, the matter was duly submitted on May 29th, 1918, and is now ready for decision.

"The "Traction Division" of the San Francisco-Oakland Terminal Railways consists of a consolidation of the Oakland Traction Company, the East Shore and Suburban Railway Company, and the California Railway and serves as a street railway system the cities of Albany, Alameda, Berkeley, El Cerrito, Emeryville, Hayward, Oakland, Piedmont, Richmond and San Leandro and portions of Eden and Oakland Townships in Alameda County. The total mileage of track in the several communities served consists of 125.93 miles of main line track, 75.66 miles of second track or a total of 201.59 miles, served by 37 operative lines.

The rate of fare as at present charged by applicant herein on the "Traction Division" is five cents between the city limits of Berkeley, Alameda, Oakland, Piedmont, Emeryville and San Leandro, same including transfer privilege for trips in the same general direction within the municipalities above mentioned. Additional fares on a basis of a five cent multiple are charged to points outside of the five cent zone as showing on Page 6, Local Passenger Tariff No. 1-A (C.R.C. No. 12.) effective May 21,

1913, as filed with this Commission.

Applicant furnished at the hearing on this proceeding an estimate of operating revenue and anticipated expenses for the calendar year ending December 31, 1918, together with a comparison of actual results for the calendar years 1916 and 1917. This statement, on the basis of the present rates, shows the following results:-

SAN FRANCISCO-OAKLAND TERMINAL RAILWAYS

TRACTION DIVISION

STATEMENT OF EARNINGS AND EXPENSES FOR YEARS ENDING

DECEMBER 31, 1916 AND 1917 AND COMPANY'S ESTIMATE OF EARNINGS

AND EXPENSES FOR YEAR ENDING DECEMBER 31, 1918.

| | Year Ending December 31, <u>1 9 1 6.</u> | Year Ending December 31, <u>1 9 1 7.</u> | <u>ESTIMATED</u> Year Ending December 31, <u>1 9 1 8.</u> |
|--|--|--|--|
| <u>OPERATING REVENUES</u> | | | |
| Passenger Revenue | 3 039 509.39 | 3 290 398.15 | 3 397 439.79 |
| Special Car Revenue | 173.80 | 223.25 | 229.85 |
| Mail Revenue | 6 484.09 | 6 469.03 | 6 500.00 |
| Express Revenue | 7 843.76 | 7 800.19 | 8 112.99 |
| Freight Revenue | 2 451.35 | 8 799.89 | 9 679.94 |
| Switching Revenue | 16 630.97 | 13 988.13 | 582.61 |
| Miscellaneous Transportation Revenue | - | 23.35 | 25.00 |
| Revenue from Transportation | 3 073 093.36 | 3 327 701.99 | 3 422 550.18 |
| Station and Car Privileges | 21 000.00 | 21 999.96 | 25 000.00 |
| Demurrage | 1 689.00 | 114.00 | 73.44 |
| Rent of Equipment | 387.45 | 1 185.15 | 1 328.00 |
| Rent of Buildings and Other Prop. | 161.09 | 313.54 | 320.40 |
| Power | 1 026.49 | 654.44 | 670.50 |
| Miscellaneous | 458.21 | 393.77 | 471.10 |
| Total Revenue-Non Transportation | 24 722.24 | 24 660.86 | 27 863.44 |
| TOTAL OPERATING REVENUE | 3 097 815.60 | 3 352 362.85 | 3 450 413.62 |
| <u>OPERATING EXPENSES</u> | | | |
| Way and Structures (Maintenance) | 218 295.48 | 248 235.31 | 316 815.88 |
| Equipment (Maintenance) | 198 143.39 | 245 558.04 | 302 441.16 |
| Power (Maintenance and Operation) | 374 285.38 | 394 511.38 | 400 883.99 |
| Conducting Transportation | 1 083 691.57 | 1 185 371.93 | 1 257 346.88 |
| Traffic (Expenses) | 9 971.67 | 8 816.90 | 6 317.33 |
| General and Miscellaneous | 209 750.54 | 210 936.91 | 251 896.91 |
| Transportation for Investment CR. | 4 283.76* | 3 487.81* | 2 126.40* |
| TOTAL OPERATING EXPENSES | 2 089 854.27 | 2 289 942.66 | 2 533 575.75 |
| Net Revenue | 1 007 961.33 | 1 062 420.19 | 916 837.87 |
| Ratio of Operating Expenses to Gross Operating Revenue | 67.46% | 68.31% | |
| Ratio of Operating Expenses and Taxes to Gross Operating Revenue | 73.18% | 73.58% | |

