

ORIGINAL

Decision No. 9928

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of Pacific Electric Railway Company for an order granting permission to increase rates for the transportation of passengers between points on the Pacific Electric Railway in the State of California.

Application No. 3791.

In the matter of the application of Pacific Electric Railway Company for an order granting permission to increase rates for the transportation of passengers using local service between points on the Pacific Electric Railway Company in the City of Los Angeles, California.

Application No. 4403.

In the matter of the application of Pacific Electric Railway Company for an order granting permission to increase rates for the transportation of passengers between points on the Pacific Electric Railway Company in the following cities, communities and territories in the Counties of Los Angeles, Orange, Riverside and San Bernardino, California to wit: Claremont, Colton, Glendale, Huntington Beach, Long Beach, Newport Beach, Pasadena, Pomona, Redlands, Redondo Beach, Riverside, San Bernardino San Gabriel, San Pedro-Wilmington, Santa Ana, Santa Monica, Sawtelle-Soldiers Home, South Pasadena, Upland, Van Nuys, Venice, Santa Monica-Ocean Park-Venice-Playa del Rey, Lankershim, San Fernando, Sherman, Culver City, Hermosa Beach, Manhattan Beach, El Segundo, Gardena, Torrance, Compton, Watts, Seal Beach, Fullerton, Whittier, Brea, El Monte, San Dimas, Covina, La Verne, Ontario, Rialto, Arcadia, Monrovia, Glendora, Sierra Madre, San Marino, Alhambra, and Burbank.

Application No. 4407.

In the matter of the application of Pacific Electric Railway Company for an order granting permission to increase rates for the transportation of petroleum and petroleum products, carloads, classified fifth class in current Western Classification, as contained in Pacific Electric Railway Company's local, joint and proportional freight tariff C.R.C. No. 235, applying between points on lines of Pacific Electric Railway Company in California to the basis of four and one-half cents per hundred pounds higher than rates in effect on May 25, 1918, but not to exceed fifth class rates as increased effective June 25, 1918.

Application No. 4733.

In the matter of the application of Pacific Electric Railway Company, a corporation, for an order granting permission to increase rates and to establish just and reasonable rates for the transportation of persons and property between points in the State of California.

Application No. 5806.

In the matter of the Commission's investigation into the electric street railway service of the Pacific Electric Railway Company and Los Angeles Railway Corporation in the Hollywood District of the City of Los Angeles.

Case No. 1602.

The Chamber of Commerce  
of San Pedro,

Complainant,

vs.

Pacific Electric Railway  
Company,

Defendant.

Case No. 1607.

Frank Karr and R. C. Gortner, for Pacific Electric  
Railway Company;  
Jess E. Stephens, W. P. Mealey, Milton Bryan,  
H. Z. Osborne, Jr. and F. A. Lorentz, for the  
City of Los Angeles;  
J. H. Howard, for City of Pasadena;

William Hazlett, for City of South Pasadena;  
 Arthur A. Weber, for City of Santa Monica;  
 T. C. Gould, for City of Alhambra;  
 Thomas B. Reed, for City of Covina;  
 Frederick Baker, for City of Azusa;  
 E. B. Lynch and Bert B. Woodward, for City of  
 Glendale;  
 Clyde Woodworth, for City of El Segundo, City of  
 Inglewood and City of Beverly Hills;  
 Geo. L. Hoodenpyl and Bruce Mason, for City of  
 Long Beach;  
 Geo. H. Scott, for City of Santa Ana;  
 Charles W. Lyon, for City of Venice;  
 E. O. Winburn, for the City of Watts;  
 William Guthrie, for City of San Bernardino;  
 Walter F. Dunn, for City of El Monte and City  
 of Arcadia;  
 Miguel Estudillo, for City of Riverside;  
 John P. Dunn and A. Black, for City of Monrovia;  
 Frank L. Perry, for Cities of Manhattan Beach,  
 Hermosa Beach and Redondo Beach;  
 Thomas A. Berkebile, for City of Monterey Park;  
 C. L. Welch, for Hollywood, and Santa Monica  
 Boulevard Improvement Association;  
 Earl Crandall and G. E. Delevan, Jr., for  
 City of Manhattan;  
 George R. Wickham, for City of Hermosa Beach;  
 W. E. Guerin, for City of Pomona;  
 P. A. Stanton, for Seal Beach;  
 F. P. Gregson, for Associated Jobbers of Los  
 Angeles;  
 J. S. Horn, for Los Angeles Central Labor Council;  
 W. H. Engle, for Northwest Welfare Association;  
 Harold Janse and F. A. Cattern, for Northeast  
 Los Angeles Improvement Association;  
 Shannon Chandall, for Los Angeles Chamber of  
 Commerce; Torrance Chamber of Commerce,  
 Llewellyn Iron Works and the Union Tool  
 Company at Torrance;  
 W. H. Ingle, for people of Glendale;  
 Henry E. Carter, for Wilmington Chamber of  
 Commerce;  
 Rollin L. McNitt, for Eagle Rock Chamber of  
 Commerce;  
 I. G. Lewis and Milton Bryan, for Chamber of  
 Commerce of San Pedro;  
 W. E. Mellinger, for Chamber of Commerce of  
 Hermosa Beach;  
 Harlan G. Palmer and E. M. Tilden, for Hollywood  
 Board of Trade;  
 Howard F. Shepherd and C. L. Welch, for Santa  
 Monica Boulevard Improvement Association;  
 - O. G. Ball and A. L. Colby, for Dayton Improve-  
 ment Association;  
 M. L. Garrigus, for certain citizens of  
 Central-South Hollywood;  
 Seward Cole and Edwin O. Palmer, for Santa Monica  
 and Vine Boulevard Business Men's Club;  
 R. J. Harwood, for Hollywood Vermont Association;  
 Anthony Pratt, for Municipal League;  
 - E. C. Moore, for Vermont Avenue and Griffith Park  
 Improvement Association;  
 W. H. Cline and Van M. Griffith, for Los Angeles  
 Park Commission;

- W. E. Sibertson, for West Hollywood Association;
- A. A. Pratt, for himself as patron of Pacific Electric and driver of automobile;
- H. W. Kidd and F. D. Howell, for Motor Transit Company;
- Rollin L. McNitt, for Pasadena-Pomona Stage Line; Pasadena-Ocean Park Stage Line; Mt. Wilson Stage Line; Arrowhead Springs Company;
- S. W. Thompson, for United Stages, Inc.
- F. Landier, for Auto Bus Operators in San Pedro;
- A. W. Burt, for protestants, residents of San Antonio Heights;
- C. F. Sawyer, for himself as a resident of Hollywood;
- A. F. Hall, of Long Beach, in propria persona.

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Commissioners Brundige, Loveland, Rowell and Benedict:

#### O P I N I O N

The applications and complaints referred to above, although some of them were separately heard, are consolidated with the proceeding in Application 5806. This was done by stipulation of all parties on the hearing in the latter application on October 11, 1921.

All of the five applications ask for rate increases on the part of the Pacific Electric Railway Company (hereinafter referred to as the Company). In Case 1602 the Commission, on its own initiative, instituted an investigation into the street railway service rendered in the Hollywood district of the City of Los Angeles. Case 1607 is a complaint by the Chamber of Commerce of San Pedro against the Pacific Electric Railway Company relating particularly to service and facilities in the San Pedro district of the City of Los Angeles.

To understand the present case, a brief review of the rate situation covered by the various applications and of

the events leading up to the present proceeding is desirable. Application 3791 was filed in May, 1918, during the period of abnormal costs and labor conditions resulting from the war and the Company asked for increases in interurban one-way, round-trip, and commutation fares. In September, 1918, the Commission, in Decision 5731, granted certain increases. These were protested by the cities of Santa Monica, Venice, Pasadena, South Pasadena, Alhambra, San Gabriel and Long Beach in petitions asking for a rehearing. Rehearings were granted and in Decision 5953 of November 21, 1918 the original order was amended in some particulars. It was realized that Application 3791 was an emergency proceeding and no attempt was made to deal with the Company's entire rate structure in a comprehensive manner. The local 5-cent fare in Los Angeles and in outside towns was left undisturbed. The emergency rates fixed by the Commission in that proceeding resulted in a paper increase of approximately 18% on which not more than 12% increase was realized in gross revenue.

