

ORIGINAL

Decision No. 35753

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

|  |                       |
|--|-----------------------|
| In the Matter of the Application of )  |                       |
| CALIFORNIA STREET CABLE RAILROAD )     |                       |
| COMPANY for an order of the Railroad ) | Application No. 24486 |
| Commission of the State of California) |                       |
| authorizing increases in fares. )      |                       |

THELEN & MARRIN, by Max Thelon, for applicant.

JOHN J. O'TOOLE, City Attorney, for City of San Francisco.

DION R. HOLM, Public Utility Commission, and PAUL L. BECK, for City and County of San Francisco.

BY THE COMMISSION:

INTERIM OPINION

On September 30, 1941, California Street Cable Railroad Company filed application requesting authority to increase basic passenger fares from five cents to seven cents, and to increase the rates of fare for school children to sixteen rides for fifty cents in lieu of twenty rides for fifty cents, with no change in existing transfer privileges. A public hearing was conducted in this matter at San Francisco on November 10, 1941, and submitted on that date, with the understanding that the City of San Francisco would be permitted to file a brief in opposition to the granting of the application, and in turn applicant would be accorded the privilege of filing an answer to the city's brief. The brief was filed on November 14th and the answer on November 21, 1941.

Thereafter, on June 17, 1942, this Commission made an order reopening the application for further hearing which was

held on June 22, 1942. At this time, there was introduced in evidence a report prepared by Mr. Arthur C. Jenkins, Research Engineer of this Commission's Transportation Department and there was also received further testimony in behalf of applicant. After considering the testimony introduced on November 10, 1941, reference will hereinafter be made to the report and additional testimony introduced on June 22, 1942.

As its name implies, applicant operates a system of cable railway lines over certain streets in San Francisco for the transportation of passengers. The system consists of two main lines with a short connecting shuttle, totaling 5 1/2 miles of double track. The California Street line, three miles in length, is routed along California Street from Drumm Street in the eastern section of the financial district to Presidio Avenue in the residential section of the city. The Hyde Street line, 2 1/2 miles in length including its connecting shuttle, is routed from the intersection of O'Farrell Street and Grant Avenue in the central business district along O'Farrell Street to Jones Street, Jones Street to Pine Street, Pine Street to Hyde Street, and thence along Hyde Street to Beach Street, traversing a thickly populated apartment house district. The shuttle line operates along Jones Street from Market Street to O'Farrell Street, a distance of less than one-half mile.

In justification of its contention that fares should be increased, applicant points out that due to increasing costs of operation and decreasing patronage, particularly since the closing of the Exposition in 1940, its financial status has been adversely affected as exemplified by the Income and Profit and Loss Statement for the twelve months ending September 30, 1941, wherein a net loss for that period was shown to be as follows:

12 Months Ending September 30, 1941  
( Exhibit No. 5 )

|  |                     |
|--|---------------------|
| Operating Revenue                        | \$451,792.03        |
| Operating Expenses                       | <u>465,569.50</u>   |
| Net Operating Deficit                    | \$ 13,777.47        |
| Taxes Assignable to<br>Railway Operation | <u>\$ 25,252.13</u> |
| Operating Deficit                        | \$ 39,029.60        |
| Non-Operating Income                     | <u>8,565.01</u>     |
| Net Deficit                              | <u>\$ 30,464.59</u> |

Applicant contended at the hearing of November 10, 1941, that every reasonable effort had been exerted to reduce the cost of maintenance and operation of its properties consistent with the continuation of satisfactory service to the public, that there was no possibility of effecting further substantial operating economies and that the only way known to applicant by which it can secure the necessary additional income to enable it to pay its proper and necessary operating expenses and taxes and to secure at least a partial fair return on the fair value of its property is by an increase in fares. The trend of applicant's passengers, revenue and expenses was shown to be as follows:

| <u>Year</u>               | <u>Revenue<br/>Passengers</u> | <u>Operating<br/>Revenue</u> | <u>Operating<br/>Expenses*</u> |
|---------------------------|-------------------------------|------------------------------|--------------------------------|
| 1923                      | 11,177,765                    | \$559,341.65                 | \$390,372.95                   |
| 1940                      | 9,423,788                     | 469,657.45                   | 455,250.62                     |
| 12 mos. ending<br>8/31/41 | 9,080,800                     | 453,311.65                   | 466,478.03                     |

\* Exclusive of taxes.

