

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

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In the matter of the application of  
 SAN DIEGO ELECTRIC RAILWAY COMPANY, a  
 corporation, for an investigation by  
 the Railroad Commission of the reason-  
 ableness of the rates, charges, rules,  
 regulations and practices of said cor-  
 poration in the cities of San Diego,  
 East San Diego, National City and Chula  
 Vista in San Diego County.

Application 3608<sup>8</sup>

*TCM*

and

In the matter of the application of the  
 POINT LOMA RAILROAD COMPANY for an in-  
 vestigation by the Railroad Commission  
 as to the reasonableness of its rates,  
 charges, rules, regulations and prac-  
 tices in the City of San Diego.

Application 3809

and

In the matter of the application of the  
 POINT LOMA RAILROAD COMPANY for author-  
 ity to discontinue service and suspend  
 operation and to take up tracks.

Application 5008

and

In the matter of the application of the  
 SAN DIEGO ELECTRIC RAILWAY COMPANY for  
 authority to discontinue service, to  
 suspend operation and to take up tracks  
 of part of its system.

Application 5009

- ✓ Read G. Dilworth, for the applicants.
- ✓ T. B. Cosgrove, S. J. Higgins and C. G. Selleck,  
for the City of San Diego.
- ✓ Hamilton & Lindley by R. R. Hamilton, for the  
Chamber of Commerce of the City of San Diego.
- ✓ Johnson W. Puterbaugh and Frederick W. Stearns,  
for the City of Coronado.
- F. B. Andrews, for the City of Chula Vista.
- Raym. Harris, for the City of National City.
- Arthur T. French, for the City of East San  
Diego.
- E. F. Glidden, for Kensington Park and Normal  
Heights.
- E. H. Lamme, for the residents of La Playa.
- S. W. Switzer, in propria persona.
- Mrs. Lucy B. Long, in propria persona.
- Mrs. Mary L. Kunkey, in propria persona.
- Mrs. Belle Bishop, in propria persona.

DEVLIN, Commissioner.

O P I N I O N

Applications 3808 and 3809 were filed herein together on May 31, 1918, and were consolidated into one proceeding. The former application deals with the properties of the San Diego Electric Railway Company (hereinafter called the San Diego Company) and the applicant asks that:

" . . . . the Railroad Commission . . . .  
make full investigation of the rates, charges, rules, regulations and practices of applicant in the said municipalities and territory in which the railroad lines of applicant are in operation and determine whether or not same are sufficient to permit of the necessary operating expenses and a reasonable return upon the fair value of its property used in the service of the public in the conduct of its business, and fix such rates, and establish such regulations and practices in the operation of applicant's lines as will permit of a fair and reasonable return to the stockholders of this company over and above the necessary expenses and proper depreciation and deductions . . . . ."

Application 3809 deals with the properties of the Point Loma Railroad Company (hereinafter called the Point

Loma Company), and the prayer in this application is identical with the prayer in Application 3808. The Point Loma Company is owned and controlled by the same interests that own and control the San Diego Company, and the lines of both companies are, in fact, operated as one system.

On September 29, 1919, and while the proceeding dealing with the two applications referred to was under way, Applications 5008 and 5009 were filed. In Application 5008, the Point Loma Company asks that the Commission authorize the discontinuance of all service over its lines and permit the taking up of all track. In Application 5009, the San Diego Company enumerates a number of street railway lines in the Cities of San Diego and East San Diego and in the County of San Diego, and, for reasons stated in the application, asks for authority to discontinue service on the lines designated and to take up the tracks on those lines.

Since the matters dealt with in the last named applications are encompassed within the investigation undertaken by the Commission in connection with the original proceeding, it was decided to consolidate these matters with the larger proceeding. The subject matters of all four applications will, therefore, be taken up in this opinion.

1 - Scope of Proceeding.

The Commission is asked to make a complete investigation of the entire financial and operating condition

including rates, charges, rules regulations and practices of applicants in all of the municipalities and territory served by applicants' lines. These lines operate within the Cities of San Diego, East San Diego, Coronado, National City, Chula Vista and in unincorporated territory of the County of San Diego.

No direct challenge to the jurisdiction of this Commission as distinguished from the City's jurisdiction was made by the City of San Diego in the initial stages of this proceeding, and there was no indication of any objections on the part of the City to the scope of the proceeding at the earlier formal hearings. At an informal conference between the representatives of the Commission, the Applicants and the other parties to the proceeding held in San Diego on September 17, 1919, the City Attorney of San Diego directly challenged the Commission's jurisdiction as to several matters and intimated some doubt as to the Commission's jurisdiction in the matter of rates where the latter included transfer privileges. It is clear, of course, that if the City's contention had been concurred in and had been followed to its conclusion by the Commission, any investigation into service and most phases of operation would have been in an advisory capacity only. No remedy could have been enforced by the Commission to relieve the public and the Company from unsatisfactory service and operating conditions.

In the presentation of its case, the Applicants submitted to the Commission data and exhibits on all phases of street railway operation. I reached the conclusion that in order to deal adequately with the issues presented, the Commission's staff should examine into all matters per-

taining to the affairs of the applicants, and that a report should be made to the Commission on that basis. Mr. Sachse, Chief Engineer of the Commission was accordingly instructed to make the report along such lines.

The financial condition of applicants, for reasons that will be discussed later in this Opinion, has rapidly been growing worse in the last few months, and in the latter part of September the applicants, over the protest of the City of San Diego, ordered the discontinuance of service over certain of their lines. The Common Council of the City of San Diego wired the Commission a resolution adopted in special session on October 1, 1919, wherein it set forth the serious consequences of the applicants' action and concluded:

"That the Railroad Commission be and it is hereby respectfully requested to issue its order directing the San Diego Electric Railway Company immediately to resume normal service upon all its lines in this city.  
....."

A rather anomalous situation was thus created. On the one hand the representative of the City of San Diego challenged the Commission's jurisdiction over matters of service, while on the other hand the Common Council was asking the Commission "to issue its order directing the San Diego ..... Company to immediately resume normal service upon all its lines in this city."

The Commission on the day of the receipt of the resolution, October 1, 1919, wired the San Diego Company directing the resumption of service as it existed on September 30th pending a further order of the Commission.

The Commission also wired the Common Council notifying it that the proceeding had been set down for a final hearing and asking the City to make clear at that hearing its position on the question of jurisdiction.

The final hearing took place in San Diego on October 8, 1919. The City Attorney of San Diego at the opening of the final hearing made a statement dealing with this question of jurisdiction, as follows:

"The municipal authorities have authorized me and directed me to say to you that it is their wish that in your order you cover this case from every conceivable standpoint that, in your opinion, will be for the best interests of this community in the operation of this public utility. If, by any possible conception, it could be contended that the municipality has jurisdiction over any phase of service, I cannot too plainly say that it is our desire that we be released of any responsibility in that matter, and that the Commission cover that phase as well as every other phase. It is our desire that nothing be left for the municipal authorities to attend to; that the entire situation be covered by the Railroad Commission."

Thus, it is apparent that none of the parties hereto now challenge or question the jurisdiction of this Commission in the premises.

Hearings were held on April 29th and 30th, on June 17th and 18th and on October 8, 1919. At those hearings and in the periods between them a large number of exhibits, many of them very voluminous, were introduced in evidence by the Company. Exhibits were also filed by the City of San Diego, by several of the other parties to the proceeding and by the Commission's departments. In

addition there were available and considered as part of the evidence all of the annual reports of the applicants on file with the Commission; the valuation made by the Commission of the San Diego Company's property in 1914 and discussed by the Commission in Decision 2834; and such other relevant data as had been filed with, or prepared for, the Commission in prior proceedings dealing with these applicants.

Although there was some examination and cross-examination of witnesses, it became evident to me during the course of the proceedings that the great bulk of the exhibits and the wide range of subjects covered made it impracticable to advantageously pursue an examination and cross-examination in detail of the <sup>an</sup> usually large number of exhibits, in a reasonable time and pursue the usual procedures in public hearings before the Commission. I suggested, therefore, that a preliminary and tentative report be made on the San Diego Street railway situation by the Chief Engineer of the Commission and that this report, on the basis of all the exhibits filed and all other available data and also on the basis of an independent investigation, should contain such tentative suggestions and recommendations as the Commission's staff might have to offer. I also suggested that copies of the report should go to all the parties to the applications and that thereafter conferences should be held in San Diego between these parties to discuss the report and the recommendations. Whatever changes it might appear necessary or proper to make as a result of the conferences should then be incorporated in the report. The report should

thereupon be introduced in evidence and become an exhibit in the case. My views and suggestions were acceptable and concurred in by all parties concerned and the Commission's departments were instructed accordingly. The report was made and sent out as agreed and was fully discussed by all parties at a conference in San Diego on September 17, 1919. A supplemental report was written as a result of that conference and the original report, together with this supplement, are part of the evidence in the proceeding.

## 2 - Financial and Operating Condition of Applicants.

The substance of the applicants' complaint is that under present rates and with present operating and other expenses there is a steadily increasing loss to the owners of these properties caused by furnishing street car service to the people in the San Diego territory. Applicants maintain, in effect, that unless revenue can be increased or expenses decreased, or both, to a point where the income will be equal to the operating expenses, taxes, a proper allowance for depreciation, and some reasonable return on the value of the property, service will have to be curtailed and, if conditions do not improve, in time abandoned entirely except for such few lines as may be self-sustaining.

In support of this contention there have been introduced several hundred reports, statements, tabulations, maps, charts and other data. Generally, the exhibits filed by applicants give a detailed and complete operating and financial history of the properties from their beginning to



the present day. They give further an analysis of present day conditions (traffic, revenue and expenses) with estimates and deductions for the future.

