

Decision No. 9843

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

ORIGINAL

In the matter of the application of Pacific Gas and Electric Company, a corporation, for an investigation by the Railroad Commission of the State of California of the rates and fares charged by applicant in connection with the operation of its street railway system in the City of Sacramento.

Application No. 6138.

Charles P. Cutten, for applicant.  
R. E. Shinn, for City of Sacramento.  
George J. Bradley, for Merchants and  
Manufacturers' Association of Sacramento.

BENEDICT, Commissioner:

O P I N I O N

In this application Pacific Gas and Electric Company asks that the Commission make an investigation of the rates and fares charged by it in the operation of its street railway in the City of Sacramento and thereafter fix and establish such rates and fares as will permit it to earn a fair and reasonable return upon the valuation of its properties used and useful in its street railway business. No specific increases in the rates of fare are mentioned.

Public hearings were held in Sacramento October 19, 1920, before Commissioner Devlin and on September 1, 1921, before Commissioner Benedict. The matter was submitted upon briefs at this last hearing and such briefs have been filed by protestant, the City of Sacramento, and by applicant.

At the first hearing counsel for the City of Sacramento

questioned the jurisdiction of the Commission contending that where the maximum fare was specified by the street railway franchises, the Commission had no power to increase the fare above this maximum. The jurisdiction of the Commission is well established in a matter of this nature in many proceedings before the courts and in our opinion counsel's contention cannot be allowed.

At this same hearing applicant introduced its Exhibit No. 1 giving condensed operating statements for the year 1919, for the year ending June 30, 1920, and for the years 1920 and 1921, estimated; detail of revenue and expenses for the year ending June 30, 1920, and condensed operating statements for the years 1913 to 1918, both inclusive.

Subsequently the presiding commissioner stated that two courses of action were open to the Commission; it could hear the evidence and make its decision acting purely in a judicial capacity, or its engineering department could prepare a valuation of the street railway properties and conduct a survey and analysis of the service and operating conditions and submit a report. This report, were this done, would be given to the interested parties and after time for examination, a further hearing would be held. It was made clear, however, that in making such a report the engineering department must necessarily have the co-operation of both the City and the Company. The second procedure was deemed preferable and all parties agreed to co-operate.

The engineering department was thereupon instructed to proceed and during the Spring of this year both the valuation and report on the service and operation were submitted to the parties to this proceeding with a letter stating that the engineering department would be glad to explain or give consideration to any matters in connection therewith that might be brought up.

At the second hearing Mr. H. G. Weeks, one of the Commission's engineers, introduced a valuation of the properties of the Sacramento

Street Railway and his report on service and operation on these properties, the former being identified as Commission's Exhibit No.1 and the latter as Commission's Exhibit No.2, the report being dependent upon the valuation for the rate base used. Commission's Exhibit No.2 includes a supplemental report dated August 30, 1921 showing results of operation during a period later than the original report and presenting a revised valuation, besides correcting one or two errors in original report. A short time before the hearing a supplemental report dealing only with the valuation was submitted by Assistant Engineer R. C. Ashworth, this supplemental report being bound with and included in Commission's Exhibit No. 1.

In Commission's Exhibit No.1 the valuation of these properties as of December 31, 1920 is stated as follows:

<u>Basis of Valuation</u>	<u>Reproduction Cost</u>	<u>Condition</u>	<u>Reproduction Cost Less Depreciation</u>
Historical	\$ 1 984 755.52	73%	\$ 1 457 851.52
Reproduction New	\$ 3 403 531.52	74%	\$ 2 515 221.52

These valuation figures were obtained by adding to the inventory and appraisal as of December 31, 1919, additions and betterments during the year ending December 31, 1920. The inventory and appraisal was made as of the former date because applicant was engaged in making a valuation of all of this property as of that date and the valuation upon the reproduction new basis is used because applicant was preparing its valuation on that basis. The valuation figures cover only operative property, properly chargeable to Road and Equipment, I.C.C. Account 401.

Since, however, this proceeding was one which involved rates, a valuation upon the historical reproduction cost basis also was made, predicated upon construction under historical topographical conditions and unit prices actually paid or current at the time various items were installed. Under reproduction new, present topographical con-

ditions are assumed and the unit prices used are taken as an average over the two years ending December 31, 1919.