On February 27, 1919, the Company filed Application 4403 and on March 1, 1919, Application 4407. In these two applications the inadequacy was urged of the increase granted in Decision 5953 and increases were asked from 5 cents to

7 cents in the local fares within the City of Los Angeles and in thirty-five (35) communities outside of Los Angeles. Hearings were held in these applications on March 25, 1919, and April 29, 1919, but, before a decision could be rendered, additional large increases in operating expenses caused the Company to ask for a dismissal of Applications 4403 and 4407 and for a more comprehensive treatment of the rate situation. This the Company did in Application 5806, filed on June 11, 1920. The application declares the established rates to be insufficient to produce a just return upon applicant's property and insufficient to produce sufficient revenue to meet its fixed charges and operating expenses and so low and inadequate as to be unjust and unreasonable. The application goes on to show the increase in operating expenses, the necessity for additional capital and that no dividends have ever been paid on the capital stock of the Company. In view of the losses sustained, the Company asks

"the Commission to make a comprehensive examination, investigation and survey of its rate and service situation and to authorize a complete revision of its rate schedule on a permanent basis that will provide a revenue sufficient to pay its operating expenses and fixed charges, and render a fair and reasonable return upon its railroad property investment."

In support of its application the Company filed a number of exhibits dealing with investment, revenues, and expenses. Applicant declares it to be impossible to state with accuracy the original cost of the railroad and equipment because the records of consolidated predecessor companies are inadequate, and <sup>asserts that</sup> the true cost to applicant of its railroad property and equipment is ~~substantially~~ the capital stock now issued and outstanding, which was issued by applicant to stockholders of the constituent corporations and the assumption of all of the debts, liabilities and obligations of such constituent corporations, and the sums subsequently invested by applicant. The value of the property used in the operation of its railroad and transportation business is estimated by the Company "at a conservative valuation in excess of \$75,000,000." Applicant agrees to file, as a part of its application an inventory and appraisal of its property in detail and submit this at the time of the hearing of this application.

The Company further states

"that in view of the fact that such comprehensive examination and investigation on the part of the Commission will probably consume several months' time, and in view of the extraordinary need which applicant has for immediate relief from its present financial situation caused by the great increase in operating costs, increased cost of supplies, wages, power, material, taxes and capital hereinbefore referred to, applicant asks that the Commission make a temporary order, effective during the pendency of said investigation and until permanent rates are established, making increases in its rates, schedules and fares now in effect to such amount as will make said rates just and reasonable and adequately remunerative."

Two alternate plans are suggested in the application for a temporary rate increase dealing with local and interurban fares. Applicant also asked for an increase of its freight rates to bring them to a parity with the freight rates on steam railroads in competitive territory.

While the Commission was considering the advisability of granting a temporary or emergency rate increase a new phase of the situation developed through the enactment of the Federal Transportation Act. In pursuance of the mandate of Congress the Interstate Commerce Commission divided the country into several railroad zones, California falling into the so-called Mountain-Pacific zone, and ordered a 25% increase of freight rates and a 20% increase in passenger rates within that zone in order to produce for the carriers the 5½% or 6% fair return specified in the Transportation Act. The applicant had become a party to the joint application of the interstate carriers operating in this state for an order authorizing the same increase in passenger and freight rates in California as had been authorized by the Interstate Commerce Commission in ex parte 74. This Commission, therefore, had before it the two proposed temporary rate schedules as set forth in Application 5806 and the ex parte 74 matter dealing with the uniform 25% freight and 20% passenger fare increases for all carriers in California. The decision was reached to include the Pacific Electric Railway Company in the Commission's decision in ex parte 74, to disregard the Company's specific proposals for temporary increases and to proceed with a general investigation of the Company's operations and financial condition with a view to establishing a comprehensive



and what might be called permanent basis for a fair and reasonable rate structure.

1. Investment; Valuation; Rate Base.

The investment figures are shown in the Company's annual report to the Commission as of December 31, 1920, as follows (to the nearest dollar):

Investment in road and equipment	\$85,164,558.
Miscellaneous physical property	92,391.
Materials and Supplies	2,278,224.
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	\$87,535,173.

No great reliance or particular significance can be placed on these figures for rate-making purposes, since it is not known to what extent so-called intangible items are included and since it is impossible to make a check of the correctness of additions and betterments and retirements in the early years of the Company's history. The total, however, may be compared from the standpoint of reasonableness with certain valuation figures which are now available.

In the applications preceding Application 5806 the position was uniformly taken by the representatives of the interested communities that the reasonableness of any rates was impossible of determination because of the absence of reliable information on the value of the Company's property used and useful in the public service. In the Company's opinion a valuation was not of controlling importance because a fair return was not being earned and probably could not be earned, even if both the rate of return and the valuation were taken at the lowest possible figures. This generalization did not, however, satisfy the communities. They insisted upon a valuation being made. The Commission, in

consequence, instructed its engineering department to prepare a detailed inventory and appraisal and to submit figures of original cost, reproduction cost and accrued depreciation. Such a valuation was made and introduced in this proceeding as Commission's Exhibit No. 1. The valuation consists of three large volumes and is a very detailed and exhaustive piece of work. According to the report of the department a finding of the original cost of the Company's properties could not be made; the necessary data for such a figure do not appear to be in existence. Detailed estimates of historical reproduction cost undepreciated and depreciated were produced. In the Company's opinion a historical reproduction cost estimate was not alone sufficient to reflect all important elements of the present value of this property for rate-making purposes and applicant urged that consideration should also be given by the Commission to a reproduction cost new estimate of its property. Such an estimate was also made by our engineering department.

A summary of the valuation figures found in Commission's exhibit 1 is as follows:

Entire System as of December 31, 1920.

(a) Historical reproduction cost undepreciated.

Operative property.	\$63,412,675.
Non-operative property.	<u>7,782,084.</u>
Total -	\$71,194,759.

(b) Historical reproduction cost less depreciation.

Operative property.	\$50,752,455.
Condition per cent.	80
Non-operative property.	5,619,641.
Condition per cent.	<u>72</u>
Total -	\$56,372,096.
Condition per cent.,	79

(c) Reproduction cost new based on 5-year construction period ending December 31, 1920.

Operative property,	\$92,400,000.
Non-Operative property,	<u>11,200,000.</u>
Total -	\$103,600,000.

(d) Reproduction cost new less depreciation.

Operative property,	\$73,900,000.
Non-operative property,	<u>8,800,000.</u>
Total -	\$82,700,000.

Condition per cent same as above.

Between January 1st and October 31st, 1921, the Company has expended \$1,008,780. for additions and betterments. Adding this amount to the figures for operative property, we have the following totals:

Entire System--Operative Property  
as of October 31, 1921.

Historical reproduction cost, undepreciated,	\$64,421,455.
Historical reproduction cost, less depreciation,	51,761,235.
Reproduction cost new, undepreciated,	93,408,780.
Reproduction cost new, less depreciation,	74,908,780.

The Company filed a statement of exceptions to the engineering department's valuation as of December 31, 1920. The valuation, so far as the inventory is concerned, is accepted by the Company together with the statements as to the physical facts as set forth in the engineering department's report, subject to the right to make later suggestions looking toward modification in so far as errors or omissions are in question. The Company does not, however, accept the conclusions reached by the engineering department with regard to certain items enumerated in the statement. Applicant's

principal claims and objections are these: an increase of 20% is asked in the item of "engineering" (the claimed increase amounting to \$351,712); a claim for a so-called right of way multiple of 175% is made and the valuation of the right of way is claimed to be \$18,636,409.75 instead of \$10,649,377. as found by the engineering department (claimed increase \$7,989,033); the valuation of the property embraced in I.C.C. Account No. 3 "other land" is objected to for the same reason and a claim for a multiple similar to the one urged for "right of way" is made (this would increase this item by \$7,608,705); objection is made to the estimate of grading and the disallowance by the engineering department of adaptation, solidification and seasoning is protested (no definite sum of money is claimed under this item); a claim for "interest during construction" is made for a rate of 8.42 per cent instead of the 6 per cent used by the engineering department, together with a claim that interest should also be allowed on the land values (amounting to an additional claim of \$949,988.); an item of working capital of \$600,000. is claimed; the item of "park and resort property", classed by our engineers as non-operative property, is claimed to be operative and a transfer of this item is asked (this would increase the total of operative property by \$479,851.); the percentage allowed by the engineering department for "taxes" is protested and 1.25 per cent is asked, instead of  $\frac{1}{2}$  of 1 per cent used by the engineering department (adding \$500,000. to the valuation); objection is made to the exclusion from operative property of lands dedicated and appropriated to public use for highway purposes subject to the right of the railroad to maintain and

operate its trains (no definite sum is claimed for this item); claim is made for the element of "cost of service" but not in any definite amount. The aggregate of the valuation increases asked as to the items for which a definite money claim is made amounts to \$18,477,289. We see no necessity, in this case, of making a decision on these disputed items. It may be stated, however, that in this valuation the usual and established methods of the Commission and of the engineering department were used and that, in the valuation of this property, this Company has been dealt with the same as other public utilities. We have in all recent valuation cases, after full consideration, uniformly decided against the allowance of land multiples and against allowance for adaptation and solidification of grading. Neither do we feel, in view of the record in this case, that there should be an increase over that made in Commission's Exhibit No. 1 in the allowance for "engineering", "interest" and "taxes" and are not persuaded at this time that the item of "park and resort property" should be transferred to the class of property listed as used and useful for transportation purposes.