There have also been submitted a number of exhibits showing what, in applicants' opinion, is necessary in the way of reconstruction and improvement of the properties over an extended period in the future. The applicants' accounts have been rewritten in their entirety and there have been recomputed on the basis of classification of accounts as at present prescribed by this Commission all capital expenditures and all revenues and operating expenses. From these rehabilitated accounts there have been constructed new balance sheets for the periods covered and these are supposed to show the actual financial condition of the Company from time to time as compared with the conditions appearing in the books and in the annual reports filed with this Commission. The present day traffic and operating exhibits show that in proportion to the increase in population, traffic in the territory served by these properties is decreasing, with a consequent reduction of operating revenue, while, on the other hand, operating expenses are steadily increasing.

These exhibits have been carefully analyzed and from them, and from the Commission's engineering department's report, it has been possible to draw very definite conclusions.

(a) Investment-

There are before the Commission, as far as the San Diego Company is concerned, two figures for investment in road and equipment of the Company's operative property:

- |  |              |
|--|--------------|
| 1 - Investment in Road and Equipment<br>(December 31, 1918) as per annual<br>report filed with the Commission,                                 | \$5,159,970. |
| 2 - Investment in Road and Equipment<br>as per reconstructed capital ac-<br>counts (Company's Exhibit No. 1,<br>Revised) of December 31, 1918, | \$5,068,119. |

For the Point Loma Company we have only one figure, as it appears in the annual report filed with the Commission, totalling \$217,939.20.

As an index to the total investment in the combined properties of the two corporations under consideration in this decision, there follows the consolidated statement compiled from the corporate books of the Companies and showing investment in road and equipment as of December 31, 1918. These figures are identical with the figures in the annual reports filed with the Commission.

Consolidated Statement Compiled from the Corporate  
Books of the San Diego Electric Railway  
Company. Point Loma Railroad Co.

Investment in Road and Equipment as of December 31, 1918.

Acct. No.	I T E M	Total	San Diego Electric Railway Company.	Point Loma Railroad Company.
501	Engineering & Superintendence	6 535 33		6 535 33
502	Right of Way	20 255 98	17 307 98	2 948 73
503	Other Lands Used in Electric Railway Operation.	107 562 40	107 562 40	
504	Grading	118 149 89	103 575 27	14 574 62
505	Ballast	120 878 91	117 354 07	3 524 84
506	Ties	178 026 46	160 790 46	17 236 00
507	Rails, Rail Fastenings & Joints	575 615 36	529 254 53	46 360 83
508	Special Work	140 186 63	137 333 28	2 853 35
510	Track and Roadway Labor	356 601 22	341 291 31	15 309 91
511	Paving	542 309 75	540 978 50	1 331 25
512	Roadway Machinery & Tools	6 633 28	6 633 28	
515	Bridges, Trestles & Culverts	114 027 68	113 495 41	532 27
516	Crossings, Fences & Signs	1 979 98	1 874 98	105 00
517	Signal & Interlocking Apparatus	644 06	644 06	
519	Poles and Fixtures	73 991 22	63 297 35	10 693 87
520	Underground Conduits	15 697 24	15 697 24	
521	Distribution System	152 254 43	124 263 56	27 990 87
521A	Overhead Underground Feeders	131 815 43	131 815 43	
523	Shops & Car Houses	320 332 45	320 332 45	
524	Stations & Misc. Bldgs. & Structures	23 588 01	22 315 82	1 272 19
525	Wharves and Docks			
526	Park and Resort Property	37 556 77	37 497 62	59 15
529	Other Expenditures Way and Structures	11 143 05	10 826 32	316 73
530	Passenger Combination Cars	547 983 07	547 983 07	
532	Service Equipment	13 102 80	13 102 80	
533	Electric Equipment of Cars	252 731 81	252 731 81	
535	Floating Equipment			
536	Shop Equipment	36 205 90	36 205 90	
537	Furniture	29 194 06	29 194 06	
538	Miscellaneous Equipment	19 147 58	19 147 58	
539	Power Plant Buildings	393 016 32	393 016 32	
540	Sub-Station Buildings	367 89	367 89	
542	Power Plant Equipment	597 893 67	597 893 67	
543	Sub-Station Equipment	10 645 69	10 645 69	
544	Transmission System	1 348 04	1 348 04	
545	Franchises	87 656 29	86 456 00	1 200 29
546	Law Expenditures	1 250 40		1 250 40
547	Interest during Construction	29 711 33	26 013 62	3 697 71
550	Miscellaneous	301 095 90	240 950 04	60 145 86
	<b>TOTAL</b>	<b>\$ 5 377 136 28</b>	<b>\$ 5 159 197 85</b>	<b>\$ 217 939 20</b>

In Applications 3808 and 3809 the applicants ask that the Commission fix rates and create conditions that will permit of a fair and reasonable return upon the fair value of the property used in the service of the public in the conduct of their business. At the hearing on April 30th the Companies modified their application and asked that the "sacrifice or the investment" should be taken as the rate base. The investment figures are of importance because of this contention. I have come to the conclusion, however, that the investment figures cannot be considered as sufficiently reliable to justify their use as a rate base.

In the early period of these companies' history, especially from 1892 to 1900, the accounts and records were not kept in a form that would indicate accurately the actual cash investment in the purchase of the existing properties or the construction of new properties. In this respect, the same difficulties are met with in these properties as we find them in almost every utility whose history goes back beyond the establishment of proper accounting rules.

It seems to me a coincidence rather than a significant fact that the investment figures appear to bear a close relation to the valuation figures found by our engineering department. Whatever the actual cash investment in these properties may have been, it appears to me to be established as a fact that the reproduction cost on the basis made by our engineers, and not taking into considera-

tion accrued depreciation, is a figure that is in excess of the investment in road and equipment as it stands on the books of the Company on December 31, 1918.

(b) Valuation-

To the extent that the amount and the value of the property devoted to street railway service is of importance in this investigation, it is my opinion that the valuation of the property of the San Diego Company, as made by the Commission in 1914 (Decision No. 3834) and as brought up to date by the engineering department, should be the basis of calculation. The 1914 valuation has been used and in the following table the additions and betterments from June 30, 1914, to December 31, 1918, have been added by accounts.

SAN DIEGO ELECTRIC RAILWAY COMPANY

Reproduction value as shown in Exhibit "C" of Railroad Commission Decision No. 2384, in the matter of the Commission's investigation into the value of the San Diego Electric Railway Company, Case No. 745, decided May 12, 1915, with additions and betterments from July 1, 1914 to December 31, 1918.

(Operative Property)

Acct. No.	I T E M	Reproduction Cost as of June 30, 1914.	Total as of Dec. 31, 1917.	Total as of Dec. 31, 1918.
501	Engineering & Superintendence	141 476 95	141 476 95	141 476 95
502	Right of Way	217 774 00	220 397 21	221 018 75
503	Other Lands Used in Elec.Ry.Operation.	241 527 00	240 260 35	240 260 35
504	Grading	117 764 00	174 781 53	186 343 11
505	Ballast	78 274 00	123 734 44	128 000 08
506	Ties	108 354 00	120 644 92	119 608 80
507	Rails, Rail Fastenings & Joints	340 952 00	444 022 76	464 974 80
508	Special Work	100 028 00	159 315 91	174 971 72
510	Track and Roadway Labor	120 242 00	167 473 80	180 180 52
511	Paving	465 480 00	574 743 68	608 899 33
512	Roadway Machinery and Tools	8 418 00	9 137 62	9 389 15
515	Bridges, Trestles and Culverts	23 592 11	124 242 95	124 268 80
516	Crossings, Fences and Signs	289 76	941 23	1 723 02
517	Signal and Interlocking Apparatus	631 40	839 87	1 164 59
519	Poles and Fixtures	47 073 19	61 281 63	61 279 53
520	Underground Conduits	15 839 36	15 839 36	15 839 36
521	Distribution System	162 984 31	235 273 43	237 566 73
523	Shops and Carhouses	312 105 61	333 033 04	333 670 95
524	Stations, Misc. Bldgs. & Structures	5 356 93	24 668 60	24 668 60
526	Parks and Resort Property	-	-	128 15
529	Other Expenditures Way & Structures	-	7 747 30	10 826 32
530	Passenger & Combination Cars	488 342 34	672 959 58	580 910 05
532	Service Equipment	18 825 12	21 968 16	21 968 16
533	Electric Equipment of Cars	238 164 90	314 589 79	262 512 96
536	Shop Equipment	35 262 27	40 158 66	40 155 23
537	Furniture	22 392 75	25 755 70	25 326 09
538	Miscellaneous Equipment	16 633 96	16 618 27	18 006 21
539	Power Plant Building	295 594 22	400 959 14	400 755 06
540	Sub-Station Building	-	367 89	367 89
542	Power Plant Equipment	568 905 10	572 883 40	574 951 95
543	Sub-Station Equipment	-	10 584 21	10 645 69
545	Franchises	-	51 00	51 00
546	Law Expenses	70 738 48	70 738 48	70 738 48
547	Interest	126 958 55	152 517 61	152 972 17
548	Injuries and Damages	18 664 91	18 664 91	18 664 91
549	Taxes	17 957 53	17 957 53	17 957 53
550	Miscellaneous	96 008 58	96 008 58	96 008 58
	Total Operative	\$ 4 522 611 33	\$ 5 612 639 49	\$ 5 578 251 57
	Stores and Supplies	213 537 37	186 451 67	126 677 00
	Total Operative	\$ 4 736 148 70	\$ 5 799 091 16	\$ 5 704 928 57

The engineering department reports that it was impossible, by reason of limited time, to make an estimate based on present conditions of reproduction cost less depreciation. Neither do I believe that the effort and the cost required to make such an estimate would have been justified for the present purposes, and closest possible approximation of such a figure seems to me sufficient for our purposes.

Taking account of the present condition of these properties, I accept as sound the engineering department's conclusion that a condition per cent of 80 reflects a depreciated value of the San Diego Company's property and a condition per cent of 75 the depreciated value of the Point Loma Company's property. We have, then, the following figures:

	<u>Reproduction Cost</u>	<u>Condition Per Cent</u>	<u>Reproduction Cost Less Depreciation</u>
1- San Diego Electric Railway (as per above)	\$5 704 929.	80	\$4 563 943.
2- Point Loma Railroad	<u>217 000.*</u>	<u>75</u>	<u>162 750.</u>
Totals	\$5 921 929.	79	\$4 726 693.