No questions were asked and no objection made to the valuation (Commission's Exhibit No.1). Applicant did, however, introduce its own valuation, and while this includes estimates on various bases a comparison as of December 31, 1920 for historical reproduction cost undepreciated with the valuation of our engineering department seems all that is necessary. This is as follows:

Applicant .....	\$ 2 178 560.00
Engineering Department.....	<u>1 984 765.52</u>
Difference .....	\$ 193 794.48

While there is considerable difference between the figures submitted by applicant and those submitted by the engineering department, applicant's engineer admitted, upon cross examination, that, considering historical reproduction cost only, the main element of difference was in the so-called overhead accounts and a slight difference also occurred because a proportion of the general office building and equipment in San Francisco was included in applicant's valuation, these two classes of difference being practically all that existed.

Inasmuch as the general office land, buildings and equipment in San Francisco are used proportionately in the conduct of the street railway and inasmuch as Commission's Exhibit No. 1 did not include these figures, an addition should be made to the valuation (Commission's Exhibit No.1) in order that this part of the properties be included. At the time the engineering department's valuation was made, sufficient data was not available. The amount included for these items for historical reproduction cost in applicant's Exhibit No.3 is \$10 475, apportioned to the street railway department in the same ratio as the street railway revenue bears to system revenue. This ratio is a little over 2%. For the purpose of this proceeding the

same figure may be added to the totals in Commission's Exhibit No.1.

In applicant's Exhibit No. 2 additions and betterments for the year 1921 (five months estimated) is stated at \$62 964, and in order to arrive at an average figure for the year, half of this figure may also be added to the totals in Commission's Exhibit No.1.

Applicant's figure of \$2 334,585 submitted as the investment, according to Company's books, as of December 31, 1920, can hardly be used as a basis of accurate calculation as the testimony shows that the Company's books were not in times past maintained in accordance with present prescribed accounting; that they were not complete as to certain items; and that the figures upon the lands were estimates.

The following figures will be used for rate base;-

Historical Reproduction Cost as of December 30, 1920..	\$1 984 765.52
Materials and supplies.....	24 000.00
Half of Additions, 1921 .....	31 842.00
Proportion San Francisco offices .....	10 475.00
Rate Base for 1921--	<i>FM</i> \$2 051 082.52

#### Physical Characteristics:

The street railway, which is operated as a separate department of applicant, carried during 1920 about 14 million fare passengers or about 92% of the street car passengers in Sacramento. It has very little competition. There are 45 miles of track located entirely within the city, 60% of which is laid with girder rail and 70% of which is permanently paved. Service is given by 71 cars, 10 of which are Birney safety one-man cars and the remainder are double truck California type cars, 55 of this 61 having no air brake equipment and being of an age generally in excess of 15 years. No power plant equipment is used, the street railway being supplied with energy from the same apparatus as is used to supply electric interurban roads in the city.

### Return and Rate of Return.

The figures presented in the report on service and operation were not questioned, except as to annual depreciation. In Commission's Exhibit No. 2, depreciation for the year 1921 was estimated at \$42 401. The engineer for applicant estimated depreciation at \$56 274, a difference of \$13 873. Either of these amounts are of course a proper charge to operating expenses being included under operating Accounts 25 and 30. The Company's witness stated that if \$42 401 were used in the set up of operating expenses it would be necessary to add the \$13 873 to operating expenses in order to properly take care of depreciation.

Reproduction cost less depreciation does not indicate or represent any actual loss which must be made up, as was contended by applicant. There is no such relation between the difference in reproduction cost and reproduction cost less depreciation, and a depreciation annuity. Reproduction cost less depreciation, in the valuation, when compared with reproduction cost new, simply gives a condition percent which serves as a guide to the physical condition of the property as compared with new and has, in this proceeding and as computed, no other intent or use. Under these circumstances the estimate of \$42 401 will stand and should be used by applicant hereafter as the basis of depreciation on the street railway properties.

In the original report on service and operation it was shown that in 1920 the return was 2.68%; that for 1921 the return was estimated at 1.49% but that with additional revenue in savings and operation amounting to \$81 768, the return would be 5.49%, all of these figures being based upon a 5¢ fare. It was estimated that a 6¢ fare would increase the return by \$92 790, making a total return of 9.98%. It was also brought out that the economies in operation suggested require the cooperation of the City of Sacramento in the amendment of

existing franchises and granting a franchise to cross a street intersection.

In the supplemental report, dealing as it did with some eight months actual experience in 1921, the return for the year was estimated as a negative one, a loss of \$14 078.

Between the dates of the original and supplemental reports the City of Sacramento passed an ordinance prohibiting the operating of cars with less than two men (later modified, allowing one-man operation in some of the outlying portions of the city). This ordinance added about \$27 000 per year to the operating expenses and also made it impossible to effect the economies recommended in the original report, which were based largely upon the installation and use of Birney safety cars. During cross examination on his report the Commission's engineer requested further time to answer certain questions dealing with the savings that could be effected under existing conditions and it was arranged that the answers to these questions could be furnished subsequent to the hearing. A second supplemental report dated September 12th deals with these questions.