The figure of principal importance for use in a rate proceeding, assuming a proper treatment of the reserve for depreciation, we consider the historical reproduction cost, undepreciated, of the operative property. This figure at the present time is approximately \$64,500,000. This amount represents, as nearly as it can be ascertained, the actual reasonable investment in the operative property existing at this time.

If 8% were at the present time held to be a fair rate of return, then a reasonable net earning after operating

expenses, depreciation and taxes would come to approximately \$5,150,000 (exactly \$5,153,716.). We do not hesitate to say at this point that if rates were fixed to produce such a return, regardless of all other circumstances, such rates would, in our opinion, be unreasonable/<sup>rates</sup>and would not be just and fair to the public. It is well understood that with local street railway and electric interurban railway rates there exists what may be termed an economic maximum in the rate which, practically, cannot be exceeded regardless of theoretical rate base and fair return calculations. It happens that in the case of electric railways, and especially in the case of this particular railway, this economic maximum is determined, to a large extent, by competitive forces, and we have reference now to the competition of the private and public service automobile and truck. We shall have occasion to refer to this matter again under another heading in this opinion.

If it were held that this road, in the matter of a fair return, should have an average return as Congress contemplated for all of the country's steam roads and as the Interstate Commerce Commission interpreted the mandate of the Transportation Act in ex parte 74, this applicant's rates would have to be fixed to return a profit to the owners of 5½% or 6%. On that assumption the fair return would be, on the 6% basis, \$3,865,287. and, on the 5½% basis \$3,543,177.

It is in the record that at no time since 1912 have the net earnings of this Company approached even the smallest of these figures. Commission's Exhibit No. 2 shows that the per cent return on the historical reproduction cost adjusted for the years 1914 to 1920, inclusive (operative property and operative income considered only) was as follows:

<u>Year</u>	<u>Approximate Historical Reproduction cost of Operative Property</u>	<u>Total Operating Income</u>	<u>Approximate per cent of return on Historical Reproduction Cost</u>
1914)	\$58,400,000.	\$2,366,910.	4.0%
1915)*	59,200,000.	2,351,328.	4.0%
1916)	60,000,000.	2,346,629.	3.9%
1916	60,800,000.	2,261,823.	3.7%
1917	61,600,000.	2,490,313.	4.0%
1918**	62,400,000.	1,619,189.	2.6%
1919	63,200,000.	897,772.	1.5%
1920	64,000,000.	2,714,411.	4.2%

\* Year ending June 30th.

\*\* Calendar Year.

It should be added that the showing made in the table above is, in fact, less favorable than would appear from the percentage returns. This is true because, for reasons which will appear hereunder, the Company has during the last four or five years undermaintained its property and deferred all except the most urgent maintenance expenses and, in addition, has set aside an inadequate depreciation reserve. The fact appears to be established that the rate of return has at all times during the quoted period been below the actual cost of money and at least 20% lower than the average interest rate on the Company's outstanding securities.

These facts and other causes, it appears to us, must have due consideration in the fixing of rates at this time.

## 2. Results of Investigation into Financial, Operating and Service Conditions.

When Application 5806 was filed it was apparent to the Commission that full and complete information should be at its disposal in order to make possible an intelligent decision dealing with the Company's entire rate structure. The Commission, therefore, in June, 1920, instructed its chief engineer to make a full investigation of the financial, operating and service conditions of the Pacific Electric system. The program adopted for this investigation included the following matters:

- I. Analysis, line by line, for the entire system of
  - (a) Revenues from operation (passenger and freight),
  - (b) Expenses of operation (passenger and freight).
  - (c) Service rendered:
    - Number of passengers,
    - Origin and destination of passengers,
    - Operating schedules as to time tables and to number of seats offered.
  - (d) Probable future growth of communities.
- II. Study of possible changes through additions to fixed capital, either by railway company or the communities, or both.
- III. Sources of cost of power, its transmission and distribution, use of feeder cables, substations, etc.
- IV. System-wide analysis and study of operating costs including taxes, depreciation, paving, franchise taxes, organization and administration, deferred maintenance.
- V. Study and analysis of past, present and proposed capital expenditures and their relations to the expenditures suggested by us as a result of this investigation.
- VI. The freight business.
- VII. Miscellaneous studies into economies of operation (requirements for additional rolling stock; application of one-man cars to cross-town lines, etc.).
- VIII. Franchise situation in Los Angeles and other communities.
- IX. Relation of Pacific Electric to Southern Pacific and to other enterprises (Los Angeles Terminal Company, etc.).

Later there was added a study of the cost of automobile transportation (jitney and truck) with a view of ascertaining whether it would be practicable or advisable to substitute or supplement the present electric railway service on some lines or in some services with motor transportation service.

This investigation continued during the last half of 1920 and practically the entire year of 1921. The findings and conclusions of our engineers were introduced in these



proceedings as Commission's Exhibit No. 2 (Report on Financial, Operating and Service Conditions of Pacific Electric Railway Company by Richard Sachse, Chief Engineer, 4 Vols.). The exhibit deals with all of the matters assigned to the engineering department by the Commission and goes exhaustively into all phases of the present problem. In so far as matters were dealt with affecting particularly the City of Los Angeles, our engineering department had the co-operation of the engineers of the Board of Public Utilities of the City of Los Angeles. A report was introduced by Mr. H. Z. Osborne, Jr., Chief Engineer of the Board of Public Utilities (City's Exhibit No. 1) dealing with the Pacific Electric Los Angeles situation and it may be stated that, in general, the City's engineers and our engineers find the same state of facts and reach the same general conclusions. The local public officials and representatives of commercial and improvement organizations in the communities served by the Company were advised of the character and scope of the investigation and asked to cooperate. Studies were made of local situations and the cooperation had from about fifty (50) communities influenced to a considerable degree the conclusions reached by the engineers. Subsequent to the hearings in these cases a series of engineering conferences were held with representatives of communities and of the Pacific Electric with a view of reaching conclusions affecting local service in various communities. The results of these conferences are before the Commission and have been given consideration together with the complete record in these proceedings.

### 3. Financial condition of applicant.

It will not be necessary to go to any extent into this Company's corporate and financial history. The

principal facts are well known. The present Company is a consolidation of a number of predecessor companies, and most of these predecessors, themselves, represented a consolidation of separate and independent transportation corporations. The period covered by the history of this property extends from 1885 to the present time and represents the evolution and development of urban and interurban transportation from horse-car lines through cable and steam lines and narrow gauge electric lines to the present modern high-speed electric railway and motor-bus service. There are before the Commission complete statements of capitalization, earnings and expenses of this property since 1912, and a careful analysis of these figures is contained in Commission's Exhibit No. 2. The capitalization as of June 30, 1921, is as follows:

	<u>Authorized</u>	<u>Outstanding</u>
Common stock, par value \$100 per share	\$100,000,000.	\$34,000,000.
	Par Value total issue	
Bonds, par value,	\$ 65,444,000.	<u>57,346,000.</u>
Total par value stocks and bonds outstanding as of June 30, 1921,		\$91,346,000.

All of the outstanding common stock is owned by the Southern Pacific Company. The total shown under issued and outstanding bonds represents the aggregate amount of <sup>different</sup> seventeen bond issues of varying dates of issue and maturity and varying rates of interest ranging from 4 to 6 per cent as shown in detail in the body of the report. Practically all of the bond issues have sinking fund provisions. Unpaid interest on bonds outstanding amounted to \$5,771,011. on June 30, 1921, and sinking fund payments were in arrears on the same date to a total of \$783,417. No dividends have been paid on common stock since the incorporation of the Company in 1911. It appears that of the total outstanding bonds the Southern Pacific Company's

holdings amount to \$27,031,000. par value. The average rate of interest on all of the outstanding bonds is approximately 5½ per cent.

The other total indebtedness, unsecured, on June 30, 1921, was \$15,358,589; practically all of this amount owing to the Southern Pacific Company.

The Company's balance sheet as of June 30, 1921, shows an accumulated deficit of \$13,443,444. This is the aggregate of annual deficits from operation ranging from \$500,000. to a maximum of \$2,767,726.31 (in the calendar year 1919).

The financial result of the operations of the system since 1912 may be summarized in this way: at no time since 1913 has the Company had sufficient earnings in any one year, after the operating expenses were taken care of, to meet the full interest on its bonds and nothing, of course, was available for surplus or for investment in plant out of the earnings or for returns to the owners of the property in any other form. It is apparent that the financial situation has progressively grown worse from 1912 to 1919, and only in 1920 (because of increases in rates and increased business) was there a tendency in the other direction.