\* Record of Cost - reclassified.

It does not seem to me that the establishment of a rate base is of practical interest in this proceeding. I make this statement because it is evident to me that a fair return on a proper rate base figure is not here a controlling factor. It will become clear that conditions in San Diego and in the territory served by

this street railway system are such that rates which theoretically and on paper might produce a fair return on a fair rate base cannot, as a practical matter, be put into effect. If the fare exceeds a certain maximum, traffic will automatically decline to such an extent that the cure will be worse than the disease. And the result would be, in my opinion, the end of this transportation system.

The investment and valuation figures are of interest, therefore, mainly because it can be shown very definitely and very clearly that with this street railway system it is not a question of excessive profits or even of fair return on money invested or on value of property, but it is rather a matter of providing the necessary operating expenses and carrying charges and of creating a condition, if possible, where it is to the advantage of the owners of these properties to give adequate and safe street railway service and to furnish such transportation as will be a valuable service to the public, rather than let the service decline and abandon the property.

(c) Present Financial Condition.

Below is a balance sheet of the Company as of December 31, 1918, showing two sets of figures: the first set based on the reclassified accounts, as introduced by the Company in this proceeding, and the second set reflecting the figures on the corporate books of the Company.



SAN DIEGO ELECTRIC RAILWAY COMPANY  
COMPARATIVE STATEMENT OF RECLASSIFIED BALANCE SHEET  
ACCOUNTS WITH CORPORATE BOOKS FROM 1892 TO 1918, INCLUSIVE.

Acct. No.	Reclassified Accounts.	Corporate Books.	Increase or Decrease.	
<u>ASSETS</u>				
<u>Investment</u>				
401	Road and Equipment	5 068 118.83	5 159 197.08	91 078.25
402	Sinking Fund	39 800.00	39 800.00	
404	Miscellaneous Physical Property	6 677.57	6 677.57	
406	Other Investments	35 000.00	35 000.00	
	<u>Total Investments</u>	<u>\$ 5 149 596.40</u>	<u>\$ 5 240 674.65</u>	<u>\$ 91 178.25</u>
<u>Current Assets</u>				
407	Cash	39 393.05	39 393.05	
409	Loans & Notes Receivable	4 000.00	4 000.00	
410	Miscellaneous Accounts Receivable	72 899.62	72 899.62	
411	Material & Supplies	126 676.99	126 676.99	
411-1	Equipment held for Disposition	7 600.00		7 600.00
412	Interest, Dividends & Rents Receivable	142.13	142.13	
	<u>Total Current Assets</u>	<u>\$ 250 711.79</u>	<u>\$ 243 111.79</u>	<u>\$ 7 600.00</u>
<u>Deferred Assets</u>				
413	Other Deferred Assets	2 570.00	2 570.00	
<u>Unadjusted Debits</u>				
416	Rents & Insurance Premiums Paid in Advance	2 654.59	2 654.59	
417	Discount on Capital Stock		3 750 000.00	3 750 000.00
418	Discount on Funded Debt	526 559.14	526 559.14	
420	Other Unadjusted Debits	7 825.72	41 025.72	33 200.00
	<u>Total Unadjusted Debits</u>	<u>537 039.45</u>	<u>4 320 239.45</u>	<u>3 783 200.00</u>
	<u>Total Assets</u>	<u>\$ 5 939 917.64</u>	<u>9 806 595.89</u>	<u>3 866 678.25</u>
<u>LIABILITIES</u>				
<u>Stock</u>				
423	Capital Stock	\$ 600 000.00	5 000 000.00	4 400 000.00
<u>Long Term Debt</u>				
427	Funded Debt Unmatured	\$3 803 000.00	3 803 000.00	
<u>Current Liabilities</u>				
430	Loans and Notes Payable	54 074.27	54 074.27	
433	Matured Interest, Dividends & Rents Payable	188 200.00	188 200.00	
435	Accrued Interest, Dividends & Rents Payable	303 239.52		303 239.52
	<u>Total Current Liabilities</u>	<u>\$ 545 513.79</u>	<u>\$ 242 274.27</u>	<u>\$ 303 239.52</u>
<u>Unadjusted Credits</u>				
439	Tax Liability	18 084.32	18 084.32	
442	Operating Reserves	6 062.85	6 062.85	
443	Accrued Depreciation-Road & Equip.	1 664 343.04	777 397.64	886 945.40
444	Reserve for Amort. of Franchise	32 510.51	14 663.09	17 847.42
446	Other Unadjusted Credits	10 025.19	10 025.19	
	<u>Total Unadjusted Credits</u>	<u>\$1 731 025.91</u>	<u>\$ 826 233.09</u>	<u>\$ 904 792.82</u>

SAN DIEGO ELECTRIC RAILWAY COMPANY  
COMPARATIVE STATEMENT OF RECLASSIFIED BALANCE SHEET  
ACCOUNTS WITH CORPORATE BOOKS FROM 1892 to 1918. INCLUSIVE

Acct. No.		Reclassified Accounts	Corporate Books	Increase or decrease
<u>CORPORATE SURPLUS</u>				
448	Funded Debt retired through Surplus	\$ 492 000.00	\$ 117 000.00	\$ 375 000.00
449	Sinking Fund Reserves	600.00	600.00	
450	Miscellaneous Fund Reserves	8 303.60	8 303.60	
451	Profit and Loss-Balance	1 240 525.66*	190 815.07	1 049 710.59
	Total Corporate Surplus	<u>739 622.06*</u>	<u>64 911.47</u>	<u>674 710.59</u>
	Total Liabilities	<u>5 939 917.64</u>	<u>9 806 595.89</u>	<u>3 866 682.25</u>

\*Loss

The details for the yearly balance sheet are found in applicants' Exhibit No. 1. It will be noted that in the reclassification made by the Company of the balance sheet accounts, there is a difference, as compared with the corporate books of \$5,866,678. The principal items going to make up this difference are:

- 1 - Account 401 - Change in Road and Equipment (decrease of \$91,078). This reduction has been made in the reclassified accounts because of property retired and gone out of existence in the past, but which, however, remains on the books of the San Diego Company. This item should be permanently eliminated from the company's property accounts.
  
- 2 - Account 417 - Discount on Capital Stock (decrease of \$5,750,000). This amount has been entirely eliminated in the reclassification accounts, because such reclassified accounts are based upon the assumption that the stockholders will turn back to the treasury of the corporation the stock to which this discount applies. The entry has no significance in this proceeding.
  
- 3 - Account 423 - Capital Stock (decrease of \$4,400,000). In reclassifying the books, it was assumed by the representatives of the company that the stockholders will surrender \$4,400,000. of stock. The item may be eliminated from consideration in this case.
  
- 4 - Account 435 - Accrued Interest, Dividends and Rents Payable (increase of \$303,240). This item appears among the liabilities in the reclassified balance sheet for the reason, as explained by representatives of the company, that the company owes to the Spreckels' interests the sum of \$303,240. for unpaid interest. From time to time the Spreckels' interests have advanced moneys to the San Diego Company, which moneys so advanced were repaid either in stock, bonds or cash. It is now claimed, however, that the company still owes the Spreckels' interests the sum of \$303,240. for unpaid interest.

There is no need to pass on the propriety of this claim in this proceeding, for the reason that the item in no way affects the conclusions reached in this decision.

- 5- Account 443 - Accrued Depreciation on Road and Equipment (increase of \$886,945). This item is the most important one in connection with the company's finances, as the question of depreciation is probably the controlling factor in the present precarious condition of the company.

It will be noted that there is an accrued depreciation on the property as it exists at present, according to the corporate books, of over \$777,000. On reclassification, the company finds, according to applicants' Exhibit No. 1, that this sum, large as it is, is erroneous and that an additional \$887,000. should be added. We have, therefore, a total accrued depreciation on December 31, 1918, \$1,664,000.

The accrued depreciation as found by the company through a reclassification of accounts (\$1,664,343) equals 52 per cent of the total value of depreciable property less salvage (\$3,206,262). This is an unusually large percentage and can be accounted for in only two ways: First, that the property has depreciated to an unusually large extent, and, second, that the life of the various property items is unusually short. Both of these conditions exist with reference to certain large part of this property.

It will also be noted that there is no cash item on the asset side of the balance sheet corresponding to this large figure on the liability side. It is a fact that the company has no actual depreciation fund and this fact explains, to a very large extent, the present unfavorable financial and operating condition of the railway system. This matter will be discussed more fully in this opinion.

- 6 - Account 448 - Funded Debt Retired through Surplus (increase of \$375,000). This item appears in the company's annual report at \$117,000., while, according to the company's reclassification, \$492,000. should appear instead. This item is not considered in this proceeding.

These six items are the principal ones that call for comment on the balance sheet. Their significance with relation to the financial condition of the San Diego Company is that the actual deficit of the company is less than would appear from the reclassified balance sheet above.

In this connection, attention may properly be called to Decision No. 1851, dated October 6, 1914, in which decision the Commission authorized the San Diego Company to execute a mortgage securing the payment of \$10,000,000 general first lien sinking fund 5 per cent gold bonds payable January 1, 1955, and to issue \$4,497,000 of said bonds at not less than 85 per cent of their face value plus accrued interest.