NOTE * Indicates credit.

| | Year Ending December 31, <u>1 9 1 6.</u> | Year Ending December 31, <u>1 9 1 7.</u> | <u>ESTIMATED</u> Year Ending December 31, <u>1 9 1 8.</u> |
|---|--|--|--|
| TAXES ASSIGNABLE TO OPERATION | | | |
| Franchise Percentage a/c Gross Earnings | 16 418.29 | 18 179.36 (| |
| Taxes, Gross Receipts from Oper. | 159 105.48 | 157 028.32 (| |
| Taxes, Real Property and Improve. | 1 182.54 | 1 199.65 (| |
| Taxes, War Revenue | 171.74 | 71.01 (| 181 146.72 |
| Taxes, Net Income | 119.66 | - (| |
| Taxes, Federal Capital Stock | - | 317.13 (| |
| Total Taxes, Percentage, etc. | 176 997.71 | 176 795.47 | 181 146.72 |
| TOTAL OPERATING INCOME | 830 963.62 | 885 624.72 | 735 691.15 |
| NON-OPERATING INCOME | | | |
| Net Income Misc. Physical Prop'ty, | 109.91 | - (| |
| Income from Funded Securities | 748.52 | 795.20 (| |
| Income from Unfunded Securities and Accounts | 1 127.31 | 1 850.77 (| 15 000.00 |
| Income from Sinking Fund and Other Reserves | 11 280.00 | 11 280.00 (| |
| Miscellaneous Income | 368.87 | 283.81 (| |
| TOTAL NON-OPERATING INCOME | 13 634.61 | 14 209.78 | 15 000.00 |
| GROSS INCOME | 844 598.23 | 899 834.50 | 750 691.15 |
| Reductions From Gross Income | | | |
| Rent for Leased Roads | 291.00 | 291.00 (| |
| Net Loss on Misc. Physical Prop'ty | 304.85* | 358.77 (| |
| Interest on Funded Debt | 543 767.88 | 546 055.10 (| |
| Interest on Unfunded Debt | 158 236.23 | 164 832.64 (| 720 000.00 |
| Miscellaneous Debits | 1 063.58 | 3 271.01 (| |
| Interest Capitalized | 576.28* | 656.60* (| |
| | 702 477.56 | 714 151.92 | 720 000.00 |
| NET INCOME FOR PERIOD | 142 120.67 | 185 682.58 | 30 691.15 |

Note * Indicates credit.

Since the submission of the foregoing statement the "Traction Division" of the San Francisco-Oakland Terminal Railways have estimated that additional labor charges in amount \$405,186.68 per annum will require liquidation, principally in wages to platform men, and also additional expense for electric power in amount \$36,000.00 per annum to meet increased power rates.

The "Traction Division" of the San Francisco-Oakland Terminal Railways, in common with many other public utility properties, is faced with the rapidly increasing costs of labor and material arising from extreme conditions brought about by the war emergency.

During the month of August, 1917, an agreement was made with the Amalgamated Association of Street and Electric Railway Employees of America, representing the platform men in the employ of applicant, said agreement submitting to arbitration the question of a revised wage scale to be accorded platform employees. Following such agreement an arbitration board was appointed and the report of said board of arbitration, which was accepted by all concerned, will add approximately \$240,000.00 per annum to the operating expenses of the applicant herein. Other demands for increased compensation have been made by other employees than trainmen and in many instances the demands have been allowed, otherwise the employees could not have been retained in view of higher compensation offered by ship building concerns and other industries.

This Commission has always recognized the justice of applications for increased rates by utilities when same are

rendered necessary by reason of increased wage payments to employees of such utilities and it is conversant with the necessity for increases that must be made if competent employees are to be retained in the service of public utility companies.