The physical properties devoted to this service consist of the necessary tracks and underground cable ways, power house,

car barns, shops, office facilities, and 48 double-end California type cable cars. The investment in said properties as reflected by applicant's books of account, as of August 31, 1941, amounted to \$1,615,487.31. Based upon the valuation and appraisal made by the City Engineer of the City of San Francisco, as of June 30, 1928, the reproduction cost was established at \$2,252,458, accrued depreciation \$1,155,054, and reproduction cost less depreciation was set at \$1,097,404. Subsequent to June 30, 1928, it is shown that net additions and betterments to the property have amounted to \$11,525.01.

Touching upon the history of the property, applicant states that its predecessor company was incorporated in or about the year 1875 under the laws of California; that in 1884 the present company was incorporated and purchased the properties of its predecessor for the sum of \$500,000; that in 1885 the stockholders of applicant were assessed \$80,000, and in 1889 \$20,000, the proceeds of which were devoted to capital expenditures; and that in 1890 first mortgage bonds in the amount of \$900,000 were sold and the proceeds used for construction of the Hyde Street line and the Jones Street shuttle, and for the extension of the California Street line easterly from Kearny Street to Market Street, the last of said bonds being paid off in 1925. Applicant's balance sheet, as of August 31, 1941, shows an investment in road and equipment, Account No. 401, of \$1,615,487.31; accrued depreciation, Account No. 443, in amount of \$594,374.60; and a profit and loss balance, Account No. 451, of \$623,648.32. Applicant has no outstanding bonds, notes or mortgages, or other indebtedness. There are authorized and outstanding 10,000 shares of no par common stock, represented on the balance sheet under

Account No. 423 by an amount of \$600,000. There is no preferred stock. The record indicates that in the years 1936 to 1941, inclusive, dividends were paid on capital stock as follows:

| <u>Year</u> | <u>Shares</u> | <u>Rate</u> | <u>Amount</u> |
|-------------|---------------|-------------|---------------|
| 1936        | 10,000        | \$2.40      | \$24,000      |
| 1937        | 10,000        | 2.40        | 24,000        |
| 1938        | 10,000        | 2.40        | 24,000        |
| 1939        | 10,000        | 7.40        | 74,000        |
| 1940        | 10,000        | 2.40        | 24,000        |
| 1941        | 10,000        | 5.90        | 59,000        |

An analysis of the record indicates that the company in recent years has used cash represented by depreciation accruals to pay dividends. The Commission can not approve this practice.

Applicant estimates that if the proposed fare structure had been in effect during the twelve-month period ending August 31, 1941, it would have yielded an annual net increase in revenue of \$63,733, before income tax, and alleges that such amount would have been inadequate to meet the operating deficit and yield a fair return on the fair value of its property. If the proposed fare structure is placed in effect, it is estimated by applicant that for a twelve-month period 660,000 passengers will be diverted from the California Street line to competing lines of Market Street Railway, and 100,000 from the Hyde and Jones Street line. It is further assumed that there will be a loss in short-haul riders amounting to 936,700. Traffic for 1942, as shown by Exhibit 9, at the proposed rates is estimated as follows:

|                                       | <u>California Street</u> | <u>Hyde Street</u> | <u>Total</u>     |
|---------------------------------------|--------------------------|--------------------|------------------|
| Year 1942 at present rate             | 4,400,000                | 4,500,000          | 8,900,000        |
| Loss to Market Street Railway Company | 660,000                  | 100,000            | 760,000          |
| Short-haul Loss                       | 387,200                  | 549,500            | 936,700          |
| Year 1942 at Proposed Rates           | <u>3,552,800</u>         | <u>3,850,500</u>   | <u>7,203,300</u> |

Applicant estimates that at present rates there would be a decrease in total passengers handled during 1942, as compared

with the twelve months ending August 31, 1941, of 180,000, and that for the year 1942 at the proposed rates, operating revenues and expenses would be as follows:

|   |                            |
|---|----------------------------|
| Operating Revenue                         | \$502,000.00               |
| Operating Expenses                        | <u>449,687.00</u>          |
| Net Operating Revenue                     | \$ 52,313.00               |
| Taxes Assignable to Railway<br>Operations | <u>25,764.00</u>           |
| Operating Income                          | \$ 26,549.00               |
| Federal Income Taxes                      | <u>6,432.00</u>            |
| Net Income                                | <u><u>\$ 20,117.00</u></u> |

This estimate reflects operating expenses at Market Street Railway labor rates, with an increase of 15 per cent in supplies and expenses due to increased costs.