We have already stated that the book figures do not show the real financial condition to the extent that, by reason of deferred maintenance and the lack of an adequate depreciation reserve, large operating and capital expenditures have now become necessary which should have been spread over a number of years in the past. It is only because the losses of this system have been carried by the more prosperous <sup>parent</sup> concern, the Southern Pacific Company, that the present applicant has been able to escape receivership.

#### 4. Causes of present condition.

The controlling causes of the present financial condition of the Company, in the order of their permanent importance, are stated as follows in Commission's Exhibit No. 1:

- first - motor car competition, including private and public machines used in transporting both passengers and freight;
- second- abnormal conditions and costs, prior, during and subsequent to the war;
- third - growing burden of expenditures not related to the previously mentioned causes.

We are satisfied that the motor-car, private and public, is the most serious factor responsible for insufficient revenues. Since 1910 the population of the City of Los Angeles has at least doubled and nearly the same ratio of growth has been maintained in the bulk of the territory served by the Pacific Electric. In spite of this very great increase in population, the number of passengers carried declined each year from 1914 to 1917 with only slight increases in 1918, 1919 and 1920. Only in 1920 was as high a total reached as in 1914. The car mileage on the system increased from 25,786,722 in 1913 to 28,095,253 in 1920 and the passenger revenue from \$7,268,657. to \$10,823,536. In 1913 the passenger revenue per car mile was 28.2¢ and in 1920, 38.5¢. During the same period the cost of the service increased greatly. Since 1916 various labor costs on this road have advanced from 55 to 135 per cent and materials from 20 per cent to 400 per cent, with an average for all labor of about 90 per cent and for all materials of about 100 per cent. To offset these increases the rates of fare have been advanced. These rate increases, however, were unable to

keep step with the increased cost of operation, and while the latter, between 1916 and 1920, increased from 80 to 120 per cent, the aggregate increase in rates has averaged less than 40 per cent, with an actual increase in revenue, due to increased rates, of less than 30 per cent.

Motor transportation as a competitor to steam and electric railroads has come to stay. The Commission has repeatedly had occasion to state its attitude toward that transportation utility. The law is specific in recognizing this form of transportation as a carrier utility and there should be, in our opinion, opportunity for unobstructed development so that it may be demonstrated to what extent, and under what circumstances the motor common carrier is an advance over older forms of transportation and, therefore, a superior instrument of public convenience and necessity. From the record in this case it would appear that under certain conditions the motor-bus has the advantage over the electric road and this conclusion would seem to be borne out by the other fact that the present applicant, itself, is now undertaking to supplement its electric service with motor service. It is also clear from this record that, in several communities, notably the San Pedro district of the City of Los Angeles and Pasadena, and possibly Long Beach, the two forms of transportation have come into competition to such an extent that there is not business enough for both of them to continue to live. And however reluctantly the communities immediately concerned may accept such a conclusion, it is, nevertheless, true that there is no warrant for the continuation of electric service unless such a service can be made at least self-sustaining. When we say self-sustaining, we have in mind earnings sufficient to pay for actual operat-

ing costs (labor, power, maintenance, taxes, depreciation) and we do not here refer to interest on investment or fair return. And in territory where there are no prospects of such earnings, the public must realize that they are faced with a discontinuance of electric railway service. If the view were taken that the Company should not be allowed to abandon a service, no matter how great the losses, it would naturally follow that these losses would have to be borne by the patrons of other branches of the service because the owners of the railway will not for any length of time make good such losses. The Commission has not the power (and is opposed to the theory) of placing the deficit of a losing public utility service upon those who do not and cannot benefit by such service. In cases of local service where operating expenses have not been earned for a long period, and where there is no prospect of such earnings, we propose that the Company put before this Commission its plans either for eliminating the service or for making it self-sustaining to the extent indicated above.

With reference to the second important cause of the Company's present financial conditions (abnormal costs consequent to the war), the record shows that the tendency of labor and material costs is downward at this time. We believe the Company can and will affect a reduction in the costs of units of transportation, both freight and passenger, and this expectation is taken into consideration in the proposed rates.

There are several classes of expenditures, however, which are bound to show further increases in the future and will continue to be a growing burden upon the Company's patrons unless means are found to minimize or eliminate such expenses. We refer to the expenditures growing out of franchise conditions and principally paving costs. The Commission has

repeatedly stated the essential facts as to paving expenses and their effect upon the cost of street railway operation. It is clear that to whatever extent such costs can be reduced, the car rider will directly be benefited. On this system the total capital investment in paving is reported by our engineers to be in excess of \$2,300,000., and the annual expense (including interest on the investment) is figured in excess of \$400,000. This sum in 1920 amounted to about 3 % of the total operative revenue and to 12 % of the net revenue. The significance of this item and its importance to the car rider is therefore clear.

In Commission's Exhibit No.2 remedies were considered by our engineers ( and also by the City's engineers in City's Exhibit No.1) along the following lines:

- (a) through operating economies and savings;
- (b) through changes in service (additions, curtailments, abandonments, supplementing of, or substitution for electric service by motor car bus service);
- (c) through changes in plant (additions to fixed capital for new structures that will enable the handling of more traffic, bringing about better service and result in immediate or ultimate economy of operation; additional equipment);
- (d) through elimination or curtailment of competition and elimination or lessening of non-productive expense burdens (jitney and motor truck competition, paving, franchise provisions, taxes);
- (e) through a change in rates (possible increases; rate re-adjustment; zoning).

All of these possibilities are fully discussed in the report and suggestions and recommendations are made both with reference to the general system and individual lines.

During the course of the investigation a number of items of possible saving or economy were suggested to the Company and these were adopted and put into effect in most

instances without waiting for an order from this Commission. It would seem, however, that further economies are possible and that in order to bring these about better operating records and statistics are required.

We are impressed particularly by the observations made in Commission's Exhibit No. 2 as regards the equipment situation and believe the Company should pay special attention to the recommendations made on pages 164 to 186 of that exhibit. In this branch of the Company's operations we are satisfied very considerable economies can be affected and large savings made by more efficient supervision and analysis. Our engineers conclude that the equipment in general is in poor condition and that it should speedily be brought to normal operating efficiency. A more suitable car for heavy city service appears to be needed and the standard for steel inter-urban cars is not considered satisfactory and seems to be uneconomical for service in the commutation zone or to the beaches. There are on the system now 77 different types of car bodies, 21 types of trucks, and 21 types of motors with different modes of control. This is an inefficient and wasteful condition. While it is true that this great multiplicity of types is a consequence of the consolidation of various independent roads, little appears to have been accomplished toward standardization and simplification. The Company agrees to the necessity of working toward fewer and better standards and this should promptly be done. There appears to be an excessive proportion of electric equipment failures and it is in the record that over 50% of the total failures occur on less than 20% of the total equipment due to a certain type of electric control. Our engineers report that equipment maintenance costs are unusually high, and considerable improvement



seems to be possible in the Company's shop practices.

We are laying stress on this item because the equipment expense for the year 1920 amounted to over \$2,000,000., (nearly 20% of the total operating expenses) and because the condition of the equipment enters to an important degree in almost all other operating expense items. We expect the Company to satisfy the Commission that proper steps are taken to carry out the recommendations pertaining to this and other items in Commission's Exhibit No. 2.

The order in this proceeding should contain a provision requiring the Company to furnish to the Commission, monthly, such operating and traffic figures as will enable us to keep in touch with and check all recommendations made in this decision and by the engineers, and to observe the effects of this order.

An analysis of the various services given by the Company, and the operating results on various lines, leads to the following conclusion:

The freight business is profitable and not a burden on the passenger operations. The freight revenue amounts to about 27% of the total and is increasing at a better ratio than the passenger revenue. The expense of freight operation is only about 18% of the total operating expenses.

The local passenger service in the various municipalities is in almost all instances operated at a loss. We have already called attention to the fact that in some communities this condition is related to motor carrier competition and that, where there is not business enough for both forms of transportation, a choice between the two will have to be made.

The local service in Los Angeles is a separate

problem largely. That service is now operated at a loss, due to the great average length of ride for the unit 6-cent fare. After a very careful consideration of the entire record on this point, we conclude that the establishment of a zone plan for Pacific Electric local service in Los Angeles is the best and fairest solution. Representatives of the City of Los Angeles urged that a zone plan for the Hollywood service alone should be instituted and that on other Pacific Electric lines in Los Angeles the present 6-cent fare should be continued. It is our intention to require the Company, in this case, to establish a much better Hollywood local service than now given and also to require the best possible service on all other local Los Angeles lines. To bring this about, large capital expenditures are required and the order in this case should be conditional upon the necessary capital being made available immediately and the necessary additional plant installed at the earliest possible moment.