At the time of the Commission's decision, the Company reported \$1,625,000 of first mortgage 5 per cent bonds outstanding. Upon investigation, the Commission found that the Company had issued its note for \$574,406.73 to J. D. and A. E. Spreckels Securities Co. and used the moneys obtained through the issue of the note to pay for construction properly chargeable to capital account. In addition, the Commission found that the Company, prior to April 30, 1914, had paid out of income for construction purposes \$302,438.26. In its decision, the Commission, as hereinbefore stated, authorized the issue of \$4,497,000 of bonds, for the purpose of refunding the outstanding \$1,625,000 of first mortgage bonds, the refunding of \$574,406.73 of notes, the reimbursement of the Company's treasury to the extent of \$302,438.26 and to pay for necessary additions and betterments, the cost of which was estimated at \$1,523,957.00. Reports filed with the Commission show that the Company, under the authority granted in Decision No. 1851, issued \$3,920,000 of bonds,--\$117,000 of which have since been redeemed, leaving \$3,803,000 outstanding on December 31, 1918.

Through the issue of \$3,920,000 of bonds, the Company refunded the \$1,625,000 of first mortgage bonds outstanding, the \$574,406.73 of notes and reimbursed its treasury because of expenditures on capital account in the amount of \$1,032,593.27. While the Company, through the authority granted by the Commis-

sion, in its Decision No-1851, increased its bonded indebtedness from \$1,625,000 to \$3,920,000, the fact remains that, except for the discount on the bonds, the increase in the bonded indebtedness was due to the fact that the company had expended more than \$1,600,000 on capital account, against which it never had issued either stock or bonds and which might properly be capitalized.

(d) Future Financial Condition.

The future financial condition of the San Diego Company is bound to grow rapidly worse unless greater revenue or reduced expenses, or both, can be obtained. It is clear to me that in the past the company has been able to make dividend payments (a total of \$425,000 was paid in cash dividends in the period from 1909 to 1915, not including the stock dividend of \$650,000 paid in 1908) and to meet all of its fixed charges only because the necessary provision for depreciation was not made. If this practice is permitted to continue, the company will soon find itself in a position where it can no longer operate its property without the expenditure of very large sums of money which cannot possibly be charged to capital account and against which no additional securities can be issued. If operation is to continue, it is absolutely necessary that a considerable portion of the property be rehabilitated in the near future, and new money must be provided in order to bring this about.

It is my belief that with a proper understanding of the issues involved and of the actual conditions confronting these applicants and the people served by them, a plan can be worked out by which the company will be relieved from certain franchise and service burdens which will make it possible to bring the necessary new money into these properties.

I am equally convinced that with thorough-going operating and service changes as will later on be suggested in this opinion, and with efficient and public spirited management, financial results can be brought about that will make the property of the San Diego Company a valuable and profitable asset to its owners and to the City of San Diego and the other communities served by this street railway system. The rehabilitation of the property seems to me absolutely essential, and unless proper provision is made in the future for an adequate depreciation fund, no amount of rate increases will bring the desired results.

(e) Physical Condition of Properties.

The physical condition of a portion of the track is such that reconstruction under the best possible standards suited to this system is an immediate and imperative necessity. It is not practicable to accomplish all that needs to be done within the near future and a reconstruction program will have to be adopted covering several years. It is also necessary--although of less immediate importance than track reconstruction--that provision be made for the acquisition of new types of equipment suited to present day conditions, in order that operating expenses may be reduced and net revenues may be increased.

This, I believe, can be accomplished, to a very material extent, by the operation in practically all of the San Diego territory of one-man cars.

There has been introduced as company's Exhibits 20 and 28 a program of track reconstruction made by Mr. A. Ervast,



the chief engineer of the Spreckels Companies. This program has been gone over thoroughly by our chief engineer and he urgently recommends the adoption of this plan in its entirety. In my opinion, the program embodies the necessary minimum, and I suggest that the Commission urge upon the San Diego Company the acceptance and the carrying out of that program.

Inasmuch as this matter of track reconstruction really amounts to one of rehabilitation of service, it is, of course, of great importance and interest to all of the communities affected -- especially to the City of San Diego.

The amounts of money required for this purpose for the various years are estimated as follows:

<u>Year</u>	<u>Estimated Cost</u>
1919	\$566 789.55
1920	273 809.21
1921	424 702.94
1922	525 140.07
1923	864 453.35

The present equipment, to the extent that it can be replaced by more economical equipment (from the standpoint of operation), should be retired progressively as early as possible and should be replaced by lighter and more economical cars. I have no doubt that with such equipment, the frequency of service on a number of car lines can be increased, with great resulting benefit to the Company and the public alike.

The Commission's engineering department has also made a preliminary study of the San Diego Company's power

problem. The study is not yet complete and will be carried forward. In 1906 the separation took place between the street railway and the electric light and power business then operated together by the Spreckels Interests in San Diego. The San Diego Consolidated Gas and Electric Company took over a portion of the electric generating plant, while another portion of the plant was retained by the street railway company. This portion, which was enlarged and renewed in 1911 and since, furnishes power for the operation of the system at the present time. The generating plant, together with the buildings, power plant equipment and substation equipment, is included in the valuation of the San Diego Company's property in the estimate of reproduction cost at over amillion dollars.

In the year 1918 there were charged by the Company operating expenses of \$186,500 directly against "power" (not including overheads and general expenses and not including interest, but including depreciation). With a maximum peak of 2500 k.w. and a maximum daily consumption of 40,000 k.w.h. and a yearly output of approximately 11,000,000 k.w.h., the unit power cost is estimated for the year 1919 at 1.22 cents per kilowatt hour, exclusive of general overhead and general administrative expenses, depreciation and interest. Were interest and depreciation on the present plant added to this unit cost, the total charges, assuming 6 per cent interest, would be approximately 2 cents per kilowatt hour. This is a very high power cost.

The Commission will lend its assistance in working out a solution of this power problem that may result in a decrease of operating and fixed charges and may be of benefit to the street railway and the power company.

### 3 - Remedies.

I shall discuss possible remedies under three headings, (a) Service, (b) Depreciation Fund, and (c) Rates.

#### (a) Service-

With the jurisdictional issue out of the way, it will be possible to consider questions of service on their merits and from the standpoint only of what is to the best interests of the public and of the applicants. Taking up the possibility of modification of certain franchise conditions, the item of paving is the most important. In this connection I wish to quote the statement of Mr. Cosgrove, the City Attorney of San Diego, made at the hearing held in San Diego on October 8th:

"There are one or two matters that I would like to refer to particularly. First, the important matter of paving. In that connection, we are confronted with a provision of the City Charter. We are not confronted merely with a provision of the franchise which is, by the way of ordinance, susceptible of amendment, but we have a provision of a municipal charter. Under the terms of this charter the owner of this street railway franchise is compelled to pave between its rails and for two feet on either side of its tracks whenever ordered to do so by the common council. Under the Vrooman Act the proceedings have been initiated, and in many instances finished. The obligation to pave those streets has already, I believe, been incurred by the city railway company. They are legally obligated and bound to pave the streets that have been paved, on both sides of their tracks, and there is no way, as I understand the law, of relieving them from that responsibility, and as I understand the statement

"of counsel for the street car company, the applicant herein, that is their impression also.

"With reference to future pavements, as long as the charter provision remains as it is, way, the city council consider that they are obligated to take the same action that they have taken heretofore. In addition to the obligation of the charter, the city council are informed by the engineers that by reason of the character of soil here, the adobe which we have on many of our streets, that if you were to pave the street on both sides of the street car track and not pave the portion between the rails and the tracks, that the water would get under the pavement and that it would within at least two seasons completely ruin it. So that it is simply a question of being compelled, not simply by reason of charter provision, but also by reason of the character of the soil of the streets, if you pave any portion of the street to pave the entire street.

"I want to say in this connection, Mr. Commissioner, that I am not unmindful -- that the common council are not unmindful -- of the fact that where the street car company's fare is fixed by the Railroad Commission, that ultimately the man who rides on the street car pays for the pavement. We understand that. And if the charter were different than it is, I am sure the City Council would have an entirely different attitude. But with the charter provision as it is, the common council have no discretion; they have no authority to do other than as the people, speaking through the charter, have directed them to do, and as the street car company, in accepting their franchise under that charter provision, have agreed to do. There are many streets in this community that have been paved by the property owners and have not been paved by the street car company. The city authorities are aware of the financial condition of the street car company. It is the desire of the municipal authorities to extend to the street car company any grace that the Railroad Commission will recommend. In other words, the paving program which, in your order, you will outline, will be our pleasure in the matter. We simply ask that in the order the applicant be compelled to file with the council and with the Railroad Commission a statement that in following the program outlined by the Railroad Commission, they agree that the statute of limitations may not run against them with reference to being compelled to comply with their franchise promise."

I may be permitted to say that this attitude of the representatives of the City of San Diego as expressed by the City Attorney appears to me a thoroughly constructive one and one that, if adhered to, will go a long way toward solving many of the serious and pressing problems now confronting the City of San Diego as well as a great many other cities and the companies furnishing street railway service. Under existing conditions and under existing laws, it is impossible in such matters and in certain other matters of service, to reach a solution unless it is by sincere and continued cooperation between the cities, the companies and this Commission. A mere passing of jurisdiction from one body to another will not answer. It is quite proper and, indeed, essential, in my opinion, that the people of our cities in which we have street car operation, through their representatives, should show a keen interest and should have an effective voice in matters that affect the life of their community so intimately and powerfully as does transportation.

Mr. Cosgrove also said this:

"Mr. Commissioner, it is no admission of secret fact to say that the organization of a municipality - this or any other in this commonwealth - is entirely inadequate to reasonably and correctly establish the rules, rates and regulations for the applicant in this case, or any other public utility operating in the particular municipality. I say to you frankly what everyone must know, and that is that this municipality is without semblance of organization to carry on an investigation such as is being carried on by the Railroad Commission in this case....."

What Mr. Cosgrove says is true for all except, perhaps, the very largest of our cities. It does not seem to me, however, that the availability or the lack of a sufficiently large technical organization to go into the details of such public utility problems is as much an item of difficulty as is the willingness or the unwillingness of the various parties to get together and face the actual facts and make a decision on the merits of the case.