No rider on applicant's lines appeared in opposition to the granting of the application.

The record shows the only opposition to the proposed increase in fares to have been on behalf of the City of San Francisco, and on November 14, 1941, counsel for the city submitted an "Argument of the City and County of San Francisco Against Increase of Fares from 5 cents to 7 cents," in which it was contended that if the 7 cent fare should be established the passenger revenue resulting therefrom would be less than that estimated by applicant at no increase in fares and a net deficit would be experienced. The principal exception taken by the city to applicant's estimates relates to the volume of passenger traffic that will be carried under the proposed fare structure. The city estimates that the loss of patronage to the Market Street Railway lines will be 1,306,000 passengers instead of 760,000 as estimated by applicant;

that there will be a loss of short-haul traffic amounting to 1,518,800 passengers instead of 936,700 as estimated by applicant; that during 1942, under the proposed fares, the company will actually experience a loss of \$51,951 instead of the operating income of \$26,549, as estimated; and that the actual revenue will be less for the year than it would be if the 5-cent fare were continued.

In analyzing the evidence submitted by both applicant and the city it appears that the bases of computation of loss of traffic that would result from the proposed increase in fares are subject to question. The city, in taking issue with applicant's estimates, bases its own prognostications upon trends and events that do not appear to be complete and, although condemning the proposed plan, offers no alternative solution to the problem other than to leave the fare structure unchanged.

Although the record affords no enlightenment upon the subject, other than a statement by applicant's witness that in his estimation increasing fares was the only solution to the company's problem, it appears obvious from the records filed currently with this Commission that the type of operation performed by this carrier is extremely costly; especially when compared with a similar or improved standard of service that might be realized through substitution of the conventional type of internal combustion motor coach or the electrically propelled rubber-tired trolley coach.

For the year 1940 certain of the operating statistics for this carrier were as follows:

|  |                |
|--|----------------|
| Car Miles. . . . .                         | 1,148,280      |
| Car Hours. . . . .                         | 159,627        |
| Operating Revenue. . . . .                 | \$ 469,657.45  |
| Operating Expenses* . . . . .              | \$ 483,038.53  |
| Operating Revenue per Car Mile . . . . .   | \$ 0.40900     |
| Operating Revenue per Car Hour . . . . .   | \$ 2.94221     |
| Operating Expense per Car Mile . . . . .   | \$ 0.42066     |
| Operating Expense per Car Hour . . . . .   | \$ 3.02605     |
| Investment in Road & Equipment** . . . . . | \$1,614,747.81 |
| Investment per Mile of Road . . . . .      | \$ 293,800.00  |
| Investment per Single Track Mile . . . . . | \$ 146,900.00  |

\* Including Depreciation and Taxes.

\*\* As reflected by company books.

It appears proper at this point to take into consideration the results of numerous studies and reports prepared by this Commission's engineering staff during recent years dealing with the economics of passenger motor coach operation. We must of course give recognition to the topography of the area served by these cable lines, but the differential between the cost of operating motor coaches and these cable cars is of sufficient magnitude to absorb the abnormal costs of relatively slow schedule speeds and steep grades that would be met in operation over routes of this system. Under average operating conditions the cost per vehicle mile, including depreciation and taxes, ranges from 20 cents to 25 cents, whereas the cost per car mile of cable operation as shown above, was slightly in excess of 42 cents for the year 1940. By comparison it would appear that a motor coach or electric trolley coach operation could be substituted for the present cable lines and, with the present fare structure, produce an ample return upon the required investment.