With these facts in mind, we see no justification for discriminating in the matter of rates and zones in favor of one section of Los Angeles and against others. We are also satisfied that one of the most urgent transportation needs of the City is a system of universal transfers from the Pacific Electric local lines to the lines of the Los Angeles Railway and vice versa. Whether this full transfer privilege should extend to both the inner and the outer zone on the Pacific Electric, we are not prepared to say at this time. It is apparent that an order on this point cannot be made without taking into consideration the Los Angeles Railway, which is only incidentally before us in the present proceeding (in Case 1602). There is, however, pending, an application from

that Company which will soon be considered and we believe that the order in the present proceeding should require a stipulation by applicant declaring its readiness, provided the Commission makes a similar order in the Los Angeles Railway case, to establish a transfer good on both lines and to such extent and under such conditions as may be determined by the Commission.

5 - The Hollywood Service (Case 1602)

Because of numerous complaints regarding the Hollywood street railway service, and at the request of the Hollywood Board of Trade, a special study was made of the Hollywood situation in connection with the general Pacific Electric investigation. After an informal conference on April 4, 1921 between the Commission, the Board of Public Utilities of the City of Los Angeles, the Hollywood Board of Trade, the Los Angeles Chamber of Commerce, the Los Angeles Railway Corporation and the applicant, the Commission instituted a formal proceeding on its own motion, making both the present applicant and the Los Angeles Railway parties to the proceeding. Both the Board of Public Utilities of the City of Los Angeles and the engineering department of the Commission made reports in that case (Board of Public Utilities - Exhibit A - Case 1602 and Commission's Exhibit A - Case 1602). The City's and the Commission's engineers, in these exhibits, appear to be in accord on all matters within the jurisdiction of this Commission.

It is admitted that the present service is inadequate and that improvement must be made. The applicant's

local system, which handles more than 75% of the Hollywood street railway traffic, has practically reached its capacity under present conditions and no betterment can be hoped for by mere operating changes. The representatives of the Hollywood Board of Trade strongly urge the extension of the Los Angeles Railway lines into Hollywood but that Company is opposed to any such extensions, not only under the present 5-cent fare but also under a possible zone system and a higher fare. The Pacific Electric is equally opposed to the further entry of a competing railway line and is unwilling to undertake the capital expenditures necessary to improve the Hollywood service unless it is permitted, without a ruinous division of the business between competing lines, to take care of the Hollywood traffic by its local electric service and such additional bus feeder lines as may be necessary.

In the engineering conferences subsequent to the hearings in Application 5806, it was urged by representatives of the Hollywood Board of Trade that the Commission should not at this time make an order looking toward the improvement of the Hollywood Pacific Electric service and that the matter should be held in abeyance until new proposals or suggestions for improvement of the entire Hollywood transportation situation could be made by local Hollywood interests. The representatives of the City of Los Angeles did not support this view. In our opinion, a further delay would be unwarranted and to the continued detriment of the City of Los Angeles and the people of Hollywood in particular. Regardless of what may be the ultimate development of transportation in Hollywood, the present needs should be taken care of and this can be accomplished, in our opinion.

Neither do we believe that the improvement of the Pacific Electric service, as suggested by us, can in any way interfere with more comprehensive plans in the future.

We propose that applicant immediately acquire sufficient new equipment of a type suited for the Hollywood traffic and in general agreement with the suggestions contained in Commission's Exhibit A - Case 1602. Further, in order to accomplish a permanent and real improvement in the Hollywood service, the construction of a tunnel westerly from the Company's Hill Street terminal appears to us an absolute necessity. Alternate plans for such a tunnel are discussed in Commission's Exhibit A. The Company should be ordered to submit to the Commission, within a reasonable time, plans for the more efficient tunnel and should satisfy the Commission that the money required for this improvement is available and that construction will commence at the earliest possible date. There should also be submitted proposed time schedules over the shortened line and a general plan of how applicant proposes to serve Hollywood under the new arrangement. The Company should be asked to satisfy the Commission on these points as a condition precedent to the going into effect of a revised rate schedule.

Aside from the question of jurisdiction, we are not satisfied that at this time the Los Angeles Railway should be ordered to extend its lines further into Hollywood. The record shows that at least 90% of the street railway travel, both on Pacific Electric and Los Angeles Railway lines, consists of direct rides between the Hollywood section and the business district of Los Angeles. The occasional rider desiring to travel from the Hollywood district to the residence section of Los Angeles south of Hollywood, has access to four lines of the Los Angeles Railway Corporation which tap the southern edge of the Hollywood district. If a universal transfer arrangement can be satisfactorily worked out, these facilities will become much more adequate and much more use will be made of them than at present. The inauguration of bus feeder lines with transfer privileges will further improve the Hollywood service.

The Board of Public Utilities, in its Exhibit No. 1 - Case 1602, makes certain further recommendations, which in our opinion are deserving of the most careful consideration. The two most important ones are first, for the separation of street car and vehicular traffic on Sunset Boulevard, similar to the method used on Santa Barbara Avenue west of Vermont Avenue, which recommendation is made both from the standpoint of safety on the part of the general public and to expedite the railway passenger service; and, second, further extension of operation of the present municipal bus line on Vermont Avenue between First Street and Griffith Park, this operation to be carried on either entirely by the City, with transfer provisions both with the Los Angeles Railway and the Pacific Electric or jointly by the City of Los Angeles, the Los Angeles Railway and the Pacific Electric Railway, also with transfer provisions.

The putting into effect of these recommendations would appear to rest largely with the Los Angeles City authorities. If

the question of joint or interchangeable transfers for the proposed extension of the municipal line should come before the Commission, it would seem that this matter need not be taken up until preliminary negotiations between the City and the railway companies have resulted in a definite plan.

Our engineers estimate the cost of the proposed improvements pertaining to the Hollywood service as follows:

Additional Equipment (50 new cars ) .....	\$ 750,000
Cost of Tunnel .....	1,400,000
Cost of re-arrangement of Hill Street Terminal and connection at Lake Shore...	<u>450,000</u>
Total .....	\$ 2,600,000

As against this new capital requirement, there will be operating savings estimated at about \$90,000 per year.

From the standpoint of operating economies alone, and under present rates, the expenditure of the required new money would not be justified. The proposed arrangement will, however, result in greatly superior service and a considerable increase in traffic may confidently be expected. The rates proposed in this decision provide for a zone system affecting not only Hollywood, but the entire City of Los Angeles, and will bring about a material increase of revenue from the Los Angeles local business, including the Hollywood traffic. These considerations taken together, we believe, fully justify the proposed additional investment.

With two 6-cent zones on the Pacific Electric in Los Angeles (and a straight 10 cent fare through both zones) and taking into account the proposed additional investment for the Hollywood service, the operating results for the local Los Angeles service (excluding the San Pedro district which will be discussed separately hereunder) for the 12 months period after

the new plan is in effect are estimated as follows:

Los Angeles City Local Service

Total operating revenue for 1921,	\$2,050,000.
Operating expenses, 1921,	2,250,000.
Taxes, 1921,	110,000.
Deficit from Operation, 1921,	310,000.
Estimated increase in gross revenue after inauguration of zone system, 12 months,	430,000.
Fair return (available for interest on investment),	120,000.

Operative Property in local Los Angeles service  
(estimated on basis of actual use and after  
making apportionment as between interurban  
and local service, and including local pro-  
portion of new capital required for Hollywood  
service), \$10,250,000.

It will be noted that the amount available for fair return is slightly more than 1% on the operative property apportioned to the Los Angeles service. This estimate is here included to show that even under the proposed zone fares the local Los Angeles service is little more than self-sustaining and merely meets the test which we have laid down to determine whether or not the continuation of any local service is justified.

In spite of this apparently continued unsatisfactory showing for the Los Angeles local service we are satisfied that the financial results in the future will tend to improve. This conclusion we reach because it is apparent that the increased congestion in the metropolitan district (largely caused by motor transportation) is bound to have effects more and more in favor of the electric and interurban street railway and especially in the short haul local service territory. Traffic statistics for the year 1921 show that a more rapid increase in number of passengers carried and in passenger revenue, as compared with former years, has already set in and this condition, we believe, will continue.



6. Local Service in San Pedro. (Case 1607)

Case 1607 is consolidated with this proceeding and San Pedro being a subdivision of the City of Los Angeles the issues raised in that case may well be considered in this place. On May 5, 1921, the Chamber of Commerce of San Pedro filed a complaint against the applicant asking relief from the inadequate and hazardous operation on the Point Firmin and La Rambla lines. The single track operation on Front Street from Fifth to Sixth Street and on Sixth Street from Front Street to Pacific Avenue is objected to and relief is sought from the traffic congestion on Sixth Street, due to single track operation.