Using the rate base of \$2 051 082.52, the following tabulation shows the present and estimated return and rate of return for different fares and under different conditions:

Return Under Various Conditions and Rates of Fare

Rate of Fare	Additional Return For Increased Fare (net)		C o n d i t i o n s					
			Present Conditions		With All Relief Recommended Except 1-Man Operation		With All Recommendations Including 1-Man Operation	
			Return	Return	Return	Return	Return	Return
(1)	Rate (2)	Amount (3)	Amount (4)	Rate (5)	Amount (6)	Rate (7)	Amount (8)	Rate (9)
5¢	-	-	\$ 14 078#	0.69%#	\$ 15 734	0.77%	\$ 92 528	4.51%
6¢	12%	\$ 87 040	72 962	3.56%	102 774	5.01%	179 568	8.75%
7¢	17%	123 439	109 361	5.33%	139 173	6.79%	215 967	10.53%

Column 2 is percentage of passenger revenue.  
Column 3 has taxes deducted.

# Loss.

The figures above lead to the conclusion that under present conditions a 7¢ fare is justified; that if the City of Sacramento makes amendment to ordinances permitting rerouting, the elimination of street sprinkling and the elimination of early morning trips, a fare of 6¢ is reasonable; and that, if all recommendations of Commission's Exhibit No.2 are adopted, the present fare of 5¢, taking into consideration falling costs of material and labor, is also reasonable. While the returns indicated are less than was desired by applicant, it is our opinion that higher rates of fare would result in causing many patrons of the system to walk or seek other means of transportation.

It should be noted that the fare above mentioned is the regular adult fare and that the tabulation and all conclusions above, except under heading, "present conditions", are predicated upon the elimination of the present coupon fare of 22 rides for one dollar and also the substitution of a bona fide school ticket fare for the present half fare, as recommended in Commission's Exhibit No.2. No objections, either by applicant or protestant were made to these recommendations. In this proceeding all rates have been under consideration and the city has approved of the recommendation to install the school childrens' ticket. The elimination of the coupon fare and also the substitution in school tickets, above mentioned, are changes in fares that should be made.

The City asks that an opportunity be given it to amend its franchises to give the relief mentioned in the Second Supplemental Report of the Commission's witness, and no particular objection to this was made by applicant. It appears that if the order in this matter be made effective on February 1, 1922, this opportunity will have been given.

Certain other matters require consideration. The costs of Injuries and Damages as charged to the railway department and reported to

this Commission should be actual and not a prorated figure, as at present. The annual charges to depreciation should be carried and reported in the proper accounts and hereafter should be based upon the amount set up in Commission's Exhibit No.2.

The following form of order is recommended:

O R D E R

Pacific Gas and Electric Company having applied to the Commission to fix and establish such rates and fares as will enable it to earn a reasonable return on the valuation of its properties used and useful in its street railway business in Sacramento, an investigation having been made, public hearings held and the matter submitted, it is found as a fact that existing rates do not afford a reasonable return and are unjust and unreasonable for the reasons stated in the foregoing opinion,

IT IS HEREBY ORDERED, that Pacific Gas and Electric Company be and it is hereby ordered to file tariffs effective February 1, 1922, based upon the following rates and fares which are found to be just and reasonable.

1. A one-way fare of seven (7) cents unless and until the changes hereinafter provided are adopted.
2. If the City of Sacramento shall so amend its franchises and ordinances as to permit the changes in operation as set forth in Second Supplemental Report, Commission's Exhibit No.2, a one-way fare of six (6) cents.
3. The elimination of sale and acceptance of coupon tickets at the rate of 22 for \$1.00 with provision for the redemption of outstanding tickets at applicant's offices within a reasonable time.
4. The elimination and sale of half fare tickets, with provision for the redemption of outstanding tickets at applicant's offices within a reasonable time.
5. A ticket for bona fide school children at half the adult one-way fare under conditions substantially as recommended in Commission's Exhibit No.2.

6. If, in addition to the above, the City of Sacramento shall so amend its ordinances as to permit the operation of street cars with and by one man per car, a one-way fare of five (5) cents.

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 2<sup>nd</sup> day of December, 1921.

H. B. Bonding  
A. D. Loveland  
Wm. H. G. G. G.  
J. J. Meredith

Commissioners.