In this same respect the record contains considerable discussion relating to the substitution by Market Street Railway Company of motor coaches for rail cars on its Sacramento Street



cable line. The exercise of foresight by that company, in meeting changing conditions and decreased revenues by substituting transportation facilities that are less costly to operate, might also have been followed by applicant herein if it had been interested in effecting the greatest degree of profit commensurate with reasonable service and low fares.

Applicant's opportunity to avail itself of the benefits of a modernized transportation system has, at this time, been foreclosed by conditions arising out of the National Emergency. It is common knowledge today that the conservation of rubber for military and other necessary uses, to the exclusion of tires for private automobiles, has created a situation wherein it would be unwise and certainly not in accord with the National War Program to replace these rail cars with vehicles using rubber that is so vitally needed in defense production. Under these circumstances applicant's failure to recognize the advantage of modernized transportation facilities may react to the benefits of the National War Program and, in the interest of furthering that paramount objective, further consideration of substitution should properly be deferred until the uncertainties of the world conflict have been dispelled.

At the hearing of June 22, 1942, applicant submitted a further estimate of its operating income for the 12 months beginning June 1, 1942, at present fares, as follows:

|   |                |
|---|----------------|
| Operating Revenue                         | \$455,640      |
| Operating Expenses                        | <u>441,075</u> |
| Net Operating Revenue                     | \$ 14,565      |
| Taxes Assignable to Railway<br>Operations | <u>21,724</u>  |
| Operating <u>Deficit</u>                  | \$ 7,159       |

Mr. Coleman pointed out that in the event applicant is obliged to pay wages in excess of those used in the above estimate, said

deficit will be increased. (1) He testified that applicant's employees have made demand for the payment of higher wages and improved working conditions and that if these demands were granted, the result would be increased operating expenses of \$78,000 per year in excess of the operation expenses shown in the above estimate.

(1) Subsequent to the submission of this proceeding the Commission has been informed that applicant has entered into an interim wage agreement with the Amalgamated Association of Street Electric Railway and Motor Coach Employees of America, Division No. 518, dated July 15, 1942, which provides in part as follows:

"1. Platform Men. (a) For the period June 10, 1942, to July 15th, inclusive, 1942, platform men shall receive a wage increase of three and three-fourths cents (3-3/4¢) per hour above the hourly rates for platform men as set forth in the agreement between the parties dated June 9, 1940.

(b) Commencing July 16, 1942, platform men shall receive the following hourly rates of pay:

|  |        |
|--|--------|
| For the first 6 months of employment ... | \$ .70 |
| " " second 6 months " " ...              | .75    |
| Thereafter .....                         | .80    |

2. Miscellaneous Employees. (a) For the period June 10, 1942, to July 15th, inclusive, miscellaneous employees shall receive an upward wage adjustment amounting to one-half of the difference between the wages of miscellaneous employees in effect as of June 9, 1942, and the increased minimum wages provided for in 'b' below.

(b) Commencing July 16, 1942, miscellaneous employees shall receive the following wage scales:

|                                |        |          |
|--------------------------------|--------|----------|
| Engine Room Operator           | \$ .80 | per hour |
| " " Assistant                  | .75    | " "      |
| Head Track Oiler               | .75    | " "      |
| Track Oiler                    | .72    | " "      |
| Track Foreman                  | .85    | " "      |
| Trackmen                       | .70    | " "      |
| Head Mechanic                  | 1.00   | " "      |
| Machinist                      | .95    | " "      |
| Truck Builder                  | .85    | " "      |
| " " Assistant                  | .77    | " "      |
| Grip Builder                   | .85    | " "      |
| Head Pitmen                    | .85    | " "      |
| Pitmen                         | .77    | " "      |
| Battery Man                    | .72    | " "      |
| Relief Man (engine room oiler) | .75    | " "      |
| " " (watchman)                 | .72    | " "      |

Generally speaking, these wage rates are slightly less than those paid by the Market Street Railway to its employees."

At the hearing of June 22, 1942, the Commission introduced in evidence a comprehensive report on California Street Cable Railroad Company, prepared by Arthur C. Jenkins, Research Engineer in its Transportation Department. In this report, Mr. Jenkins concludes that by making reductions in the service which applicant renders to the public, applicant could effect a reduction of \$29,000 in operating expenses and would have remaining for the year 1942, at the present 5¢ fare, an item of \$4,000 for return.