Reports were introduced by the Board of Public Utilities of the City of Los Angeles (Complainant's Exhibit No. 1-Case 1607) and by the Commission's Engineering Department (Commission's Exhibit No. 1-Case 1607). Possible methods of relief were presented and these resolved themselves into the following propositions:

1. The Company to double track from Fifth and Front Street to Sixth and Pacific and build new extensions into developing sections of San Pedro.
2. Company to abandon local street car service on the Point Firmin and La Rambla lines and to operate auto bus service for the entire community without competition.
3. Company to abandon local street car service on the Point Firmin and La Rambla lines and the community to be served by independent bus lines.
4. Company to operate as at present, with bus feeders in the new sections.

A rerouting of existing independent bus lines and temporary improvements on the Pacific Electric were also considered. From the report of the chief engineer of the Board of Public Utilities (Complainant's Exhibit No. 1) it appears that certain

general conclusions were reached by him and these were presented to the Commission with the informal approval of the Board, as follows:

- "1. That the best interests of the San Pedro district will be served by providing adequate street railway transportation to the business and main residential sections of the City.
- "2. That bus service should be utilized as feeders to supply the outlying districts where the district is populated sufficiently to pay for such operation.
- "3. That transfers should be issued between the bus lines and the street railway lines.
- "4. That adequate transportation service requires the elimination of disastrous competition and for that reason, and because of the necessity of having transfer privileges on either the bus line or the street car line, the bus service should be operated by the company operating the street car lines.
- "5. That the busses should be purchased by the Railway Company from the present operators at a fair value to be fixed by the Board of Public Utilities and the California Railroad Commission jointly.
- "6. "The traffic congestion relief as outlined in the report, involving the elimination of left-hand turns at 6th and Beacon and the elimination of parking of automobiles on the south side of 6th Street from Front Street west, for a distance of three or four blocks is approved."

The enforcement of the recommendations quoted is, to a considerable extent, within the jurisdiction and power of the city authorities and this is especially true with reference to the relief suggested for street traffic congestion. Also, in the matter of a possible elimination of local jitney competition, in whole or in part, the Commission is without jurisdiction and control rests with the Los Angeles Board of Public Utilities.

In the hearings in the consolidated cases the representatives of the San Pedro bus operators appeared protesting against any action tending to interfere with their operations. They urged that the great majority of the people of San Pedro would prefer motor bus service to the Pacific Electric service and that a de-

cision should be governed accordingly. Our engineers estimate the cost of double tracking of Sixth Street and Pacific Avenue to be \$280,000. A less comprehensive plan and involving the double tracking only from Fifth and Front to Sixth and Pacific would require a capital expenditure of approximately \$80,000. Assuming that Pacific Electric local service should continue in San Pedro, with a requirement that such service be reasonably adequate, estimates of required new capital expenditures for the most necessary double tracking and equipment are made by our chief engineer totalling \$120,000. It is estimated that to justify continued operation, taking into account necessary new capital and ignoring, as in the case of the Hollywood service, all fair return, an annual gross revenue of at least \$130,000 would be required. This would include the operation of bus feeders (170,000 bus miles) and additional railway service of approximately 150,000 car miles. The total operating revenue from the local San Pedro service in 1921 will be approximately \$60,000. In order to justify this increased service therefore, an additional gross revenue of about \$70,000 per year would have to be found. It is apparent that no such increase can be expected with the continuation of present motor bus competition. It is equally apparent that at the present time the Pacific Electric local service in San Pedro is carried at an operating loss. We have in San Pedro therefore a situation where the continuation of the two competitive services can not be justified. In view of the large number of protests that have come to us against any abandoning of street railway service in San Pedro, we are not prepared at this time to recommend to the Company the discontinuance of such service. We believe, however, that the Company should promptly enter into negotiations with the Los Angeles City authorities and submit to them specific plans for a satisfactory local service on a basis that will be self-sustaining in the sense indicated in this decision. Thereafter the Company should submit to this Commission

its definite proposals, together with a suggestion for a rate sustaining adequate service, or in the event that a satisfactory arrangement can not be made, promptly make its application for abandonment of the local San Pedro street railway system.

7. Local Service in Other Communities.

Outside of the City of Los Angeles, the Company operates a special local service in Beverly Hills, Long Beach, Pasadena, Pomona, Redlands, Riverside, San Bernardino, Santa Monica and Venice. All of these local services are operated at a loss and do not earn sufficient to pay operating expenses, including taxes, and without any regard to a fair return. We are satisfied from the record in this proceeding that as to several of these communities the service can be put on a self-sustaining basis. This is the case, we believe, in Pasadena, Santa Monica-Venice, Long Beach, San Bernardino and possibly San Pedro. In all of these communities, in our opinion, the Company should promptly submit to the local authorities its proposals for giving such local service as may reasonably be required and satisfactory to the local authorities and submit to them its statement of the cost of such service with its suggestion for a self-sustaining rate of fare. If an arrangement can be reached under which a continuation of the service can possibly be justified, the service in our opinion should be continued. In any event, the result of the negotiations should promptly be submitted to the Commission.

With reference to Riverside, Redlands, Pomona, and Beverly Hills, the record seems to indicate that there is little possibility of the service being put on a self-sustaining basis. In these communities we believe the Company should promptly enter into negotiations with the local authorities with a view to either increase the local fare to the economic maximum if necessary, or to abandon the service.

We have very reluctantly reached the conclusion that we can not justify from any standpoint the continuation of a separate and distinct public utility service operated permanently at a material loss with the unavoidable consequence that in some form such loss must be borne by patrons of other lines and services. There is no justification for a decision requiring the travellers on interurban lines to make up the losses of local operation in growing and prosperous communities.

It is our purpose to eliminate from the rate base such property as may fairly be apportioned to losing local services and equally to eliminate the resulting operating losses in a consideration of a fair return that may under reasonable rates be earned by applicant.

#### 8. Interurban Passenger Service.

This service taken as a whole shows under present operation and rates a small surplus, after operating expenses, including taxes, and the problem here in our opinion is one of rate adjustment and not of a general rate increase. In the interurban service we deal with one-way and round-trip passengers and with commutation service, although with regard to the latter there is in some instances no clear dividing line between local and interurban business. The record appears to show that the commutation service as a whole is operated at a loss. The principal causes of this condition are found in the discrimination now existing between certain communities and certain services and arising principally from the so-called beach blanket rate situation, and further by reason of the effect on interurban rates of the six cent fare within the arbitrary five and one-half mile zone in the City of Los Angeles. The rate adjustment we propose will eliminate this discrimination.

## 9. Rates.

The passenger fares now in effect are a continuation of those authorized by this Commission in Application No. 3791, Decision No. 5731, September 4, 1918 and Supplemental decision No. 5953 in the same application, dated November 21, 1918.

Without reviewing these decisions to any unnecessary extent, it may be stated that the rates authorized in Application No. 3791, September 4, 1918 were based on mileage rates as follows:

One Way	3¢	per mile
Round Trip	2 <sup>3</sup> / <sub>4</sub> ¢	" "
10-Ride Commutation	2¢	" "
30-Ride Family Commutation	1 <sup>1</sup> / <sub>4</sub> ¢	" "
60-Ride Individual Commutation,		
dependent upon the distance	1¢ to 7 <sup>1</sup> / <sub>2</sub> mills	per mile.

In figuring the rates from and to Los Angeles 5<sup>1</sup>/<sub>2</sub> miles were deducted from the through mileage and the rates per mile applied to the remainder. Added to this result was an arbitrary charge of 5 cents extending over the 5<sup>1</sup>/<sub>2</sub> mile zone radiating from the carrier's terminals in Los Angeles to cover the street car fare.

In Decision No. 7983, in Application No. 5728 August 17, 1920, the Company was, in connection with other carriers throughout the state, authorized to increase all of its passenger fares by 20 per cent. The increases then granted, as indicated earlier in this opinion, were in harmony with the mandate of Congress, set forth in the Transportation Act of 1920 and followed the decision of the Interstate Commerce Commission's order in Ex Parte No. 74. The effect of this latter decision was to make the mileage rate for

One Way Fares	3.6¢
Round Trip	3 ¢
10-Ride Commutation	2.4¢
30-Ride Family Commutation	1.8¢
60-Ride Individual commutation	1.2¢ to 9 mills.

The practice of an arbitrary charge was continued for the  $5\frac{1}{2}$  miles of street car service within Los Angeles, the charge, however, being increased for this  $5\frac{1}{2}$  mile zone from 5 to 6 cents. The result of the adjustments made in the past by reason of the  $5\frac{1}{2}$  mile zone within Los Angeles has proved unsatisfactory, inasmuch as the transportation charges to and from Los Angeles are on a lower basis than the fares in effect between intermediate points where the rates are not influenced by the  $5\frac{1}{2}$  mile zone.