The cost of material and supplies entering into the expense of properly maintaining and operating the property of applicant has also materially increased and it is estimated that an annual increase of \$46,481.75 will be brought about from this source.

The service as at present rendered to the public must be maintained at a high standard and any radical reduction in operating expenses will be directly reflected in the class of service as rendered by the applicant to the communities which it serves. The petition of applicant under Section 6, paragraph "C" contained the following statement in this regard.

"Said "Traction Division" has been at all time herein mentioned and now is efficiently and economically operated and that no saving in the cost of operation can be made without substantially and materially decreasing the quality of the service rendered by said "Traction Division;" that the service rendered and furnished by said "Traction Division " has been at all times herein mentioned and now is good, adequate and reasonable service."

The Commission directed its Service Inspector, Mr. W. J. Handford, to make a report and analysis of the service now rendered with a view to suggesting economies in operation if such were possible without interfering with the quality of service which should be accorded the patrons of the company and the communities served.

Mr. Handford's report, which was not questioned by the Company, indicated possible savings in operating expenses in amount \$193,313.91 per annum, said economies including

the following items:-

| | |
|---|------------------|
| Adjustment of schedules | \$ 68,783.74 |
| Skip-stop plan | |
| (On basis of .143 ¢ per stop eliminated) | 42 377.23 |
| One-man cars | 55 806.71 |
| Elimination of unprofitable lines | <u>26 346.23</u> |
| | \$193 313.91 |

The economies as suggested by the Commission's Service Inspector have all been placed in effect, with the exception of the recommendation as to one man cars, and such will result in the reduction of a portion of operating costs without decreasing the quality of service rendered by the applicant.

In order that the property of the "Traction Division" of the San Francisco-Oakland Terminal Railways may be maintained to the standard of efficiency necessary to furnish adequate service to its patrons and the large number of communities which it serves, certain capital expenditures are immediately necessary. The Company's original estimate of the amount required to be so expended was \$2,883,228.75. In view of the necessity for economy, due to the war emergency, and after careful investigation by the Commission, this amount has been reduced to \$1,181,979.32 and to cover the following items:

| | |
|--|--------------|
| Track Reconstruction and Paving, - - - - - | \$363,955.32 |
| Construction of Second Track on Present Single Track Lines, - - - - - | 170,212.00 |
| New Track Connections, etc., - - - - - | 55,000.00 |
| Lines into Districts Inadequately Served, - - - | 31,600.00 |

EQUIPMENT:

| | | |
|--|------------------|------------|
| 25 One-Man Cars | \$162,500.00 | |
| 25 new Center Entrance Cars for Main Traffic Lines, | 275,000.00 | |
| 10 Trailer Cars for Main Traffic Lines, | 55,000.00 | |
| 4 Dump Cars for handling Rock, Ballast, etc., | 8,712.00 | |
| 1 Electric Locomotive, | <u>15,000.00</u> | 516,212.00 |

Miscellaneous New Construction
(Principally for new electric feeder
lines in outlying districts, same
necessary to ensure proper power dis-
tribution), - - - - - 45,000.00

Total- - - - - \$1,181,979.32

The Company should be allowed in its operating revenue a return on the capital, which should be immediately expended on the above-mentioned items, which are necessary if proper and adequate service is to be rendered. The various items of equipment contained in the above statement are urgently needed and should be provided at the earliest possible moment, particularly the one-man cars as recommended

by the Commission's Service Department, as the economies to be effected by their use will offset the capital invested within a three-year period; and the Center Entrance and Trailer cars, which are necessary to replace cars of heavierweight and obsolete type now being operated at heavy expense on many of the main arteries of the Traction System. The other items in the foregoing statement are comparatively small in amount, in view of the urgent need for rehabilitation of track and paving on some of the trunk lines, and the necessity for construction of second track and new track connections, all of which will result in improved facilities and more economical maintenance and operation.

The Engineering Department of the Commission has determined that the reproduction value, less depreciation, of the operative property of the "Traction Division" of the San Francisco-Oakland Terminal Railways, as of December 31, 1917, is \$9,803,233.86.