The sound point of view from which to approach the matter of paving in city streets occupied by street railway tracks appears to me this: expensive paving construction should not be required and insisted upon by the city unless it can be shown that the people are actually benefitted by requiring such expenditure and unless a different or less expensive type of construction would not better serve the needs of the street railway and of the city. I have become convinced that in many cases the standard franchise clause, regardless of conditions, under which the company assumes the obligation of bearing the expense of street paving between the rails, and for two feet on the outside of the rails, is no longer in the best interest of the community.

It is clear, of course, that under the present system of accounting for capital expenditures and for operating expenditures, all paving expenditures made by the Company are charged either to capital account or to maintenance account and that all such expenditures, without exception, must ultimately be borne by the public through the street car fares contributed by the Company's patrons. The cost of all paving, therefore, is borne by the people who

ride on the street cars. It is equally evident that it is not the people who ride on the street cars who profit by such paving. On the contrary it can be demonstrated that they are the further losers because of longer running time, all kinds of delays and other handicaps to swift and efficient service.

Matters stood differently in the past when these franchise provisions were first established. Then street railway operation was a speculative and oftentimes a highly profitable business. The assumption of the obligation on the part of the street railway companies to bear the main part of the cost of street improvements on such streets as were occupied by their tracks was the expression of an effort on the part of the communities to share in the street railways' profit. This franchise clause dates from the time of the horse car, when the street car horses used the pavement between the rails as much or more than other horses drawing other vehicles on both sides of the track. This was before the day of the overhead electric trolley and the automobile. If the old conditions existed today, no possible objection could be made to the continuation of the old practice. When, however, the cost of such work no longer comes from the profits of the Company but is borne by a portion of the very people who are supposed to benefit by the franchise requirements, then the matter appears in a different light. In not a single instance today are paving costs of any nature paid out of profits--that is, out of surplus.

There is no doubt that during the last few years the speculative element has been entirely eliminated from street railway profits. And in the majority of such properties it is not any longer a question of profits at all. It is now at best a question of moderate returns on actual property values or investment and more often is merely

a problem of how to meet operating expenses, depreciation, and the actual cost of money.

These things being facts, it becomes absolutely essential, to eliminate all unnecessary expenditures such as street paving in cases where open track would be more economical and would actually serve the needs of the public better than closed tracks, and other matters of this nature.

Suggestions and recommendations are made in detail in our chief engineer's report. These recommendations show the streets and the portions of streets in San Diego where, in his opinion, a modified type of track construction is practicable. He has also made certain suggestions



as to possible traffic regulations to divert traffic from street railway streets to neighborhood streets without car tracks.

It would not seem necessary, nor is it feasible, in this decision to go into the details of these suggestions and recommendations. As a matter of fact, it would appear unwise to lay down in matters of this kind suggestions for a definite and unyielding program when, in the nature of things, such recommendations must be modified from time to time in accordance with changing conditions. It occurs to me that a working arrangement, substantially as follows, would prove feasible, depending, of course, to a large degree, for its success upon the good faith and upon the sincere co-operation of all the parties to the arrangement:

A permanent "paving committee" might be created, consisting of the chief engineer of the applicants and the city engineer of the City of San Diego. It should be the duty of this committee to recommend such paving modifications as may seem desirable from time to time. The recommendations should be definite, with detailed specifications and estimates of costs and of savings. In case these engineers can not reach an agreement, the matter should be referred to this Commission, and the city and the company should agree that the Commission's decision should be final. In accepting the committee's recommendations, the company should agree, by appropriate language, that "the statute of limitations may not run against them with reference to being compelled to comply with their franchise promise" as suggested by Mr. Cosgrove in his statement on October 8th and as quoted above. It should be agreed that this paving committee commence its functions immediately and continue until further instructions of this Commission and that it make its recommendations at least twice a year, on January 1st and on June 1st.

It should be understood that in general the paving modification to be considered by this committee should, to begin with, follow the scope of the recommendations on this subject in Commission's Exhibit I.

If other municipalities served by this system are similarly affected by the paving situation, similar "paving committees" with similar functions should be created for these municipalities, consisting, in each case, of the chief engineer of the street railway company and of a representative of the community.

The importance of this item of paving can, perhaps, best be indicated by the statement that the paving costs to the San Diego Company in the City of San Diego directly and indirectly amount to approximately \$100,000 per annum, and that a change from paved to open track, as discussed in Commission's Exhibit I. would result in an annual saving, after the entire program has been carried out, of about \$33,000 and a saving of permanent capital expenditure of about \$285,000.

As already indicated, it is not my intention to suggest adherence to a rigid program but rather to provide the means of a prompt and continuous adjustment of the paving question for the future.

There seems to be agreement between all parties that further operating economies should be brought about through headway changes and elimination of non-paying or duplicate service on certain lines. Headway changes already put into effect by the Company have, according to the engineers' estimate, resulted in a saving of \$17,000 per annum.

As was the case with the possible paving modifications discussed under the previous heading, it does not seem necessary in this Opinion to go into the details of the proposed rerouting schedules or of proposed trackage elimination. The proposals are set forth fully in Commission's Exhibit I. and in exhibits introduced by applicants.

by the City of San Diego and by Mr. G. F. Glidden, representative of Kensington Park and Normal Heights.

In this matter also it is not desirable to fix upon a rigid program. The program should be tentative, rather, and modified from time to time to fit existing conditions and especially the needs and convenience of the public. It will be sufficient to indicate in the following schedule the proposed plan on certain lines in comparison with the present operating schedules:

PRESENT SCHEDULE, DAILY MILEAGE, ETC., ON ROUTES NOS. 5, 6, 8 & 13,

In Comparison With

SCHEDULE DAILY MILEAGE, ETC., ON ROUTES NOS. 5 & 6

UNDER PROPOSED PLAN OF RE-ROUTING AND ELIMINATION OF SERVICE

Route	Line	Headway	One-man Cars	Men	Mileage	Car Hrs.	Speed, Miles per Hr.
<b>-Present-</b>							
K	Street	20-min thru headway	4 Thru	8	732.10	76;16	East End 7.80 M P Hr. North " 11.40 "
	First & Market Sts.	20-min thru headway, 10-min Trpr. 3rd & F to 1st & Laurel 5:10-6 pm.	2 Thru 1 Tripper	4	312.23	39;10	8.10 "
	F Street Line	15-min thru headway	2 Thru	4	273.66	36;40	7.28 "
	Third Street Line	15-min thru headway	2 Thru	4	385.22	37;42	10.28 "
Totals, Present Schedules,			10 Thru 1 Tripper	20	1703.21	189;48	
<b>-Proposed-</b>							
	<u>OLD TOWN LINE</u> (Old Town to 4th & F via 4th & Broadway Loop)	15-min thru headway	3 Thru	6	614.48	57;31	10.70 M P Hr.
	<u>FIRST, MARKET &amp; WOOLMAN AVENUE LINE</u> (1st & Washington to 30th & Woolman, via Laurel, 1st, Broadway, 3rd Market, 25th & Woolman Avenue)	20-min thru headway 10-min Swing, 6:40-9:00am and 3:00-8:00 pm 1st & Laurel to 25th & Market	4 Thru 2 Swing	8 2	634.26 119.13	76;57 16;00	8.25 " 8.10 "
Totals, Proposed Schedules,			7 Thru 2 Swing	16	1367.87	150;28	
			Decrease ( 3 Thru ( 1 Tripper	4	335.34	39;20	
			Increase 2 Swing				

The financial results from such operating changes are estimated as follows:

Additional Operating Revenue	\$ 200.
Reduction in Operating Expenses	<u>20 652.</u>
Reduction in Operating Expenses	\$20 852.
Additional Railway Taxes	<u>32.</u>
Net Reduction in Operating Expenses	\$20 820.

The Commission's chief engineer has suggested, and the City of San Diego and the San Diego Company appear to concur, that elimination of certain duplicate and non-paying service and of certain trackage can be brought about as follows:

The "X" Street line in the City of San Diego should be extended from "X" and 25th Streets along 25th Street to Market Street and the "K" Street service should be operated from Market Street and the line abandoned from 25th and "K" Streets to 16th Street. The entire "F" Street line from 12th and "F" Streets to 25th and "F" Streets can be abandoned and service suspended from 3rd and "F" to "F" and Arctic Streets.

It is further proposed in Commission's Exhibit I, and is apparently concurred in by the Company, to construct tracks on Laurel Street between 4th and 5th Streets and to

divert the traffic originating west of 5th Street and in the vicinity of 1st and Walnut Streets to the business center of the city via 1st Street north and the 1st Street line between 1st and Laurel Streets to 3rd and "B" Streets. The street railway track on "K" Street from 16th Street to 25th Street can possibly be taken up; also the track on "F" Street between 12th Street and 25th Street and on 25th Street between Broadway and "F" Street.

The suggestions that were made by the City and were set forth in detail in the City's exhibits, modify and amplify this tentative program to some extent. Studies are now being made by the Commission's engineers to ascertain what effect on traffic, on operating conditions and on revenue such modifications would have. It does not seem necessary to me that the Commission should delay its decision in this proceeding until these studies are complete. I recommend that the San Diego Company be authorized to work out and carry into effect such headway and service changes, in line with the program indicated above and contained in Commission's Exhibit I, as may appear feasible and desirable at this time. I further recommend that the San Diego Company immediately and prior to the putting into effect of such service changes file with the Commission and with the City of San Diego a statement in detail showing what changes it will put into effect.

Similar statements should also be filed with the city authorities of the City of East San Diego and the Board of Supervisors of the County of San Diego insofar as these service changes affect these communities.

This will also dispose of Application 5009 in which the San Diego Company asks the Commission to authorize discontinuance of service over the following lines:

IN THE CITY OF SAN DIEGO:

ON ADAMS AVENUE:

From the west line of Alabama Street  
east to the City Limits . . . . . 0.855 Mi.

ON SPRUCE STREET:

From 4th and Spruce Street west on Spruce  
to 1st Street and on 1st Street north to  
Washington . . . . . 0.922 Mi.