As illustrative of the situation: there are no zone arbitraries within any of the communities outside the central part of the city of Los Angeles, the result being that in these outlying districts the fares are now on a straight mileage basis. For instance: a point distant 10 miles from Los Angeles, using a 6 cent fare for the first  $5\frac{1}{2}$  miles and 3.6 cents for the remaining  $4\frac{1}{2}$  miles, now has a one-way fare of 22 cents, while a point located 10 miles from any of the outside communities - San Fernando, Pasadena, Long Beach, etc., has a fare of 36 cents, based on a rate of 3.6 cents per mile. The injustice of this adjustment must be apparent, and in order to remove discrimination a straight mileage basis applying impartially from all points appears equitable and just.

We are of the opinion that the arbitrary charge of 6 cents for a  $5\frac{1}{2}$  mile zone in Los Angeles in connection with the interurban service of the Pacific Electric Railway should be abolished and all fares placed on a uniform and non-discriminatory mileage basis. The effect of uniform mileage rates will be to increase certain short-haul fares out of Los Angeles, reduce all of its long-distance fares and reduce all fares originating at points outside of Los Angeles or between the intermediate stations.

We believe the present mileage rates should be reduced as follows:

One-way from 3.6 cents to 2.75 cents  
Round trip from 3 cents to 2.25 cents  
30-Ride Family Commutation from 1.8 cents to 1.75 cents.

There is now in effect a 60-Ride individual commutation ticket, purchasable at any time, having a limit of 40 days from date of sale. We suggest that this class of commutation ticket be discontinued and in place thereof an individual calendar month ticket be issued, good for one round trip daily during the month, the rate per mile to remain as at present, but with the rate based on the actual mileage between <sup>in all cases,</sup> depots/ except at points where terminal zones are established.

Under the present adjustment the one way and round trip fares between Los Angeles and all of the Beach resorts extending from Port Los Angeles on the north to Anaheim Landing on the south are on the same basis.

The history of this beach blanket zone dates back to the early days of railway transportation between Los Angeles and the various beach points when a common rate was established by the various competitive lines. Subsequently the blanket rate has been retained on the theory that equal opportunities should be afforded to each of the beach communities to attract excursion and holiday business during their development period. Under this blanket rate which is at present calculated on the minimum distance to the nearest beach point, the beach communities have always enjoyed a low rate of fare, and discrimination has existed in their favor as against inland communities.



We believe the time has arrived when, because of the growth of the beach communities, this adjustment should be discontinued as to ordinary traffic during week days, but that on Saturdays, Sundays and holidays the Company should publish <sup>round-trip</sup> and maintain a/ excursion rate of 70 cents applying between Los Angeles and all beach resorts - Port Los Angeles on the north to Anaheim Landing on the south.

We are also of the opinion that two 6 cent zones should be established within the city of Los Angeles as heretofore discussed and as set forth in the order herein. The 6 cent zone fares should be applicable only on the Company's local cars and where transportation is furnished on interurban cars the fare, because of the different character of the service, should be based upon the mileage schedule, as set forth in the order.

Consideration has been given to publication of fares to cover 46-ride individual school tickets, to be used only by persons under 19 years of age attending institutions of learning and good only during specified hours of the day.

In view of the fact that carriers, under the provisions of paragraph 3, Section 17 (a) of the Public Utilities Act, have authority to issue reduced rate transportation to children attending institutions of learning, the Commission is not authorized to order school children's tickets in effect. The applicant however, will be expected to voluntarily grant to school children the most liberal privileges possible under the provisions of the Public Utilities Act.

We see no reason for any readjustment of the Company's freight rates at this time.

In the publication of the fares and charges, applicant is authorized, in accordance with this order, to violate Section 21 of the State Constitution and Section 24(a) of the Public Utilities Act.

10. Estimated results of operation under proposed rates.

An estimate has been made by our engineers of the approximate results of operation in the twelve (12) months following the effective date of the rates proposed in this decision:

Estimated total operating revenue		
on basis of present rates-		
Passenger	\$11,400,000.	
Freight	<u>4,600,000.</u>	
		\$16,000,000.
Railway operating expenses-		
Way and structures	1,855,000.	
Equipment	1,740,000.	
Power	2,000,000.	
Conducting transportation	5,114,000.	
Traffic	200,000.	
General & miscellaneous	<u>1,430,000.</u>	
		<u>12,339,000.</u>
Net Revenue,		3,661,000.
Taxes,		<u>760,000.</u>
Net (available for fair return under present rates)		<u>\$2,901,000.</u>

Estimated results of proposed rate adjustment:

	<u>Gross Increase</u>	<u>Net Increase</u>
Commutation fares	\$308,000.	\$300,000.
<p>It is estimated there will be some falling off in the sale of monthly commutation tickets on account of the change in the rules governing this ticket.</p>		
One-way fares	53,000.	53,000.
Round-trip fares	310,000.	300,000.
<p>Some falling off in travel is estimated to and from points near Los Angeles and some increase is estimated to and from points more distant from Los Angeles because of the re-adjustment of the mileage basis. The round-trip fare traffic to and from beach points is also affected because of the change in the blanket zone arrangement.</p>		
Carried forward	<u>\$671,000.</u>	<u>\$653,000.</u>

Brought forward	\$571,000.	\$553,000.
Local fares in Los Angeles	430,000.	430,000.
It is estimated that the normal increase in travel will approximately offset the decrease due to higher fares.		
Discontinuance of transfers in Pasadena, Long Beach, Santa Monica and Venice,	50,000.	35,000.
Increase in revenue from Mt. Lowe and trolley trips,	<u>20,000.</u>	<u>20,000.</u>
	<u>\$1,171,000.</u>	<u>\$1,138,000.</u>

Total estimated net increase, \$1,138,000.

Estimated operating savings from recommended improvements in Hollywood service, 90,000.

Total net available for fair return under proposed rates and service, 4,129,000.

Historical reproduction cost of operative property undepreciated October 31, 1921, (including new capital for Hollywood service), 67,021,455.

We have already stated that, in our opinion, the permanently unproductive local services in several communities should either be brought to a self-sustaining basis or abandoned and that the operative property apportioned in the valuation to such services should not be considered in the rate base.

The historical reproduction cost, undepreciated, of local services not self-sustaining is as follows:

Beverly Hills	\$57,063.
San Pedro	349,908.
Pomona	440,532.
Redlands	340,747.
Riverside	<u>196,656.</u>
Total -	\$1,384,906.

This total subtracted from the total valuation figure shown above (\$67,021,455) leaves the sum of \$65,636,549 which may be considered the theoretical rate base. The available net of \$4,129,000, as estimated above, is equal to a fair return of 6.3% on this estimated theoretical rate base. The view might be taken that a deduction of the investment in so-called unproductive local services is not justified because both the revenues and the expenses to be attributed to such service are reflected in our set-up. This view does not seem tenable since it is in the record that the expenses of such services exceed the revenue and an adjustment of operating figures would tend to further increase the net available for fair return. This result would apparently remain, even if the loss from property to be abandoned or salvaged were spread over an adequate amortization period. It may be noted that the net earnings indicated above are still in excess of 6% on the valuation figure of \$67,021,455.

It is in the record that there is a large amount of deferred maintenance of road and equipment that should be taken care of within the next few years if service is not further to deteriorate. The amount necessary to bring the plant to a satisfactory and normal operating condition is estimated in the neighborhood of \$2,000,000. If this deferred maintenance were spread over four years, operating expenses would be increased annually by \$500,000. The fair return, on that assumption, would be reduced accordingly. There would, however, be a certain decrease in the current abnormally high operating expenses as they are reflected in the statement above and more efficient operation would have a favorable effect on net earnings. The rates proposed in this decision are intended to establish a normal and permanent rate structure, to the extent that the term "permanent" can be used in relation to any public utility rates. Extraordinary and temporary expenses should not, therefore, be charged against a short period, especially if such extra costs result in permanent benefits to the carrier.

We conclude that, in view of all the circumstances as they are on record in this proceeding, a fair return of approximately 6% on the rate base indicated above is reasonable and that the rates fixed in this decision, when this test is applied, must be considered as just and reasonable rates.

11. Relation of Pacific Electric Railway Company and Southern Pacific Company.

The Southern Pacific Company, through stock ownership, owns and controls the Pacific Electric Railway Company. The Southern Pacific in the past has financed and is still financing the Pacific Electric and applicant would probably have gone through a receivership, or re-organization, if it had not been for this financial backing.

Nothing has been found in the investigation made by the Commission indicating any concealment of transactions between the two companies. Applicant's accounts are kept as if no ownership relation existed between the two companies and the accounting system is in accordance, in every respect, with the classifications prescribed by the Interstate Commerce Commission and this Commission.