The amount upon which a rate of return should be anticipated, in the opinion of the Commission, is as follows:

| | |
|--|------------------|
| Reproduction value less depreciation..... | \$9,803,233.86 |
| Necessary additional capital expenditure.. | 1,181,979.32 |
| Working capital..... | <u>50,000.00</u> |
| Total, | \$11,035,213.18 |

The revenue and expenditures, as estimated by the company, for the fiscal year 1918, and as submitted as an exhibit during one of the hearings on this proceeding, are as follows:

| | |
|---|---------------------|
| Operating Revenue, All Sources, (on present rate of fare), - - - - - | \$3,450,413.62 |
| Operating Expenses (including depreciation), - - | <u>2,533,575.75</u> |
| Net Revenue, | 916,837.87 |
| Taxes assignable to Operation, - - - - - | <u>181,146.72</u> |
| Total Operating Income, | 735,691.15 |
| Non-operating Income, | <u>15,000.00</u> |
| | \$750,691.15 |
| Necessary for interest on Funded and Unfunded debt, - - - - - | \$720,000.00. |

Since the submission of the foregoing estimate, additional expenditures have accrued and are anticipated, as follows:

| | |
|---|-------------------|
| Additional Labor Cost, as accrued and anticipated, - - - - - | \$405,186.68 |
| Additional Cost of Power, - - - - - | <u>36,000.00</u> |
| | \$441,186.68 |
| From the above amount should be deducted the estimated operating savings, as found by the Service Inspector of the Commission, amount- ing to, - - - - - | <u>193,313.91</u> |
| Net increased costs, | \$247,872.77 |

A revised statement of estimated revenues and expenses, including the additional costs above mentioned, would result in the following figures:

| | |
|--|---------------------|
| Operating revenues, all sources, (based on present rates of fare), - - - - - | \$3,450,413.62 |
| Operating expenses (including depreciation), - - | <u>2,781,448.52</u> |
| Net Revenue, - - - - - | \$668,965.10 |
| Taxes assignable to operation, - - - - - | <u>181,146.72</u> |
| Total Operating Income, | \$487,818.38 |
| Necessary for interest on Funded and Unfunded Debt, - - - - - | \$720,000.00. |
| Percentage of return for payment of interest and on capital investment of \$11,035,213.18 - - | 4.42% |

It is suggested that the total operating income is equal-

The requirements of the many communities and patrons of the "Traction Division" of the San Francisco-Oakland Terminal Railways necessitates the operative properties of such applicant being maintained in a proper state of efficiency that adequate and satisfactory service may be rendered, and it is evident that such efficiency and service cannot be maintained, or rendered, if the return derived from the rates and charges is not sufficient to meet the necessary and increasing expenses of the applicant. At the various hearings on this application, no person appeared in protest against an increase in fares or a readjustment of rates as requested by

the applicant herein, and the investigation made by the Commission into the matter of possible operating economies was the only testimony other than that introduced by the applicant in support of its petition.

After careful consideration of all the evidence in this proceeding and a minute study of the voluminous exhibits filed by the applicant herein, we are of the opinion, and find as a fact, that the rates as at present charged by the applicant on its "Traction Division" are not productive of adequate revenue to enable the property to be maintained and operated at the proper plane of efficiency to satisfactorily serve the public in the communities in and through which it operates.

- O R D E R -

Public hearings having been held in the above entitled proceeding, the matter having been duly submitted and the Commission being fully advised and basing its order on the finding of fact, as set forth in the preceding opinion,

IT IS HEREBY ORDERED that the San Francisco-Oakland Terminal Railways be authorized to establish within twenty (20) days from the date of this order, a schedule of rates on the basis of six (6) cents between the city limits of Berkeley, Alameda, Oakland, Piedmont, Emeryville and San Leandro, same to include transfer privileges for trips in the same general direction within the municipalities above mentioned. Additional fares to be charged on a basis of a six cent multiple instead of a five cent multiple, as now appearing, to points outside the former five cent zone, as shown on page six (6), Local Passenger Tariff No.1-A (C.R.C.No.12) effective May 31, 1913, and filed with this Commission.

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 13- day of August, 1918.

Edwin O. Edgerton
A. D. Loveland
Alex Gordon
Frank R. Wilson
Commissioners.