ON "M" STREET:

From 32nd Street east to Greenwood  
Cemetery . . . . . 1.046 Mi.

ON "K" STREET:

From 16th and "K" Streets to 25th Street;  
on 25th Street south to Grant Avenue, east on  
Grant Avenue to Woolman Avenue and on Woolman  
Avenue east to 30th Street . . . . . 1.465 Mi.

ON "F" STREET:

From 16th Street east to 25th Street  
and on 25th Street north to Broadway . . . . 0.679 Mi.

LOGAN HEIGHTS LINE (Known as Route #12):

Beginning at 6th and Market Streets; thence  
east on Market Street to 16th Street; thence south  
on 16th Street to Logan Avenue; thence on Logan  
Avenue east to 26th Street; thence south on 26th  
Street to National Avenue; thence on National  
Avenue east to 31st Street . . . . . 2.570 Mi.

IN THE CITY OF EAST SAN DIEGO:

ON UNIVERSITY AVENUE:

From the east line of Fairmount Avenue  
east to Euclid Avenue . . . . . .490 Mi.

IN THE COUNTY OF SAN DIEGO:

ON ADAMS AVENUE:

From the east City Limits east to  
Kensington Park . . . . . 1.280 Mi.

It appears from this application that the principal reason for the abandonment of services contemplated in this application is the expectation by applicant of large capital and operating expenditures that will have to be incurred because of paving requirements already made or to be made by the communities in question. In view of my recommendation in the matter of paving and in view of the expressed declaration on the part of the city authorities to cooperate to the fullest extent with the Commission in eliminating all unnecessary expenditure for new paving not absolutely essential, it is probable that applicant may wish to modify the abandonment program contained in Application 5009.

In any event, I am not ready at this time to agree to the abandonment of service and the taking up of track on any of these lines and before any order is made on this subject, the company should submit further proof that such abandonment is justified.

There remain to be considered under this heading of service changes the San Diego Company's 5th Street Line in the City of Coronado and the line of street railway owned by the Point Loma Railroad Company and operated by the San Diego Company in the City of San Diego.

Considering first the Coronado 5th Street line, it appears to be an established fact that this line is not self-sustaining and service is given to but very few people. There is also very little doubt in my mind that the few residents now served by this line can be accommodated by the



remaining service in Coronado.

Mr. Puterbaugh, representing the City of Coronado, said that his city would be willing to agree to the abandonment of this line provided there was no increase in rates, but if there was to be an increase in rates, then the city would object to the abandonment and would ask to have the line maintained. He justified his position by pointing out that the operation of the Coronado lines taken together, but considered as a separate proposition and apart from the system's operation in San Diego and elsewhere, showed a profit to the Company and that, therefore, Coronado should be entitled to the benefits of its particular and advantageous situation.

I find myself in partial agreement with this contention. Street railway service in any one community and on any one line should, insofar as such a condition can be brought about, stand or fall on its merits. Where public necessity and convenience does not demand the continuation of service on a particular line, and where such operation is not self-supporting and where there is no prospect of its becoming so, then there is no reason why the balance of the system should be burdened with such a loss and the service should be discontinued, unless there are very strong considerations of operating or other reasons making necessary the continuation of such a service. In my opinion, if this principle is adhered to, continued service over the 5th Street line in Coronado is not justified. I am not in agreement with Mr. Puterbaugh, however, when he insists that this service should be maintained or abandoned by reason of what is done in the matter of rates.

The rate situation, I believe, must of necessity be considered on its own merits. It is my recommendation, therefore, that service on the 5th Street line in Coronado be discontinued. I am not, however, recommending the taking up of any track, the salvage from which would be very small. It appears that certain special service is given over this line at certain times, and there is no reason why it should be made impossible for the Company to render such extra service when it can be done without loss.

The Point Loma situation was fully gone into in the main proceeding and is quite exhaustively dealt with in Commission's Exhibit I. It is also the subject of the Point Loma Company's Application 5008. In that application the Point Loma Company proposes to abandon the entire railway and the municipal authorities of the City of San Diego are asked to consent to the abandonment of the franchise.

It is apparent that the Point Loma service is now operated at a loss. In Commission's Exhibit I the situation is reported as follows:

"The evidence submitted is to the effect that there are not enough car riders served by this road to produce sufficient money to operate the road as an independent corporation. It is suggested to the Commission by the Company that the most feasible plan is to have the San Diego Company lease the properties of the Point Loma road. This suggestion is proposed on the basis of an 8 per cent return on the investment in physical property of the Point Loma Railroad (not including the loop) amounting to \$180,257.16, plus annual depreciation at \$5,900.00. If this were effected, the operating results for 1919 would be as follows:

8 per cent return	\$14 420.57
Depreciation	6 893.62
Maintenance and Operating Expenses	46 032.49
Total Expenses	\$67 346.68
Operating Revenue	51 537.50
Deficit	\$15 809.18

"It is estimated that under the zone plan recommended above, the increased revenue would just about offset this deficit.

"The lease is suggested by the Company as the only possible way in which the residents of Point Loma can be provided with street car service. It is apparent that the proposed 8 per cent return cannot be paid out of the property's earnings and the result will be that the San Diego System will carry the Point Loma Line's losses. The alternatives are either immediate abandonment or continued operation for another experimental period. In view of all circumstances, operation might continue for some time.. If, after six months or a year, it is found that the actual results are not up to the estimates, or if other factors, as noted hereunder, are introduced, the matter can again be considered.

"At present the raising of Tide Street is contemplated by the City. This street is occupied for nearly a mile by the Point Loma Railroad, and this work will necessitate an expenditure of approximately \$50,000. On the other hand, the establishment of a marine base may make it possible for the Point Loma Railroad to handle freight between the Santa Fe and the base and in this way to add to its revenue. Other government activities on Point Loma are now under consideration and may result in increased traffic. With these important factors in suspense, further experiment with the road seems justified."

I see no reason why the proposed lease arrangement would prove of advantage to the Company and do not recommend its approval by the Commission. Neither do I believe that under the circumstances set forth in the engineering department's report quoted above, the complete abandonment of the line at this time is justified. Further experiment as suggested should be carried on and the Point Loma Company should be instructed to keep its accounts in such a way that the results of this further experimentation can at any time be made available to the Commission. The Point Loma Company should be asked to report at the end of six months the result of the proposed plan.

There does not appear to be any justification, however, for continued service over all of the Point Loma lines.

I recommend that the service over the so-called Point Loma loop line be continued over the northerly and westerly part of the loop only as far as Defoe and Santa Cruz Streets and that service be discontinued and track taken up over the southerly and easterly portion of the loop between the intersection of Defoe and Santa Cruz Streets to the junction point on Brighton and Warrington Streets. A shuttle car service might be operated during the busy hours of the day from this latter junction point, along Brighton and San Clementi Streets as far as Del Mar Street

The possibility of eliminating the expenses of the proposed paving of Tide Street referred to in the quotation above is one of the subjects that should be considered by the "Paving Committee." It may be possible to raise the street railway grade on this street sufficiently to permit of safe and convenient operation and also to adopt open track construction with ballasted track.

#### Rehabilitation of Property and One-man Cars.

With the relief granted the Company through the adoption of the recommended service and operating economies and such other financial relief as will be given, it seems to me absolutely essential and incumbent upon the applicants that the property, and especially the track, be put immediately into absolutely safe and good operating condition. There is complete agreement in this proceeding on the part of the applicants, the City and the Commission that many of the lines on this system are not in a good state of repair and that on some of the lines operation is

positively dangerous. This condition cannot be allowed to continue. Rehabilitation of the track is so clearly in the interest not only of the public but of the applicants that it is difficult for me to see why a construction and maintenance program should not be immediately adopted and carried out by the owners. If this is not done, operating savings and rate increases will be temporary expedients only and will not really benefit the public or the applicants. Service will continue to deteriorate and traffic will necessarily decline, and as a result net earnings must disappear.

There is before this Commission and also before the applicants the complete and detailed construction program worked up by the chief engineer of the applicants, Mr. A. Ervast, and examined and approved by the chief engineer of the Commission. I have already referred to the amounts estimated by the company's chief engineer as necessary for the purpose. The San Diego Company should be required in my opinion, to file monthly statements with the Commission based on Mr. Ervast's construction program and show in quantities and in money, what has been done during each past month to carry this program into effect.

The matter of one-man cars was gone into very fully in the exhibits filed and the testimony given by applicants and also in the engineering department's investigation. I have become convinced that a radical change in equipment such as has become available through the development of the

one-man car may prove one of the means of saving many street railway systems where the totals of operating revenues and of operating expenses come closer and closer together. And in the San Diego situation particularly, it seems to me, this type of equipment is especially adapted to successful operation and will prove eminently satisfactory to the public as well as to the company.

Studies made in Commission's Exhibit I indicate that the reduction in car mileage costs for such equipment will be so material that the cars will pay for themselves out of savings in a very short space of time. If these estimates are correct, it would certainly seem wise on the part of the applicants to make every effort to secure the necessary money for the immediate acquisition of at least a sufficient number of such cars to enable them to make a thorough experiment. Since it seems to be agreed that the result would be better service at less cost, the Commission and the City are, I believe, justified in lending all possible assistance to bring this about.

b - Depreciation and Depreciation Reserve -

The principal cause for the present physical and operating difficulties of this street railway system is found in the fact, in my opinion, that insufficient provision was made by applicants in the past to take care of the depreciation of their property.

So much has been said in the past in decisions of courts and commissions on this subject of depreciation that

I hesitate to add to the discussion. In this proceeding, however, the question of depreciation has assumed such proportions that it will be necessary for the Commission to deal with the subject by a definite order.

Applicants admit that their books and accounts and the annual reports on file with this Commission do not properly reflect the actual condition of the property because, on the one hand, no proper account has been kept of such property as has gone entirely out of existence or of the wastage of property, and, on the other hand, money has not been set aside to take care of such wastage. The corporate books show an accrued depreciation of approximately \$777,000. The applicants themselves, however, in their Exhibit II, estimate that the actual accrued depreciation on December 31, 1918, was \$1,664,000. When there is such a large difference between the actual physical condition and the supposed condition of a property, it is, of course, inevitable that sooner or later there must be a total collapse.