There is no reason to believe that the Southern Pacific unfairly profits at the expense of the Pacific Electric. The parent company has received no return on its capital invested in the Pacific Electric other than such interest as has been paid on money loaned. No dividends on the stock have ever been earned or paid and, since 1914, the total bond interest has not been earned. It has been the practice for the Southern Pacific Company to advance the necessary money to pay the interest coupons of outside owners, transferring the amounts for interest due to the open account against the Pacific Electric.

It has been suggested in this proceeding that the Southern Pacific makes a large indirect profit by reason of

the Pacific Electric turning over to the steam railroad a very valuable freight business that otherwise would go to other roads. The facts are these: the gross earnings of the Southern Pacific on freight business obtained through the Pacific Electric will not exceed \$2,500,000. per year. There appears to be no method of obtaining the exact net operating revenue from this business, but it will not exceed 50% of this amount and it is our conclusion that the Southern Pacific would receive the same amount of freight from the Pacific Electric, regardless of ownership, because of competitive conditions with other carriers in the districts served. With reference to new capital required by the Company for extensions, additions and betterments, we are satisfied that such money has been advanced by the Southern Pacific under more liberal terms than an independent company could have realized in the open market.

Under the relation existing between the two companies the Pacific Electric has been, and is now, enabled to obtain the use of additional rolling equipment, a facility which would be more difficult to secure and more expensive under other ownership.

It has been suggested that the local management in Los Angeles has not sufficient control over the property and is handicapped by a long distance control from New York. In this respect, it may be said the Pacific Electric is in the same position as the Southern Pacific Company, which is also controlled from New York. For all practical and operating purposes, the operating and business control of this property rests in Los Angeles and San Francisco.

On the whole, we are satisfied that its relation to the Southern Pacific Company is of benefit and advantage not only to the applicant but also to the community it serves.

We propose the following order:

O R D E R

Pacific Electric Railway Company having asked the Commission to make a comprehensive examination, investigation, and survey of its rate and service situation and to authorize a complete revision of its rate schedule on a permanent basis, and applying for an order authorizing it to establish and collect such increased permanent rates as shall be found by the Commission to be just and reasonable, such investigation having been made by the Commission, public hearings having been held, and the Commission basing its findings upon a full consideration of the entire record in the consolidated cases, as set forth in the opinion preceding this order, the Commission hereby finds as a fact that applicant's present fares are discriminatory, insufficient, unjust and unreasonable, and that the fares hereinafter set forth are, under existing conditions, found to be reasonable and should be authorized subject to the conditions stated in this order.

Basing this order on the foregoing findings of fact and the further findings of fact contained in the opinion preceding this order,

IT IS HEREBY ORDERED, that the Pacific Electric Railway Company be and the same is hereby authorized to establish, within twenty (20) days from the date of this order, a schedule of rates and fares constructed on the following basis:

INTERURBAN FARES

One-way fares	2.75	cents	per	mile
Round-trip fares	2.25	"	"	"

BEACH EXCURSION FARES

round-trip  
A/ rate of 70 cents, sold only on Saturdays, Sundays  
and holidays, between Los Angeles and all beach re-

sorts - Port Los Angeles on the north to Anaheim  
Landing on the south.

#### COMMUTATION FARES

10-Ride Individual	- 2.0 cents per mile;			
30-Ride Family	- 1.75 cents per mile;			
Individual Calendar Month	- 1 to 10 miles, 1.2 cents per mile			
	11 " 15 "	1.08	"	"
	16 " 20 "	0.96	"	"
	Over 20 "	0.9	"	"

All interurban fares shall be constructed on actual mileage,  
except in communities where it is necessary to zone certain ter-  
minal points:

Minimum Interurban One-Way Fare, 6 cents, except  
that the minimum interurban one-way fare on lines  
to and from Los Angeles will be 10 cents; this to  
apply to all lines except the Santa Monica Line  
via the Hollywood Line.

Minimum Interurban Round Trip Fare, 12 cents.

Minimum Interurban Commutation Fare, 6½ cents  
per ride.

Fare to zone comprising Redondo Beach, Hermosa  
Beach and Manhattan Beach to apply via either  
Del Rey Line or via Gardena.

Discontinue application of all fares between  
interurban lines and local lines in Pasadena,  
Santa Monica-Venice and Long Beach.

Interurban Fares to apply only to the terminus  
of the interurban line on which the fare is paid.

For Pasadena, Santa Monica-Venice and Long Beach  
issue two classes of 60-ride individual commutation  
fares - one good only on the interurban line without  
change of cars, the other, a two-coupon ticket, giv-  
ing transportation to all local or interurban cars  
in the zone; this latter ticket to be \$1.80 higher  
than the first named ticket.

In lieu of the present 60-Ride Individual Commutation  
Ticket, sell an individual calendar month ticket with  
coupons numbered from 1 to 365 throughout the year,  
with two coupons of the same number providing for two  
trips daily, one in each direction.

#### EXCURSION AND SPECIAL RATES

To be consistent with rates fixed above and special  
tariff to be filed by Company for Commission's ap-  
proval.

#### LOCAL FARES

At Los Angeles establish two six (6) cent fare zones,  
as follows:



<u>Local Line</u>	<u>Limit of Inner Zone</u>
Hollywood Line	- Sanborn Junction
Santa Monica Blvd. Line	- Sanborn Junction
Blendale Line	- End of Line
Echo Park Avenue Line	- End of Line
West 16th Street Line	- Vineyard
Santa Monica Air Line	- 11th Avenue
Watts Line	- Slauson Junction
Sierra Vista Line	- Indian Village
South Pasadena Line	- Sycamore Grove

<u>Local Line</u>	<u>Limit of Outer Zone</u>
Hollywood Line	- Laurel Canyon
Santa Monica Blvd. Line	- Quint
Highland Avenue Line	- Caluanga Pass
Watts Line	- Watts
Sierra Vista Line	- Sierra Vista
South Pasadena Line	- Thorne Street
Annandale Line	- Adelaide Place

Through fare between the inner and outer zones 10 cents.

Proper transfers to be issued to connecting lines within the inner zone.

Where a fare-breaking point is served by two or more lines the fares to be established shall be based on the shortline mileage, except at points where a central station is selected in a zoned community.

In computing and applying all increased fares authorized herein, fractions of a half cent or over will be increased to the next whole cent; fractions are to be disregarded when less than one-half cent.

IT IS HEREBY FURTHER ORDERED, that the Pacific Electric Railway Company be authorized to publish fares in accordance with this order which may be in violation of Section 21 of the State Constitution and of Section 24 (a) of the Public Utilities Act.

Adjustments not specifically authorized in this order may be referred to the Commission for informal consideration.

The authority herein granted is subject to the following conditions:

1. Applicant shall submit to the Commission, within thirty (30) days and prior to the effective date of the rates fixed herein, plans satisfactory <sup>to the Commission</sup> for improvement in the Hollywood service as suggested in the opinion preceding this order, and applicant shall further, and within the same time, satisfy this Commission that the necessary financial arrangements have been made to provide for the capital necessary for the improvement in the Hollywood service, as approved by the Commission, and to the end that the improvements may be installed and constructed in the shortest possible time;

2. Applicant shall, within thirty (30) days and prior to the effective date of the rates fixed herein, file with the Commission its stipulation that it will, upon further order of this Commission, adopt and institute a universal transfer arrangement in the City of Los Angeles between the local lines of applicant and the lines of the Los Angeles Railway, on such terms as may appear just and reasonable to the Commission; provided that this Commission will make a similar order to the Los Angeles Railway Corporation in the rate proceeding now pending and affecting that company; and provided, further, that the Commission will fix such terms as may be just and reasonable between the two companies;

3. Applicant shall enter into negotiations with the authorities of local communities outside of the City of Los Angeles in all cases where the local service is not now on a self-sustaining basis and where there is no prospect that with present rates and service it can be put on such self-sustaining basis, and shall, within six (6) months from the date of this order, make application to this Commission showing that such local service can be made self-sustaining or applying for permission to abandon such service.

4. In order that the Commission may keep informed of the effect of the rates proposed herein applicant shall, until further notice, furnish monthly and in such form as may be indicated by the Commission, the following information for each preceding calendar month:

(a) Detailed statement of operating revenues and expenses, showing separately freight and passenger operations.

(b) Analysis of passenger traffic, showing traffic statistics by individual lines.

(c) Statement of number of persons employed, kind of employment and amount of wages paid, with comparison of wage scales for preceding month

(d) Statement showing steps taken by applicant to comply with suggestions for improving condition of equipment, for taking care of deferred maintenance, and with reference to other suggestions looking toward greater operating efficiency contained in the opinion preceding this order.

The Commission reserves the right to make such further orders in this proceeding relating to service and rates as may appear just and reasonable.

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 24<sup>th</sup> day of December, 1921.

H. B. Brundage  
H. S. Loveland  
Irvine Martin  
Charles A. Howell  
W. D. Prudick