Mr. Jenkins assumed that applicant could make those reductions in service without losing any passengers. Mr. S. Waldo Coleman, applicant's President, Mr. Lester K. Wells, applicant's Assistant General Manager, and Mr. J. J. De Moore, applicant's Superintendent, all challenged this conclusion and testified that the reductions in service proposed by Mr. Jenkins would result in a substantial loss in the number of applicant's passengers. Mr. Coleman testified that the loss would be approximately 6 per cent of the applicant's entire number of passengers.

If normal conditions were prevailing, the Commission would give serious consideration to economies which may be effected through curtailment of off-peak service. However, in view of the ever increasing burden that will be placed upon public utility transportation systems, because of the rubber shortage, we deem it inadvisable to now adopt a program of service curtailments.

In reaching our conclusions in this matter, we must give consideration to the value of service to the patrons of applicant. The average length of haul on the California Street Cable line is 1.03 miles, as compared to the average haul of 2.51 miles on the Municipal Railway, and slightly over 3 miles on the Market Street Railway. However, at the hearing on June 22, 1942, applicant stated it was willing to put into effect a universal transfer

between the Municipal and Market Street lines. With the universal transfer the value of service is materially increased. Our order will be conditioned upon applicant placing in effect a universal transfer.

The record in this matter indicates that under present conditions of operation, service and facilities, applicant is unable to earn sufficient revenue to defray its costs of operation. Although a solution to this problem would be the substitution of motor coaches or electric trolley coaches for the cable rail operation, such substitution could not at this time be made; therefore, under prevailing conditions it appears that applicant's request for increased passenger fares on a temporary basis should be granted pending developments in the present National emergency, and the following order will so provide, subject, however, to the provision that it place in effect the universal transfer.

Because of abnormal traffic conditions and the placing in effect of a universal transfer, it is difficult upon this record to forecast with any degree of certainty the operating results of the new fares. For that reason we will issue an Interim Order and hold the proceeding open so that our engineers may closely check the results of the increased fares.

#### INTERIM ORDER

California Street Cable Railroad Company having filed application requesting authority to increase its passenger fares, public hearings having been held, the Commission being apprised of the facts and the matter being under submission and ready for decision,

IT IS HEREBY ORDERED that California Street Cable Railroad Company be and it is hereby authorized to establish in accordance with the rules of this Commission, within thirty (30) days from the

date hereof and upon not less than five (5) days' notice to this Commission and the public, interim fares for the transportation of passengers between points in San Francisco at rates as follows:

|  |                                   |
|--|-----------------------------------|
| Adult Fare .....                           | 7¢ cash and 7¢<br>token or ticket |
| School children up to 18 years of age .... | 16 rides for 50¢                  |

subject to the following conditions:

- (1) The new fares shall be subject to the establishment of a universal transfer privilege between the lines of applicant, Municipal Railway, and Market Street Railway Company.
- (2) In all other respects the fare structure will remain the same as that now in effect.
- (3) The increased fares authorized herein shall be temporary in nature and shall remain in effect until further order of this Commission.
- (4) Applicant shall file in triplicate and concurrently make effective, on not less than five (5) days' notice to the Commission and the public, a revised tariff constructed in accordance with the requirements of the Commission's general orders.

IT IS HEREBY FURTHER ORDERED that California Street Cable Railroad Company shall make adequate and reasonable depreciation charges and shall use the moneys represented by such charges only to replace its properties or for such other purposes as the Railroad Commission may authorize.

The Commission reserves the right to make such further order or orders in this proceeding as to it may seem right and proper, and to revoke this authority if, in its opinion, public convenience and necessity demand such action.

The foregoing Interim Opinion and Order are heroby approved and ordered filed as the Interim Opinion and Order of the Railroad Commission of the State of California.

The effective date of this order shall be twenty (20) days from the date hereof.

Dated at San Francisco, California, this 5<sup>th</sup> day of September, 1942.

*Justus F. Grauer*  
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*J. J. Baker*  
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*Francis X. Havenue*  
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