It must be self-evident that the wastage in property called depreciation (which goes on regardless of whether its existence is acknowledged or not) can, in a public utility, be taken care of in only three ways: first, general operating expenses may take care of all maintenance replacements and renewals as they occur; second, new money which is added to capital account may be found for these purposes; or, third, knowing that depreciation is always at work, a fund may be set aside to make good the losses when they occur. If none of these things are done,

the property and the service simply disappear.

With public utility properties it is no longer open to question that from the standpoint of the public and of the owners of the utility the only safe and economical method of dealing with this situation is through the creation of a depreciation reserve. This principle is recognized to such an extent that probably there is today no utility that does not set aside a depreciation reserve. It is true, however, that there have been occasions where the moneys so provided were used for purposes other than those for which they were intended.

There is no disagreement on these points in this proceeding between the applicants and the Commission. The cities also concur. The one and most important thing left for the Commission in this proceeding is to determine whether it will be satisfied with the creation of a depreciation reserve, or whether it shall go a step further and require the establishment of a depreciation fund, and if the latter, the manner in which the fund shall be held, used and accounted for; and the amount which shall be reserved for depreciation or paid into the depreciation fund.

It is my recommendation, because of the facts and circumstances of this case, that the Commission require applicants to establish a depreciation fund, pay into such fund monthly in cash the amount hereafter specified, and regard the fund as a trust fund strictly, to be invested, administered and used by applicants under direction of this Commission.

It will be necessary, I believe, to work out rules for the accounting and use of this fund, and I



suggest that the applicants be asked to submit to the Commission immediately whatever views and recommendations they may have in this matter. Such rules should not be effective until approved by the Commission.

There is a large difference between the engineers of the applicants and the chief engineer of this Commission as to the amount that should be set aside annually for this purpose. The San Diego Company, in view of the present condition of the property and in view of the company's past history, urges that an annual allowance of not less than \$310,293. be made. Mr. Sachse points out that this total is equal to 29 $\frac{1}{2}$ % of the estimated gross income and to over 5 $\frac{1}{2}$ % of the total reproduction cost of all the company's operative property and to nearly 10% of the total reproduction cost of the company's depreciable property. He contends that the company's figure is too high. He has worked up a depreciation schedule resulting in an annuity of approximately \$218,000 a year and suggests that \$18,000 per month or \$216,000 per annum be paid out of gross earnings into the depreciation fund.

I am inclined to accept the figure of our engineers. The applicants have had no actual depreciation fund in the past and to whatever extent a real fund is created, to that extent there is improvement over the condition of the past. It is not desirable that there should be deducted from the gross earnings of the company a sum larger than is absolutely necessary. While I am in agreement with the proposition that payment into the depreciation fund should come ahead

of both interest and other fixed charges, I do not consider it desirable to bring about a condition where at least a portion of the bond interest cannot be paid for an indefinite period of time. It should also be remembered that the operating expenses of the company have not been reduced in the engineering department's estimate of future operation. With an actual fund in existence in the future, it will not be necessary to burden operating expenses with items of replacement and renewals that should be met through this fund.

The fund is not intended to make good the losses of the past; its function is to provide for the future. With the construction standards better suited to the conditions under which this property operated and with the abandonment of a number of lines on which depreciation appears to be particularly heavy, the fund will go further than would be the case if conditions remained as they are at present.

It is also true that the sum determined to be set aside is even at best but an estimate for the future. It will certainly be subject to revision from time to time; not only because our knowledge of actual requirements will be more complete and more accurate after a few years, but also because the amount of property to be covered by the depreciation insurance will continually change through additions on the one hand, and abandonments on the other.

I believe, therefore, that our engineering department's estimate should be accepted by the Commission and that the sum of \$18,000 should be set

aside each month until further order of the Commission. All earnings of the fund, from whatever source and to whatever amount, should be added to the fund.

### C - Rates

The two governing principles in rate fixing for street railway utilities must be these: first, the fare must be a figure that will make it possible and attractive for people to use the street cars: and, second, the fare must produce sufficient revenue to pay for the cost of the service.

These two principles carry within themselves very definite upper and lower limits beyond which it is impossible to go in the fixing of rates. It has been established as a fact in this proceeding that, with all possible operating economies in effect, the 5 cent fare does not pay the cost of service on this system. And the owners of the property cannot be expected to continue service at an ever increasing loss. There remains, therefore, only two alternatives: either service will have to be discontinued or additional revenue must be provided.

The upper limit of the fare is equally fixed. The kind of transportation furnished by street railway companies is no longer a monopoly. The development of the automobile has brought about a condition where the motor vehicle will automatically take the place of the street railway if this kind of transportation can be rendered more economically by automobile than it can be by the street car. This is especially true in California. I am not convinced, however, that the time

has arrived when our largest cities can dispense with their street car systems. I am also satisfied that the electrically operated street car will have the better of it when compared with the motor vehicle in regard to actual costs and when all items of cost are taken into consideration as they should be and if unfair and unequal burdens are not placed on the street railways. This is especially apparent when modern street railway equipment is taken into the comparison.

Careful estimates of revenues and expenses for various rates and systems of rates and under various methods of operation, have been made by the applicants and by our engineers. Under the present method of operation and with present fares, the Commission's engineers estimate that not more than approximately \$1,015,000.00 in gross passenger revenue can be expected in the next 12 months. Against this income there will be operating expenses, taxes and depreciation of approximately \$1,040,000.00, leaving \$25,000.00 loss without taking into consideration any fair return on investment or property values.

It is estimated that approximately 16,390,000 passengers will be carried in the next twelve months with the present fares in effect. Every increase in fare will decrease this number to some extent.

There is agreement between the engineers of the cities, the companies and the Commission that if the fare were put higher than 7 cents, the falling off in traffic

would more than wipe out any increase in revenue from the increased fare. Our engineers also estimate, and are very definite in their conclusion, that a 7 cent flat fare will not produce the necessary revenue. In addition to that, I am of the opinion that a 7 cent flat fare is too high and should be avoided if there is any other remedy. Under all the circumstances the only alternative remedy appears to be the zone system.

The adoption of the zone system is recommended by the Commission's engineers and also by the company. It is opposed by Mr. Cosgrove, as counsel for the City of San Diego, although it is a fact that the Mayor of San Diego, Mr. Wilde, appeared at the last hearing in this proceeding and in an extended statement endorsed the zone system. The representatives of the other municipalities concerned did not oppose the zone system but desired that there shall be no discrimination against their own particular municipality, and unquestionably there is a very substantial part of the community which vigorously opposes the zone system. In the last analysis, however, the sound solution of what is by all parties conceded to be a most serious situation in the San Diego street railway service becomes to a greater degree the responsibility of this Commission. Leaving the solution to popular expression would not be a remedy as the ever-present factor of personal, pecuniary and business interest would of necessity be reflected, to say nothing of the honest and unselfish difference of opinion which divides in all such questions any considerable number of people.

A great deal of diligent study and thought has been given to this problem by this Commission and its staff and

the matter has had a thorough consideration from all angles. There has been in our minds only the desire to find the solution which will come as near to a just and proper solution as conditions will permit.

While I am of the opinion that the zone system cannot be adopted indiscriminately for other cities, I am of the belief that the reasons advanced for its adoption in San Diego by our chief engineer in Commission's Exhibit I are substantially sound:

- 1- "It is now an accepted principle of rate regulation of all public utilities that the rate should be in the closest possible relationship to the cost of the service. In street railway service this means that the short-haul passenger should not bear an undue proportion of the cost of the long-haul passenger. I say "undue proportion" because with the 5-cent fare remaining in effect in the short-haul district, it is inevitable that the short-haul passenger will continue to bear a share of the cost of the long-distance traffic in any event. But this share should not be disproportionately increased.
- 2- "In a city of such large area as San Diego (79 square miles) it is a practical impossibility to adhere to the "one city-one fare" plan. As a matter of fact, the zone system is in operation in this city now.
- 3- "The zone limits proposed for San Diego will give the benefit of the 5-cent fare to the bulk of the population, including the working population.
- 4- "A zone system will tend to build up the territory within the 5-cent zone, a result that is of benefit to the city as a whole and is more to be desired than the continuing of indiscriminate real estate development within a very large one-fare radius.
- 5- "The adoption of a zone system is much more likely to secure to the company the necessary additional revenue than a flat increase. This is true because a large amount of short-haul business would be lost to the company under a flat increase, while under the zone system this most profitable part of the business will remain and will continue to increase.

"This feature is the most important one from the standpoint of the company. Experience in a con-

siderable number of other communities of large territorial extent where the experiment of a flat fare increase has been tried and has not had the desired result, shows that the tendency in all such localities (and wherever a careful study is made of the subject) is towards the establishment of an equitable zone system.

- 6- "Another principle that is well recognized and has been consistently adhered to by the Commission is that the regular passenger should have the benefit of lower fares (wholesale service), while the occasional street railway patron should bear his proportion of the "stand-by" cost of the service. With street car and interurban systems, this means a low commutation and higher single fare. This principle will be recognized in the proposed zone system in the San Diego territory."

It is proposed to establish two zones, an inner and an outer zone. The inner, or five cent, zone has a radius of approximately one mile measured from the intersection of "B" Street and Broadway. The outer zone extends from the end of the inner zone to the ends of the various street car lines and to the limits of National City. The exact limits of the inner zone are shown on the map attached to Commission's Exhibit I and may be described as follows:

On the west and the southwest, the Bay of San Diego. Then from a point on the Bay of San Diego northeasterly along the extension of Crosby Street to the southerly end of Twenty-fifth Street at the intersection of Twenty-fifth and "K" Streets. Then northerly along the easterly line of Twenty-fifth Street to the intersection of Twenty-fifth and "B" Streets. Then northwesterly on a straight line to a point opposite the easterly end of Laurel Street. Then westerly and southwestwardly along the north line of Laurel Street to a point on the Bay of San Diego.

I recommend that within these zones the following fares be fixed by the Commission:

- 1- In the inner zone, a 5-cent cash fare, including transfer privilege between any points within this zone.
- 2- In the outer zone, a 5-cent cash fare, between all points within that zone, including transfer privilege to any points in the outer zone but not through the inner zone.
- 3- In the inner and outer zones, a 10-cent cash fare between any points in the inner and outer zones with transfer privilege.
- 4- Round trip tickets in blocks of 4 tickets, good between any points in inner and outer zones with transfer privilege to inner and outer zones. Good for bearer; to be sold at 30 cents per block of 4 tickets, equivalent to  $7\frac{1}{2}$  cents per ride.
- 5- Ticket book at rate of \$4.00, equivalent to  $6\frac{1}{2}$  cents per ride. Good for bearer of individual ticket and good for two rides or one round trip each day of the calendar month. Good for date printed on the ticket and limited to current month. Transfer privilege in inner and outer zones.
- 6- Fares between other points on system and beyond outer zone to be readjusted proportionately.

Mr. Puterbaugh, for the City of Coronado, suggests that there should be established for the service between San Diego and Coronado either in lieu of the \$4.00 ticket book or in addition thereto, a 20 round trip individual commutation book good for 30 days, to be sold at \$2.70. I have given consideration to this proposal. Adopted for the Coronado service alone, it would be a discrimination against other patrons of the outer zone. To adopt the proposed \$2.70 book for the entire system would result in a considerable decrease in estimated revenue. The \$4.00 commutation book provides service (through both inner and outer zones)



at 6½ cents per ride. The 4 ticket block provides service (through both inner and outer zones) at 7½ cents per ride. The addition of the \$2.70 book would provide service at 6½ cents per ride. I can see no need for this further graduation in the price of the so-called "wholesale service" and suggest that the \$2.70 book be not experimented with at this time.

The Company has suggested a method of fare collection on the "pay as you enter" and the "pay as you leave" plan which appears to be a workable arrangement. It is not necessary, in my opinion, to deal with this matter in this decision and the Company should be left free to work out a collection system that will not interfere with the convenience of the public.

The engineering department of the Commission estimates that results of the proposed fares under the zone system may be expected as follows:

1. 5-cent fares	4 700 000	\$238 500.
2. 10-cent fares	200 000	20 000.
3. Round-trip ticket block (7½ cent fares)	4 285 000	321 385.
4. \$4.00 commutation books equal to 6½ cent fares)	<u>6 800 000</u>	<u>442 000.</u>
Totals	16 055 000	\$1 021 885.

The last figure compares with the actual passenger revenue in 1918 as reported in the Company's annual report, as follows:

1918 Passenger Revenue (Act. 101)	\$1 031 484
Estimated as per above	<u>1 021 885</u>
Difference	\$ 9 599

It will be noted that under the proposed zone plan the revenue for the year is estimated at approximately \$10,000 less (approximately 1 per cent) than the revenue for 1918. It is also estimated that the number of passengers under the proposed plan will be 16,055,000 as compared with the estimated number of passengers under the present plan of 16,390,000, a decrease of 335,000, or approximately 2.2 per cent.

The financial results estimated by the engineering department from the adoption of the zone system are shown in the following table:

ESTIMATED FINANCIAL RESULTS OF PROPOSED ZONE PLAN  
FOR THE NEXT TWELVE MONTHS AND COMPARISON  
WITH PRESENT PLAN AND WITH 1918.

	Present Plan	Proposed Plan	Year 1918 Actual.
Passenger Revenue	\$ 950 683.11	\$1 021 885.00	\$1 031 484.20
Other Transportation Revenue	689.90	689.90	2 158.64
Total Transportation Revenue	\$ 951 373.01	\$1 022 574.90	\$1 033 642.84
Other Railway Operations	63 307.56	63 307.56	54 720.38
Total Operating Revenues	\$1 014 680.57	\$1 085 882.46	\$1 088 363.22
Total Operating Expenses	753 451.31*	691 451.31*	750 442.85*
Net Revenue	\$ 261 229.26	\$ 394 431.15	\$ 337 920.37
Taxes	77 265.58	77 265.58	74 395.42
Operating Income	\$ 183 963.68	\$ 317 165.57	\$ 263 524.95
Non-operating Income	8 720.00	8 720.00	8 571.64
Gross Income	\$ 192 683.68	\$ 325 885.57	\$ 272 096.59
Depreciation Fund Annuity	216 000.00	216 000.00	216 000.00 (a)
Available for Fixed Charges	\$ 23 316.32 (Loss)	\$ 109 885.57 (Profit)	\$ 56 096.59 (Profit)

\*Not including depreciation  
(a) Using same as 1919 estimates.

It will be noted that if this estimate is correct, there will be available for fixed and other charges, a balance of \$110,000. This amount is equal to a return on the reproduction cost less depreciation of the operative property of the San Diego Company (\$4,563,943) of 2.4 per cent.

With the other recommended operating economies and with the reduction of operating costs following the abandonment of unprofitable service, I am satisfied that there is complete justification for the maintenance of this street railway service in the most efficient manner possible. I have also pointed out further large economies that will be possible through the introduction of a more economical type of equipment, and if the program is followed as outlined in this Opinion, I see no reason why the San Diego Street Railway system, under proper management, should not become an efficient, up-to-date and profitable concern.

It will be desirable in this Decision for the Commission to distinguish between those features of the proceeding that can be dealt with by order, those that can be dealt with by authorization to the Applicants and those that can be dealt with by recommendation and suggestion only. Into the latter class belongs any solution that the Commission might have to offer in the matter of paving.

Without the willingness of the City to cooperate in giving effect to the recommendations made in the foregoing Opinion on the matter of paving, no remedy can be had. In view of the very definite language, however, that Mr. Cosgrove employed in behalf of the Common Council of the City

of San Diego in the last hearing in this proceeding, I have no doubt that the City will be ready to adopt any recommendations made by the Commission. Mr. Cosgrove's statement on page 28 is to that effect.

The matter of paving will, therefore, not be dealt with in the Order, but left as a suggestion as discussed in the foregoing Opinion.

Matters of service and operation can largely be dealt with in the form of authorization to the Company, and I have no doubt -- also in view of the position taken by the representatives of the various communities involved -- that any authorizations made will be concurred in by the city authorities.

All matters of rates where, in my opinion, the jurisdiction of the Commission is beyond question, and also the matter of the depreciation reserve, can undoubtedly be dealt with in the form of an Order.

I recommend the following form of Order:-

O R D E R

Applications having been filed by the SAN DIEGO ELECTRIC RAILWAY COMPANY and the POINT LOMA RAILROAD COMPANY for an investigation by the Railroad Commission into the reasonableness of the rates, charges, rules, regulations and practices of applicants and for authority to discontinue service, suspend operation and take up tracks on part of the two systems, all as indicated in the foregoing Opinion; a public hearing having been held and the matter having been submitted and the Commission being fully advised of the facts as set forth in the foregoing Opinion:

IT IS HEREBY ORDERED:

1 - In the matter of Service and Operation:

(a) Operating savings through headway changes and by partial or complete elimination of non-paying or duplicate service on certain lines shall be brought about as suggested in the foregoing Opinion, and Applicants shall file with the Commission and with the City of San Diego immediately, and prior to the putting into effect of such service changes, a statement in detail showing what changes will be made. Similar statements shall also be filed with the authorities of other communities affected by such service changes.

(b) Authority is not given at this time for the abandonment of service and the taking up of track on any

of the lines enumerated by the San Diego Electric Railway Company in Application 5009, and further proof that such abandonment is justified should be submitted by applicant after the other economies and changes authorized in this Order have been put into effect.

(c) The San Diego Electric Railway Company is authorized to discontinue service on the Fifth Street line in Coronado but is not authorized to take up any track. Special service may be given over this line at certain times within the discretion of the Company and when such service can be given without loss.

(d) Authority is withheld from the Point Loma Railroad Company to discontinue service and suspend operation and to take up tracks on the entire system. Authority is granted, however, to discontinue service and to take up track over such portion of the so-called Point Loma loop line as is described in the foregoing Opinion. Applicants are not authorized to enter into the proposed lease agreement and it is ordered that the Point Loma Company continue independent operation and that at the end of six months that Company report to the Commission the result of the proposed plan.

(e) Applicants are ordered to put their property, and especially the track, immediately into safe and good operating condition in substantial agreement with the recommendations and the construction program submitted to

The Commission by Applicants' chief engineer and as approved by the Commission's engineering department.

Applicants shall file monthly statements with the Commission based on this construction program and showing in quantities and in money what has been done during each past month to carry this program into effect. Applicants shall also file with the Commission quarterly statements showing equipment changes made during the preceding quarter, and especially the progress made in the acquisition of one-man cars.

2 - In the matter of a Depreciation Fund.

The San Diego Electric Railway Company is ordered to set aside and pay into a separate depreciation fund monthly the sum of \$18,000. All earnings of the fund from whatever source and to whatever amount shall be added to the depreciation fund. This depreciation reserve fund shall be held and accounted for under the direction of, and shall not be used without the authority of, this Commission. The Company is ordered to work out and submit to the Commission within 60 days of the date of this Order such rules for the accounting for and use of this fund as will embody the desires and recommendations of the applicant in this matter. Such rules shall not become effective until approved by the Commission.

3 - In the matter of Rates.

Applicants are authorized to establish and to file with the Commission within 10 days of the date of this order



a schedule of rates based on the zone system and on the system of fares recommended in the foregoing Opinion.

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 14<sup>th</sup>  
<sup>November</sup>  
day of ~~October~~, 1919.

Edwin O. Edgerton

H. D. Loveland

Frank P. DeWitt

H. B. ...

Dwight Martin

Commissioners.